

REDEVELOPMENT AUTHORITY OF THE CITY OF LANCASTER

Board of Directors Meeting – May 21, 2019

The members of the Board of the Redevelopment Authority of the City of Lancaster met on May 21, 2019, at 5:15 p.m. in the Commission Room, City Hall Annex Building, 120 North Duke Street, Lancaster, Pennsylvania.

PRESENT: Douglas Byler (by phone), Jason Wynne, Carl Feldman, and Carlos Gonzalez.

STAFF: Frank Mincarelli, Marisol Torres, and Carolyn Faggart.

GUESTS: Nicole Cradic, Sean Post, Kevin Lehman, Rizwan Khan, Islam Hassan, Jon Leventry, Ada Rivera, Dave Garpstas, Matt Beakes, and Tim Stuhldreher.

Acting Chairperson Wynne called the meeting to order and asked for approval of the minutes of April 16, 2019. Mr. Feldman made a motion to approve the minutes of the April 16 meeting. Mr. Byler seconded the motion. He asked for any comments. Hearing none, Mr. Wynne called for the vote, and all were in favor.

Mr. Wynne noted that the Treasurer's Report was emailed to the Board then asked for questions or corrections. Hearing none, Mr. Byler then made a motion to approve the Treasurer's Report as presented. Mr. Feldman seconded the motion. Mr. Wynne called for a roll-call vote, and all were in favor.

Mr. Wynne went on to the Staff Report. Ms. Faggart said we have Act 2 for two properties and Act 1 for two. We also have two proposals to purchase the Manor Street property. Mr. Feldman made a motion to take Act 2 on 639 East Madison Street and 807 North Shippen Street, then Act 1 on 511 Church Street and 520 South Lime Street. Mr. Byler seconded the motion. Mr. Wynne asked for comments; hearing none, he called for the vote, and all were in favor.

Mr. Wynne moved on to the Presentation of Audit. Nicole Cradic and Sean Post of Trout, Ebersole and Groff came forward. Ms. Cradic said the Independent Auditors' Report is an unqualified opinion issued in accordance with GAAP. She then turned to the balance sheet on page 3 to review some items for the year ending December 31, 2018. Ms. Cradic said she is still missing some numbers from High Construction for the Hotel Tower and hoped to have them by the time this draft is finalized. On the Assets, Ms. Cradic said a certain portion of the unrestricted cash is from the Lancaster Parking Authority. The restricted cash can be used for future redevelopment as stipulated in grant agreements, future debt service as per certain loan and bond documents, and other purposes. She then reviewed the delinquent tax receivables from the City. The current portion of the lease rental receivable is for the Penn Square Hotel. Rent payments mirror the debt service on the related bonds. The current portion due from governmental units

is a grant receivable and relates to the IFIP principal payments. Ms. Cradic said the notes receivable relates to Penn Square Partners. The properties held for resale is the current inventory of properties for sale by the Authority. Sean Post then continued with the Capital Assets and said the land and improvements relates to the three Lemon Street properties that were demoed to make a park. He then said that due from governmental units, net of current portion relates to the CRIZ Bonds and the IFIP. The note receivable was for the Lancaster Press Building. On the liability side, Mr. Post noted the line of credit with Orrstown Bank, the notes payable is the TIF Note for the Parking Garage. The bonds payable relates to the second Hotel Tower. The current portion of due to the City of Lancaster relates to the conveyed properties from the City. The other piece is the PILOT Agreement the Authority entered into with Penn Square Partners for the first and second Hotel Towers. (Mr. Gonzalaz then joined the meeting.) Under the long-term liabilities, the unearned revenue relates to the capital lease and the IDP construction for the Hotel. The note payable relates to the Parking Garage and the bonds payable relates to the Penn Square Hotel. Mr. Post moved on to the Operating Revenues which included property sales, Parking Garage and other items. Operating expenses increased which brings the year to an operating loss of \$154,000. This is still better than last year's loss of \$740,000. Nonoperating Revenues (Expenses) contained mostly negative amounts with CDBG, other grants, TIF revenue, and Penn Square Hotel interest income on the plus side. Mr. Post went on to the Notes and highlighted several, including Note 10, Contingent Liabilities, then Note 15, Property Sales, which listed the properties for sale with the cost, gain/loss, then net proceeds for each one sold through 2018. It was noted that property maintenance, legal costs and other expenses are not included in the net proceeds shown. After further discussion, Ms. Cradic encouraged the Board to read through the notes when time permits. She referred to the two audit letters, one of which indicates significant audit findings. She said there were no issues with management. The auditors plan to issue a management letter after they meet with Simon Lever. She will have a management representation letter which Mr. Byler and Ms. Torres will need to sign. She was hoping to have everything completed by next week and said the letters could be signed electronically. Mr. Wynne thanked Ms. Cradic and Mr. Post for their presentation.

Mr. Wynne moved on to the Marriott Hotel Addition Update. Ms. Torres received word late this afternoon that Tom Smithgall had to cancel his presentation for tonight. This will be rescheduled for the June meeting.

The next item was Update on Lancaster Press Building. Ms. Torres informed the Board that Ed Drogaris could not be here tonight and said Lancaster Press Partners received a bridge loan from the Authority in 2014 to assist him in the construction of the Lancaster Press Building in the amount of \$900,000 which was due to be paid back in October 2015. Because of other financing that was needed for the building, in November 2015, Mr. Drogaris requested that the Authority grant him an extension to pay off the loan until December 31, 2017. In October of 2017, he requested another extension because the properties were not selling as quickly as he hoped. Mr. Drogaris is now scheduled to pay off the loan in June of this year. Mr. Mincarelli referred to an email he sent the Board today which included a nine-page Second Amended Bridge Loan Mortgage Note. He summarized the terms between the parties for any extension granted by the Board. (1) Interest on the loan will be increased from 2% per annum to the Wall Street Journal floating rate plus 0.5% per month computed quarterly. (2) The new maturity date

will be December 31, 2020, an extension of eighteen months. (3) The Authority's share of the net proceeds upon the sale of each unit will be increased from 5% to 7% of the net sale proceeds as each of the remaining eighteen units are sold. Mr. Mincarelli noted there are 48 units in the Press Building with 30 sold to date. He said Mr. Drogaris will reimburse the Authority for all attorneys' fees. Discussion took place on the revised terms of this loan. Mr. Mincarelli said he would contact Mr. Drogaris' attorney with the suggested revisions before the Note is signed.

Mr. Wynne went on to the Update on Industrial Arts Building and Kevin Lehman came forward. Ms. Torres said the City purchased this building as part of the KOZ transactions. The building was then transferred to the Redevelopment Authority, who leased the building to Kevin Lehman since 2003. Mr. Lehman provides art classes and other art related activities in the building. He has paid \$164,000 in lease payments until now. The City would like the Authority to consider an Installment Sales Agreement with Mr. Lehman So he could be the owner of the building. She emailed the proposal to the Board and Mr. Lehman was here to present his offer. He was looking at a fifteen-year lease purchase with 100% of the rent going toward payment of the property. After fifteen years, he will take over ownership of the building and start paying property taxes. The Authority could also apply the previous rent paid over the last twelve or more years at \$1,000 per month, which totals \$144,000. Mr. Lehman then outlined his proposal for the next fifteen years. Rent for the first five years will remain at \$1,000 per month (\$60,000 total), then increase to \$1,500 per month for years six to ten (\$90,000 total), and finally to \$2,000 per month for years eleven to fifteen (\$120,000 total), with these payments totaling \$270,000 for the fifteen-years. When Mr. Wynne asked about assuming the taxes, about \$1,900 per year, Mr. Lehman said he could not do so at this time. He asked if the Installment Sales Agreement could be in the name of his non-profit company, the Lancaster Creative Factory, which has an outreach program for Lancaster County youth, families and seniors. He also leases studio space to sixteen other artists. Discussion then took place on the non-profit status of a portion of Mr. Lehman's companies and whether he would have to pay taxes during the fifteen years under the Installment Sales Agreement. The Board then agreed that they would like to see an opinion from Mr. Lehman's attorney that entry into an Installment Sales Agreement with the Redevelopment Authority and him or his non-profit will not change the tax status of the property. The Authority will include a provision in the agreement that will require Mr. Lehman or his non-profit to reimburse the Authority for any property taxes charged to the Authority as a result of the installment sale. Mr. Lehman agreed to this and said he will contact his attorney. The Board decided to leave the current agreement in place for ninety days so this issue can be resolved. Mr. Lehman thanked the Board for their assistance.

Mr. Wynne moved on to the Proposals to Purchase 759 Manor Street and noted there were two proposals for this property. Therefore, Rizwan Khan and Islam Hassan remained in the room while Jonathan Leventry waited in the hall. Mr. Wynne asked if they have bought any properties from the Redevelopment Authority before. Mr. Khan said he purchased a property from the Authority on Hebrank Street in 2013 and he brought photos of the rehab. Mr. Hassan also purchased a property on Woodward Street from the Authority last September and he is still working on that rehab. When asked to explain their proposal, Mr. Khan said they originally planned to rehab the property but reconsidered and instead plan to demo and build a structure with two apartments and a garage. After further discussion, Mr. Gonzalez asked if they could

increase their bid. Mr. Khan conferred with Mr. Hassan and they said they could go up to \$26,000 (?). With no further questions, Mr. Wynne asked Messrs. Khan and Hassan to step outside while the other party presented his proposal.

Jonathan Leventry came in and said that he initially planned to rehab the building but after walking through the property with his engineer, the building would need to be reinforced with steel beams. He spoke with Ruth Hocker, Gary Horning and Jameel Thrash at the City after submitting his proposal. He also had a meeting yesterday with Gary Horning, John Lefever, Karl Graybill, and Suzanne Stallings to gather more information on this project. He could spend at least \$60,000 for engineering to keep the same footprint and he would need a variance for land development under 1,000 square feet. He would also need to address stormwater issues on the parking lot. There are still more questions that need answers before he can decide whether to rehab or rebuild the structure as a real estate office for his business. He asked if the Board could hold the property until the next meeting when he would have more information and be able to make a decision. The Board wasn't sure about this since there was another proposal. After a short discussion, Mr. Leventry was asked to step outside while the Board discussed the proposals.

The Board wasn't sure how to handle this decision. One party offered more than the just comp but has done no investigative work on engineering, stormwater, variances, etc. while the other party has looked into these items but needs more time to complete his investigation. Both parties were then called back into the room. Mr. Feldman explained the situation to both parties and didn't feel the Board could make a decision today. Both parties need more time to look into rebuilding on the site including addressing engineering, architectural, and stormwater requirements. Mr. Feldman wasn't sure if this required a motion. Mr. Mincarelli said the Board could deny both proposals then have both parties return next month with a revised proposal. The Board agreed with this decision. It was also decided that any new proposals for the property would be considered in June.

Mr. Wynne moved on to Residential/Commercial Properties. Ms. Torres brought up 156 Juniata Avenue and said the City is willing to deed two adjacent properties at 152 Juniata Avenue and 1361 South Duke Street to the Redevelopment Authority so all three can be combined into one parcel to be sold for development. This involves a survey, deed description, and appraisal before the property can be transferred. Mr. Mincarelli had a Resolution for the Board's approval. Mr. Byler then made a motion to adopt Resolution #19-5-23 authorizing the transfer of 152 Juniata Avenue and 1361 South Duke Street to the Redevelopment Authority for \$1.00 each. Mr. Gonzalez seconded the motion. Mr. Wynne called for the vote, and all were in favor.

Ms. Torres then said one of the Mayor's strategic goals is to provide more housing throughout the City. Since the Authority has properties it sells to developers, the City would like the Authority to adopt a policy permitting the conversion of Authority single-family properties into multifamily properties to provide affordable housing. The policy rules are as follows: It will only allow those developers that are 501c3 nonprofit agencies that have a mission to provide affordable housing. The developer must be current with all property taxes, utility bills, and housing license fees for all properties it owns. The purpose of converting a single-family dwelling

into a multifamily dwelling is for the sole purpose of providing affordable housing for people who are experiencing homelessness. The subject property must be located in a zoning district that permits conversions. The property must be listed for a minimum of three months without being sold. The developer must conduct a neighborhood meeting where the subject property is located to inform the residents of the intended conversion. The subject block should be one which is transitioning from owner-occupied properties to rental properties. The developer cannot have more than two properties under rehabilitation at the same time. The Authority will need to approve the property manager the developer wishes to contract with for the subject property. A deed with a covenant which restricts the use of the subject property at affordable rents, 80% or less of the median income for Lancaster County. If the developer ceases doing business, the Authority has first right of refusal to purchase the property back. Discussion followed on this policy since Authority properties are normally sold for homeownership. Mr. Wynne said that housing for at-risk individuals is over capacity at 125%. The Board had reservations about this idea, but with the proposed restrictions in place, realized that only a small number of properties would be eligible for this program. They requested a copy of the resolution so they could review the policy rules, then make a decision at next month's meeting.

Mr. Wynne moved on to the Solicitor's Report and Proposed Actions. Mr. Mincarelli had some housekeeping items for three properties. The first property was 753 Lafayette Street where the Board took Acts 1 and 2. When the appraisal was underway, it was discovered that this property is on the same deed as the property at 755; therefore, we cannot take this property since the other one is habitable. The Board took Acts 1 and 2 on next two properties. The property at 130 South Ann Street was under renovation when it came to the Authority. Since the owner was not responding to the Chief Building Inspector, the Authority moved forward. He acquired the CO on May 16, 2019. The last property is 547 Howard Avenue. The owner entered into a rehab agreement with the Authority on September 19, 2017 and after several extensions, finally received the CO on May 20, 2019. These three properties have Resolutions 19-5-20, 19-5-21, and 19-5-22 and can be acted on together. Therefore, Mr. Gonzalez made a motion to approve the three resolutions as described. Mr. Feldman seconded the motion. Mr. Wynne called for the vote, which passed unanimously.

Mr. Mincarelli handed out his monthly report and noted that no further units in the Lancaster Press Building were sold last month. He referred to the Second Amendment to the Bridge Loan which was discussed earlier tonight. After this Note is revised, he will have it available for signature by two Board members. Mr. Mincarelli acknowledged receipt of the two loan repayments from Penn Square Partners. He also noted the two properties that are still in court and/or awaiting a Board of View. He referred to the properties under Redevelopment Contracts and those under Rehab Agreements and noted the number of properties that need extensions. Ms. Faggart said she contacted two people but when she didn't hear back from them, she decided to wait until next month due to the length of today's meeting.

Ms. Torres had another item and said she received several calls about the trash at 445 East Strawberry Street. She is in the process of getting bids to install a fence. She asked about the threshold amount. Mr. Mincarelli said if it's up to \$11,000, you don't need any bids. For the estimated cost, from \$11,000 to \$20,600 you need three telephone quotes; if over \$20,600 you

need bids. Ms. Torres said she is working on getting quotes for this fence. Mr. Byler asked when we can list this property for sale. Ms. Torres said she is working with several housing entities on this project. The City would like to keep the first floor as commercial and possibly the second floor for residential.

Mr. Wynne went on to Other Business. Ms. Torres said Ada Rivera is here today and she will start showing Redevelopment Authority properties starting today. Having no further business to be brought before the Board, Mr. Wynne adjourned the meeting.

Respectfully submitted,

Carolyn Faggart

RACLMinutes

