

# RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

## MEETING OF DIRECTORS

### PUBLIC SESSION

JULY 26, 2010

The Board of Directors of the Rhode Island Economic Development Corporation (the "Corporation") met on Monday, June 26, 2010, in Public Session, at 4:00 p.m., at the offices of the Rhode Island Economic Development Corporation, located at 315 Iron Horse Way, Suite 101, Providence, Rhode Island, pursuant to notice of the meeting to all Directors, and public notice of the meeting, a copy of which is attached hereto, as required by the By-Laws of the Corporation and applicable Rhode Island law.

The following Directors were present and participated throughout the meeting as indicated: Governor Donald L. Carcieri, Mr. Alfred Verrecchia, Mr. Karl Wadensten, Mr. Shivan Subramaniam, Mr. Lynn Singleton, Mr. Paul Choquette, Mr. Dan Sullivan, Mr. George Nee, Ms. Donna Cupelo and Mr. Stephen Lane.

Directors absent: Ms. Cheryl Snead, Dr. David Dooley and Dr. Timothy Babineau

Also present were: Executive Director Keith Stokes and Attorney Robert I. Stolzman.

Governor Carcieri presided over the meeting and Attorney Robert I. Stolzman acted as Secretary.

#### 1. **CALL TO ORDER**

Governor Carcieri called the meeting to order at 4:08 p.m.

#### 2. **APPROVAL OF THE MINUTES OF THE MEETINGS HELD ON JUNE 9 AND JUNE 14, 2010**

Upon motion duly made by Mr. Verrecchia and seconded by Mr. Wadensten, the following vote was adopted:

**VOTED:** To approve the public session minutes of the meetings held on June 9, 2010 and June 14, 2010.

Voting in favor of the foregoing were: Mr. Verrecchia, Mr. Wadensten, Mr. Subramaniam, Mr. Singleton, Mr. Choquette, Mr. Sullivan, Mr. Nee, Ms. Cupelo and Mr. Lane.

Voting against the foregoing were: None.

Attorney Robert Stolzman explained that this meeting was being held as an open meeting in accordance with the Open Meetings Act, and that an open meeting is not the same as a public hearing. The meeting will involve public discussion among the Board members, staff participation and contributions by other parties, including bond counsel.

### **3. EXECUTIVE DIRECTOR'S REPORT**

Executive Director Keith Stokes referred to his report as distributed to the Board members (See **Exhibit A**), noting that the corporation has been very active in the last month.

Upon request by Governor Carcieri, Mr. Stokes reported on the status of the America's Cup matter. He explained that the BMW/Oracle team has announced that the final match race will be held in San Francisco, but that Newport will be the location for one of several qualifying trials. Mr. Stokes reported that the America's Cup Planning Committee has been and continues to be busy planning for a racing village at Fort Adams State Park, which will include a free standing sailing center. Plans for the village, which will include permanent infrastructure improvements, should be completed by end of year 2010.

Governor Carcieri noted that it was just announced that EPSCoR/URI was awarded a \$20 million grant, which is the largest grant in URI's history. He stated that this is great news and represents an upscaling of URI's scientific capacity.

### **4. FOR DISCUSSION OF FY2011 MANAGEMENT OPERATIONS & REALIGNMENT PLAN**

Executive Director Stokes used a PowerPoint presentation to report on the EDC's FY2011 Management Operations Plan (See **Exhibit B**). He noted that this will be discussed further at the August Board meeting.

Mr. Stokes explained that this report resulted from the Vision Statement created by the Board during its planning session with a facilitator in the Spring. The 2010 Board Immediate Priorities Plan adopted in April 2010 stated that the State's economic development policies should be designed so that Rhode Island leads New England in creating and retaining jobs and wealth and increasing wages in Rhode Island. The plan provides that the policies should 1) reflect data and strategy behind every decision, 2) capitalize on Rhode Island's strengths and assets, 3) result from collaboration with other economic development partners and 4) alleviate the plight of unemployment in Rhode Island.

Mr. Stokes noted that the action plan highlights include realignment of staff, merging with the Economic Policy Council, improvements to access to capital, regulatory reform and a communications strategy. He stated that the 2010 legislative achievements were historic and that the FY 2010 session was the most productive session in many years. Included in the FY2010 session was the capital expansion of up to \$60 million for IRBA and the creation of a New Job Creation Guarantee Program of

up to \$125 million. Other highlights of the FY2010 legislative session include income tax reform, a total of \$10.2 million in 2011 budget appropriations, the expansion of renewable energy programs, and creation of the CCRI Skills & Workforce Development Commission.

Mr. Stokes described the EDC's current organizational chart as being effective but not efficient, and presented a proposed FY2010/2011 Senior Staff Realignment plan. He described the new plan as more streamlined and more in line with a business corporation's infrastructure. The new plan includes the Executive Director overseeing a Chief Operations Officer who will oversee six Managing Directors of defined functions, as follows:

1. Research, Strategy and Policy
2. Communications
3. Client & Community Relations
4. Financial Programs
5. Business Attraction and Development
6. Chief Financial Officer

Mr. Stokes also explained that the EDC is working to create a Public/Private partnership with the Providence Chamber of Commerce.

Governor Carcieri stated that infrastructure, a very important part of economic development, has been lacking in the past. Mr. Stokes concurred with Governor Carcieri and explained further that the staff realignment will be expanded to include subsets by region and sector.

Mr. Verrecchia suggested that the Director of Research, Strategy and Policy and the CFO report directly to the Executive Director.

Upon inquiry of Mr. Wadensten, Governor Carcieri responded that infrastructure includes fiberoptics, power and utilities. Mr. Wadensten expressed the need for pad-ready sites.

Mr. Stokes stated that the capital improvement plan up to now has not been economic development driven, and that new priorities must be set.

Mr. Wadensten asked what the title of the new strategy will be, to which Mr. Stokes responded that a title has not been created yet. Mr. Stokes suggested "Jobs Yesterday". Mr. Wadensten stated that a title is needed that will excite the public and let the public know what the EDC is up to.

Mr. Nee stated that he would like more details of the plan, including names and budgets, to which Mr. Stokes responded that this information will be presented to the Board in August.

Mr. Choquette expressed his agreement with Mr. Verrecchia's comment and asked how this plan ties in with Statewide Planning. Mr. Stokes responded that the EDC will take Statewide Planning's plans and put it into practice.

Ms. Cupelo asked why community relations is separate from communications. Mr. Stokes explained that community relations refers to connecting with cities, towns, chambers and the like. He noted that many cities/towns do not have real economic development programs. He described community relations as an engagement capacity rather than a communications function and that he would work on the nomenclature to more clearly reflect that function.

The next slide in the presentation included the recommended board sub-committees. Mr. Stokes explained that these sub-committees will help to guide, promote and evaluate the EDC. The six sub-committees suggested are:

1. Finance, to be lead by the Board Treasurer
2. Lending/Capital Programs & Services
3. Public Relations/Government Affairs
4. Evaluation/Product Development
5. Business Attraction
6. Small Business Development

Mr. Verrecchia cautioned against having too much overlap.

Mr. Stokes stated that, in addition to board members, he would like outside business leaders to participate in the sub-committees.

Mr. Choquette asked why there is not a sub-committee for research strategy and Mr. Sullivan suggested that there be a marketing sub-committee. Mr. Stokes acknowledged that these are the types of responses he was looking for from the Board and stated that a revised version of the plan will be submitted to the Board in August. He expressed his gratitude for the Board's input, and suggested that board members contact him directly with any other suggestions or concerns.

## **5. FOR APPROVAL OF RENEWABLE ENERGY FUND GRANT FOR MILL CREEK MARINE**

Mr. Julian Dash, Director of the Renewable Energy Fund, referred the Board members to the presentation and summaries in the board packages (See **Exhibit C**).

Mr. Dash summarized the background and financing for the Renewable Energy Development Fund (REF). He explained that the REF is designed to assist projects that support electricity generation within the New England Power Pool from technologies including solar, wind, wave, small hydro, biomass, fuel cell, waste to energy and solar thermal. The program has an average annual funding of \$2.4 million, half of which is earmarked for municipal projects.

Mr. Dash explained the funding criteria that is used to determine if a project qualifies for REF funding, and noted that other sources of funding are taken into consideration.

Upon inquiry of Mr. Nee, Mr. Dash explained that the REF is marketed to business groups via the EDC's web site.

Other significant renewable energy initiatives include, Ocean SAMP, DEM Wind Partnership and Green Economy Roundtable. Upon inquiry of Ms. Cupelo, Mr. Dash explained that SAMP refers to Special Area Management Plan.

Mr. Dash highlighted the following projects that have been assisted by REF: East Bay Energy, a collaboration of 9 cities and towns in the East Bay to jointly identify and develop the best sites for wind energy; Church Community Housing, an affordable housing project installing a wind turbine as part of a mixed-use, mixed-income community; and GEM Plumbing's grant to build a 60 KW solar PV on its headquarters to not only take advantage of renewable energy production but also to train existing and new employees on renewable installations.

Going forward, Mr. Dash explained that the FY 2011 strategy for the REF will include encouraging more collaborative projects, focusing on fund return, leveraging additional funding from federal programs, increasing bank participation and supporting renewable energy policies.

Moving to the matter at hand, Mr. Dash described Mill Creek Marine's request for funding in the amount of \$221,000 for its installation of a 100 KW wind turbine at its new marina facilities located in the Allen's Harbor area of Quonset. Mr. Dash explained that staff worked with the company to determine its needs. The proposed funding includes a grant in the amount of \$63,200 and a loan in the amount of \$158,000.

Mr. Lane moved to approve the request, and Mr. Choquette seconded the motion.

Attorney Stolzman explained that the loan will be amortized over 20 years with a balloon payment due at 5 years.

Upon motion duly made by Mr. Singleton and seconded by Mr. Lane, the following vote was adopted:

**VOTED:** See text of vote at **Exhibit C.**

Voting in favor of the foregoing were: Mr. Verrecchia, Mr. Wadensten, Mr. Subramaniam, Mr. Singleton, Mr. Choquette, Mr. Sullivan, Mr. Nee, Ms. Cupelo and Mr. Lane.

Voting against the foregoing were: None.

## **6. FOR APPROVAL OF FINANCING FOR 38 STUDIOS, LLC**

Mr. Stokes explained that the EDC has been deliberating this matter and performing its due diligence for the last several months. He noted that the EDC had been looking into creating a capital credit program for intellectual property-type businesses, as one did not at the time exist. At the same time, the EDC was approached by 38 Studios LLC for assistance. Mr. Stokes noted that many employees of 38 Studios LLC came out of RISD.

After several months of engaged due diligence by staff as well as by the Board, final terms and conditions are to be presented at this meeting. Mr. Stokes introduced Deputy Director J. Michael Saul to make a presentation to the Board.

Mr. Saul stated that this process has been going on for the last 5 months, during which time staff conducted a thorough due diligence process and the Board deliberated in two extensive executive sessions. See **Exhibit D** for a copy of Mr. Saul's PowerPoint presentation on the Video Game Industry and 38 Studios Opportunity.

The EDC hired two reputable consultant companies, Strategy Analytics and Perimeter Partners, to evaluate the video industry as well as 38 Studios, and provide detailed information to the Board. Mr. Saul described the video game industry as a \$72 billion global industry which has generations of loyal users who are kept engaged by add-ons. He noted that the average user age is increasing and is now at 35 years of age. Rhode Island's video game assets include RISD, URI, Brown, Hasbro and GTECH.

With respect to 38 Studios, Mr. Saul explained that the company, which presently has two studios, one in Maynard, Massachusetts and one in Baltimore, Maryland, is looking to relocate and expand to one facility. The company plans to bring in 450 direct jobs with an average annual wage of \$67,500 within three years. In addition, it is anticipated that an additional 1,113 indirect jobs will result from this venture.

Mr. Saul reported that the company is currently in production of "Kingdoms of Amalur: Reckoning", a single player multi platform game set to be released in the fall of 2011. The company has entered into a publishing and retail distribution agreement with Entertainment Arts (EA). Simultaneously, the company is working on a follow-up game presently referred to as "Project Copernicus", which will be a multi-player online game (MMOG).

Mr. Saul described the management team as having over 100 years of industry specific executive and development experience with top tier companies such as EA, Sony Online, Comcast and Nintendo. He noted that the management team includes Jennifer MacLean, CEO, R.A. Salvatore, Executive Creator of Worlds, Todd McFarlane, Executive Art Director, and Curt Schilling, Founder. He explained that the team has extensive expertise in the RPG Genre and MMOG Design and Development, and has brought in \$11.5 billion of shipped products sales. He noted that the team has been and remains active in the industry.

Mr. Saul explained that, in addition to the 450 direct and 1,113 indirect jobs anticipated by 38 Studios LLC, the company has a spawning potential of about 200 direct and 686 jobs with a multiplier within 5 years, and that the industry will leverage key assets in the State by attracting similar companies to the State, as well as retaining talent within Rhode Island.

Mr. Saul explained the key credit structure and risk mitigation. He noted that the company is required to locate to Rhode Island. Highlights of the credit structure include a 1 year debt service reserve, a funds drawdown schedule focused on relocation and job creation, built in penalties and deferred and up-front fees.

On the risk analysis side, Mr. Saul described negatives including investment in a pre-revenue company, a binary revenue stream, the fact that the company is focused on a hit driven product and the concentration of 60% of the State's Job Creation Guaranty Program to one company.

Mr. Saul also described the risk positives, including an experienced management team with a track record of successful game development, the publishing contract with EA, the significant equity investment in the company to date, the favorable industry outlook and a total ROI to the State of 47%.

Upon inquiry of Mr. Choquette, Mr. Saul reported that the EDC is aware of the company's equity investment but is unable to disclose the amount, which was reported to the Board earlier in executive session. Mr. Stolzman noted that the cash investment is significant.

Upon inquiry of Ms. Cupelo, Governor Carcieri explained what is meant by "spawning", that is spinning off other industries from one industry. Mr. Stolzman further explained the distinction between indirect jobs and spawned jobs. Mr. Subramaniam noted that there is no way to measure spawning, but that the EDC will only be able to measure direct and indirect jobs. Ms. Cupelo expressed the hope that economic and policy research can be used to measure success of job creation.

Attorney Tony Afonso next provided details on the Bond resolutions, as presented to the Board (See **Exhibit E**). Mr. Afonso noted that today's vote will be the culmination of a two part process which began with an inducement resolution authorized by the Board at its June 14, 2010 meeting.

Upon inquiry of Mr. Subramaniam, Mr. Afonso explained that interest on the Capital Reserve Fund will initially be paid to the company, but that if new money has to be added to the Fund, then the interest will be paid to the State.

Ms. Cupelo asked if all of the special conditions and covenants contained the Letter of Agreement between the company and the EDC are contained in the resolutions. Mr. Afonso explained that most of the special conditions and covenants in the Letter Agreement are contained in the resolution. He further noted that the bond

instrument itself is over 80 pages. Mr. Stolzman noted that the Letter of Agreement is incorporated in the resolutions as Exhibit A.

Mr. Stolzman reported that Board member Dr. Timothy Babineau, who could not be at today's meeting, had asked that the following statement in support of 38 Studios be read on his behalf:

*"I believe that the time is now for Rhode Island and the EDC to take bold and decisive action to demonstrate its commitment to our knowledge economy. We must change our way of thinking and our way of doing business in Rhode Island if we intend to not merely "keep pace" with the rest of the country as we emerge from this recession—but rather leap-frog the pack and take a leadership role. 38 Studios presents such an opportunity. Hopefully it will be the first of many to come."*

Mr. Choquette noted that the resolution requires third party monitoring, and asked who would be paying for this. Mr. Stolzman reported that the EDC is currently doing due diligence on this issue. The costs for the monitoring will be borne by the company. He stated that monitoring by a third party is required.

Mr. Wadensten commented that, as a manufacturer who likes to do things "out of the box", he is also concerned about Rhode Island's small businesses, and he is torn on a decision regarding this matter.

Governor Carcieri, noting that he also has a manufacturing background, stated that there are many tools available to small businesses in Rhode Island, and that this proposal is not mutually exclusive. He noted that this is a whole new area for the State to be involved in, especially in that there are no "hard" assets. On the other hand, he described the potential as exciting and having the ability to make Rhode Island a player in this field. He agrees that there is risk, but that it is a risk worth taking. Governor Carcieri explained that the Board has put a lot of time and work into learning about and understanding this industry, and that a talent pool exists in the State to capitalize on this investment. He also noted that the State has made many investments in new businesses and industries in the past.

Mr. Wadensten asked where the money would come from if it turns out the company needs more, to which Governor Carcieri explained that the company could get more investors if nothing else.

There being no further discussion to come before the Board, upon motion duly made by Mr. Verrecchia and seconded by Ms. Cupelo, the following vote was adopted:

**VOTED:** See text of Vote at **Exhibit E.**

Voting in favor of the foregoing were: Mr. Verrecchia, Mr. Subramaniam, Mr. Singleton, Mr. Choquette, Mr. Sullivan, Mr. Nee, Ms. Cupelo and Mr. Lane.



Voting against the foregoing was: Mr. Wadensten.

Following the vote, Mr. Stokes reported that there would be a media presentation following the meeting. He also thanked the Board for its time, effort, thoughtfulness and input regarding this matter.

There being no further business in Public Session, the meeting was adjourned at 5:50 p.m., upon motion made by Mr. Singleton and seconded by Mr. Choquette.

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Robert I. Stolzman, Secretary

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