

PROVIDENCE ECONOMIC DEVELOPMENT PARTNERSHIP, INC.
WEDNESDAY, JUNE 17, 2015
BOARD OF DIRECTORS MEETING MINUTES

A meeting of the Providence Economic Development Partnership, Inc. (PEDP) Board of Directors was held at the office of the Department of Planning and Development, 444 Westminster Street, 1st Floor, Providence, Rhode Island, on June 17, 2015. The meeting was called to order at 12:17 PM, with Brett Smiley, Chairman, presiding. A roll call of the members and legal counsel was conducted. The Chairman indicated that a quorum was present.

MEMBERS IN ATTENDANCE

Members in attendance included Brett Smiley, PEDP Chairman and designee of Mayor Jorge Elorza and Chief Operating Officer, City of Providence, Adriana Dawson, Kas DeCarvalho, Esq., Daniel Baudouin, John (Jack) Bentz, Stephen DelSesto, Esq., Mark Feinstein, Juana Horton, Shomari Husband, and Councilwoman Sabina Matos.

MEMBERS ABSENT

Members not in attendance were Allyson Cote, Sussy DeLeon, Gary Glassman, and William Tracey.

STAFF MEMBERS IN ATTENDANCE

Staff members in attendance included Kathy Cosentino, Gail McGowan and Arthur Speaks.

OTHERS IN ATTENDANCE

Others in attendance included Thomas V. Moses, Esq., Moses Afonso Ryan (in attorney John J. Garrahy's absence), PEDP legal counsel; Joshua Celeste, Esq., Duffy & Sweeney, Ltd.; Sally Brito, Director of Fiscal Operations, City of Providence Department of Planning and Development; Donald Gralnek, Executive Director, Providence Redevelopment Agency (PRA); Thomas Hoagland, PEDP Acting Assistant Director and contract underwriter; and Dan McGowan, WPRI.

Mr. Smiley stated that he would like to start the meeting with a moment of silence. He thinks that everyone knows that we lost a long time member of this board that was a good friend to many and a great person in the community with a legacy of good work left behind him that was taken surprisingly and too soon. He would like to ask everyone to take a few moments to remember Joe Caffey before we proceed.

MEETING MINUTES

The minutes of the May 20, 2015 PEDP Board of Directors meeting were submitted for review and approval. A motion was made by Kas DeCarvalho, Esq. and seconded by Stephen DelSesto, Esq. to approve the minutes of the May 20, 2015 Board of Directors meeting. Motion passed by unanimous vote, without any amendments.

REPORT OF THE CHAIRMAN

Mr. Smiley apologized for not being at the last meeting. He was in negotiations that ran late. He and the staff appreciate the Board's consideration of the adoption of the revised guidelines. A key take-away of the retreat is that this board is policy setting. It is everyone's desire to be in a more policy setting and management setting. Mr. Smiley is saddened at the loss of Joe Caffey and has not taken up his replacement on the board or as Vice-Chairman. The new Executive Director is starting on July 6th and at the next meeting, the board will meet him. We do have an accepted offer for this position. He is wrapping up business and therefore this is no announcement yet. Mayor Elorza, the Chief of Staff and Mr. Smiley are very excited about him.

REPORT OF THE EXECUTIVE DIRECTOR

Mr. Smiley asked Thomas Hoagland, Acting Assistant Director to give the Report of the Executive Director. Mr. Hoagland stated that other than the items on today's agenda, PEDP has one (1) loan pending closing and has received a number of inquiries but does not have any active loan requests.

NEW BUSINESS

The first agenda item of New Business entertained by the Board of Directors was the re-presentation of the PEDP Revised Administrative Guidelines and consideration of the proposed changes for approval. This is the same proposal that the board had last month and there was a request for a tighter definition which we think is contained here. Mr. Smiley requested that Mr. Hoagland provide the board a recap of the changes. Mr. Hoagland stated that changes to the terms of the loans previously approved by the Board would be authorized to be approved by the Executive Director and Board Chair, provided such modifications do not fundamentally alter the terms of the loan, the maturity date, loan underwriting, or significantly change the loan to value ratio of the loan or change the collateral position of PEDP. Mr. Hoagland noted that changes took so much as four (4) to five (5) weeks or several months even if there was no quorum for the meetings. Mr. Smiley indicated that we are interested in making it easier to lend, which we will have a separate conversation regarding later. The pendulum has swung both ways in recent history, which we are mindful of. This is a thoughtful proposal that he thought was a good idea and if possible asks for the board's support on.

The Board expressed concern regarding the two (2) individuals that would be authorized to grant the approvals both being employees of the city and it was suggested that maybe we could make the Vice-Chairman also part of the approval decisions. Mr. Smiley stated that he was not opposed to that suggestion and the board expressed agreement. A motion was then made by John Bentz and seconded by Daniel Baudouin and it was voted to amend the proposed policy and related proposed motion with the addition of "and Vice-Chair" to the proposed motion. The proposed motion therefore will read as follows: "That the Executive Director, or an acting Executive Director if an Executive Director is no available, and the Board Chair, and the Vice-Chair, upon the recommendation from PEDP staff, are authorized to approve modifications to the terms of loans which have been previously approved by the Board, provided such modifications do not fundamentally alter the terms of the loan, the maturity date, loan underwriting, or significantly change the loan to value ratio of the loan or change the collateral position of PEDP". Motion passed by unanimous vote. A second motion was then made by Stephen DelSesto, Esq. and seconded by Councilwoman Sabina Matos and it was voted to adopt the PEDP Revised Administrative Guidelines, as amended. Motion passed by unanimous vote.

The next agenda item entertained by the Board of Directors was a general discussion with regard to the IIP Loan Program. Mr. Smiley provided the board with a brief overview of the loan program. Loans in the amount of \$50,000.00 were provided to start-up companies that are secured by Convertible Notes. The loans are either repaid by converting into stock or they are not due to the business having failed and will be written off. We have had several companies convert. The Board felt that the question being asked of it was beyond its experience and area of expertise and PEDP legal counsel felt the same as well. The board authorized Mr. Smiley to retain counsel with expertise in this area. Attorney Joshua Celeste, a partner of the law office of Duffy & Sweeney, was retained. A Memorandum to the Board was distributed at the meeting. Mr. Smiley noted that Attorney Celeste was present at the meeting. Attorney Celeste addressed the board regarding this matter and then answered questions. He has reviewed the Convertible Note and related documents. Mr. Celeste noted that the documents provided to PEDP by WorldBrain are based upon the set of form documents published by the National Venture Capital Association. This is a pretty standard transaction. The terms and conditions contained in the documents are customary. The recommendation of attorney Celeste is to go forward and enter into the documents that have been provided. The documents transfer PEDP's interest from creditor to equity owner. There is an auto conversion feature (into the next round) in the documents, which is okay, and is normal.

Questions of the board were then asked and answered. It was questioned whether what PEDP is being asked to do does not substantively change where we would have been or what was intended in the convertible notes. PEDP will convert from a Note holder, which is a creditor into a preferred interest (equity). Creditors sit above all else, but Preferred Stock/Equity sits on top of Common Stock and the founders. There is a liquidation preference. There is a five percent (5%) dividend accrual. Principal and accrued interest converts to \$0.36 per share with a twenty percent (20%) discount, therefore PEDP is paying \$0.24 per share. The company has raised \$1.7 million and created this series of Preferred Stock, which accrued a dividend and has protective rights (essentially veto rights). A motion was made by John Bentz and seconded by Stephen DelSesto, Esq. to approve PEDP signing the requested documents relative to the IIP loan to WorldBrain that were received from the Borrower to make the conversion. What the company does was questioned. Motion passed by unanimous vote. Attorney Celeste was thanked by the board.

Mr. Hoagland noted that we have five (5) other companies that have already converted that we have no such documents for and suggested that we have attorney John Garrahy review the others to see if PEDP needs similar documents. It was questioned what the appropriate process is for conversion in the future. Mr. Smiley requested that we see if we can come up with a proactive step at the staff level and then see if the board agrees.

The next agenda item entertained by the Board of Directors was the presentation of PEDP loans for write-off. Mr. Smiley began by introducing Sally Brito who is Stuart MacDonald's replacement as the new Director of Fiscal Operations. Mr. Smiley stated that 2012 was the date of the last write-offs and thought this was an appropriate time to look at bad debt and deal with that bad debt. Donald Gralnek was asked to present an overview of the loans. Mr. Gralnek noted that a report of proposed actions was distributed at the meeting. Mr. Gralnek also noted that staff will confirm with HUD that this is in compliance with respect to any actions that we may take, may have to come back to the board once reviewed with HUD. Staff have reviewed the portfolio and identified four (4) categories of activities: 1) collection exhausted and business no longer in business; 2) IIP loans that have wound down and there is no collateral to pursue for the IIP loans; 3) enhanced collection recommended and business still operating or is out of business but there are guarantees to pursue. Staff will individualize treatment and pursue and if not successful, will move the loan to the collateral exhausted category; and 4) companies that are still operating, for which we will operate with a deft touch as we do not want to put anyone out of business. For the first two (2) categories, the recommendation is for write-off, subject to compliance with HUD. For the third category, the recommendation is for PEDP to work with professionals in the field to undertake collection actions and report back. For the fourth category, the recommendation is for PEDP to proceed in a deft manner and may be able to recover some money.

Councilwoman Sabina Matos left the meeting.

Questions of the board were then asked and answered. Whether the businesses in categories one (1) through three (3) are all out of business was questioned, to which it was responded in the affirmative. Questions were then asked regarding the total PEDP loan portfolio; the possibility of selling debt and bundling some of the bad debt; the amount of the Heritage Harbor settlement and proposed write-off; and the status of the assets of State Lounge.

It was noted that Sally Brito will check with HUD for compliance and it was suggested that PEDP use the two (2) companies that the city already uses for collection. The fees that the companies assess were questioned. Mr. Smiley responded that the city has two (2) tiers: MCA, a debt collection agency, assesses a portion of the interest on the back taxes it is collecting as its fee; and Rossi Law Associates,

awarded under an RFP with the city, assesses a higher level of interest on the files MCA was unable to collect. Mr. Smiley noted that the agencies do not see any of the principal that they are collecting. Mr. Smiley recommended that PEDP do the same.

A motion was made by Mark Feinstein and seconded by Stephen DelSesto, Esq. to authorize staff to work with HUD on a policy for the write-off of the first two (2) categories, for city staff to work with HUD on a policy for collection, and to report back at the July meeting the feedback from HUD on both and the efforts taken thus far by that point. Kas DeCarvalho abstained from voting on this agenda item. Motion passed by vote.

LOAN COMMITTEE RECOMMENDATIONS

There were no recommendations of the committee on today's agenda as the committee did not meet this month.

OTHER BUSINESS / PUBLIC COMMENT

There was no Other Business on today's agenda. Mr. Smiley stated that there was a request and a commitment to provide to this board a budget for the organization. There is now a new Fiscal advisor and about to be new Executive Director, therefore we will bring a proposed budget to the July board meeting for this board's review and consideration. Mr. Smiley recognized that a budget is a little bit different for this entity. The budget will include lending targets and there are fixed costs but some of the other costs are related to how much we lend, which is a function of demand and marketing. With those caveats included, we will be bringing that budget forward at the July meeting.

Mr. Smiley stated that there was no Public Comment.

EXECUTIVE SESSION

Mr. Smiley stated that there were no agenda items under Executive Session.

It was questioned and requested that when the appointment of the new Executive Director is made public, that the resume for the Executive Director is sent to the board.

Upon a motion made by Daniel Baudouin and seconded by Stephen DelSesto, Esq, the meeting adjourned at 1:03 PM.

Approved: July 15, 2015