

# Northampton County General Purpose Authority Meeting Minutes

8:15 a.m. on February 7, 2017

The monthly meeting of the Northampton County General Purpose Authority was held on Tuesday, February 7, 2017, at 8:15 a.m. The meeting was held in Northampton County Courthouse, 3<sup>rd</sup> Floor, County Council Chambers, Room #3116, 669 Washington Street, Easton, PA.

## ITEM #1 – CALL TO ORDER-ATTENDANCE

Mr. Langen called the meeting to order.

### Attendance:

Shawn Langen, Michael Dowd, Mark Schiavone, Neal Koplin,

### Solicitor:

John F. Lushis, Jr., Esq.

### Staff:

Mark Hartney, DCED Administrator  
Sarah Ortiz, DCED Executive Secretary

David Hughes, DCED Finance Specialist  
Tim Herrlinger, DCED

### Absent:

Shawn Donahue, Margaret Ferraro, Helene Whitaker

## ITEM #2- APPROVAL OF MINUTES FROM January 3, 2017

The minutes were unanimously approved on a motion by Mr. Koplin, seconded by Mr. Dowd.

## ITEM #3 – TREASURER’S REPORT

3.1 Mr. Hughes reviewed December 31, 2016 Treasurer’s Report.

**MOTION:** To approve the Treasurer’s Report as presented.

Mr. Schiavone made the motion. It was seconded by Mr. Koplin. The motion carried.

3.2 Invoices for payment.

Mr. Lushis suggested to the Board to defer payment on legal bills until the loan has been closed or has collapsed.

Advancement for Mark Hartney’s NCD training money (hotel and course expenses). Mr. Langen indicated to amend the invoice to be paid for Mark’s training and travel expenses.

**MOTION:** To approve the invoices for payment.

Mr. Koplin made the motion to approve as presented. Mr. Schiavone seconded the motion. The motion carried.

### 3.3 P3 Bridge Project Account.

Mr. Hughes recommended that the P3 Bridge Project Account be opened with Lafayette Ambassador Bank. All P3 Bridge Project related income and expenses will be run through the account.. This will allow easy monitoring and auditing of the funds.

**MOTION:** To open an additional account at Lafayette Ambassador Bank.

Mr. Langen made the motion to approve as presented. Mr. Schiavone seconded the motion. The motion carried.

## ITEM #4 – PUBLIC COMMENT

None.

## ITEM #5 – OLD BUSINESS

### 5.1 Southern Cross Management Loan commitment alteration request

Mr. Hughes explained Mr. Fusselbaugh has requested some changes to the original commitment. The requested alterations are lowering the interest rate to 6% per annum, change the repayment terms to Principal and Interest due on 11/1/2017 with possible extension to 5/1/2018 (because the work has not yet started), and they are also looking at getting part of the money up front and the rest when it's completed. Mr. Hughes doesn't believe this unreasonable and we would be paying the money to the contractor and not Southern Cross.

Mr. Langen asked why we would pay the contractor up front. Mr. Hughes responded that it would be to ensure the work gets done. Mr. Hughes suggested another option would be to pay it off in multiple installments. Mr. Langen expressed he is not comfortable with paying up front for the contractor's work. Mr. Donahue questioned in email how much money do they have in which is currently \$300,000. Mr. Dowd asked how much does Easton Area Industrial Land Development (EAILD) have in which is also \$300,000. The terms with the EAILD loan are also 10%. Mr. Dowd asked if Southern Cross was also going back to them with the same request but Mr. Hughes did not know.

Mr. Schiavone asked if they already have a contractor which they do not. They have two proposals. Mr. Schiavone asked if they are looking for 50% before they start work. Mr. Hughes believes that Southern Cross is looking for some monies put up to get it started and not have to come out of their own pocket. Mr. Schiavone suggests we review the contract and see how that payment of the contract is and adhere to that payment as long as they're not looking for 50% up front.

Mr. Schiavone believe the key issues are to get our investment repaid and make sure the funds are being used for the purpose which is cleaning it up and provide better value to the community. They are looking for an extension to 5/1/2018 although the 1<sup>st</sup> lean had an automatic extension until 11/1/2017. Should we ensure the 1<sup>st</sup> lean is going to match the extension until 5/1/2018? Mr. Hughes indicated the original intent was to pay off both liens at the same time. Mr. Langen is not favorable to change the rates. Mr. Schiavone is fine with the extension as long as prior to us agreeing to the extension that EAILD has extended also. Mr. Schiavone personally wouldn't change the interest and suggests monitoring the dollars to make

sure they are being utilized for the purposes intended and try to marry that to our payment with what the contractual obligation is. Mr. Langen also wants it verified that he is actively trying to market the building.

Mr. Hughes confirmed that if EAILD have not changed their terms, we keep our terms as they are as it relates to the maturity date. The interest rate will stay the same.

**MOTION:** Mr. Schiavone made a motion to agree to extending the loan until 5/1/2018 subject to prior document by EAILD matching and extending the loan also, prior to GPA executing our extension. The interest rate will remain at 10%. The loan will be disbursed as work is done

The motion was seconded by Mr. Koplin. The motion carried 3-0. Mr. Dowd abstained from the vote

## ITEM #6 NEW BUSINESS

### 6.1 Review of Northampton County Development Partnership Shell Building Proposal

Mr. John Kingsley from LVEDC attended to discuss the Shell Building Proposal. Last year the Northampton County Development Partnership (NCDP) was formed to explore the possibility of partnering with a for-profit or non-profit developer to develop a speculative flex building in the 30,000 – 60,000 SF range in Northampton County to accommodate a growing shortage of industrial properties of that size. The RFP was developed and distributed in the 3<sup>rd</sup> quarter of last year. One response was received from J.G. Petrucci Co.

The site is located on Jacobsburg Road and consist of 2 lots totaling 16 acres. Lot A would be developed with a building. Lot B has a gas line easement restricting development

The proposal is for a 32,000 SF building to be located on Lot A and the development has approval to go up to 44,000 SF with a mezzanine level. The structure they are proposing has all subdivision and land development approvals including NPDES permits and only requires local building permits. The building would be a structural steel building which created concern for the NCDP Advisory Committee in regards to the aesthetics of the building. This is not a concern as Petrucci has made it clear they will do aesthetic treatments to make it fit the environment in which it's located.

The property is owned by a subsidiary of J.G. Petrucci Co. and with no debt on the property. The proposal offered to the NCDP is a \$350,000 subordinated loan which would be provided to the developer for construction and \$150,000 to assist in covering interest carry during the marketing period. They propose a return of 3% on the initial \$350,000 and the \$150,000 carrying costs would have no return. It is presumed the financing would be short-term. It is believed these type of buildings sell before the building is complete. Currently no 20,000 to 80,000 SF buildings are for sale in Northampton County, there are some for lease. Manufacturers prefer to own rather than lease.

The project is approximately 4.4M in total cost. The land cost was approximately \$1,270,000. To date, they have completed approximately \$306,000 net of grants. They received an RACP grant for this project. Approximately \$340,000 of additional site improvements. The shell is going to cost approximately \$40.00/SF to erect and they are providing an allowance of \$10.00/SF to tenants. The total hard costs are expected to be \$69.00/SF, or \$2,260,000. Soft costs are expected to be \$630,000. We asked the developer to consider the economic development community working with them to market the property and we were able to bring a

tenant to the property, we would like them to consider not using a realtor for a period of time and sharing the resulting savings in realtor fees with us. They seem to be open to that suggestion. The deliberations of the NCDP Advisory Committee resulted in the following counter proposal: A \$500,000 subordinated loan (2<sup>nd</sup> lien position on the real estate) at a floating rate of WSJ Prime (currently 3.75%) for 2 years. The term would be interest only for the first 23 months and the final interest payment and full principal balance due in the 24<sup>th</sup> month. If the property is sold or leased within the 24 month period, the loan would be paid off. The total loan to value will not exceed 80% for indebtedness on the property. Best efforts will be made to obtain a guarantee of J.G. Petrucci Co. which is unlikely. We expect the shell building completion within 9 months of commitment and best efforts to obtain a small manufacturer as a tenant or buyer of the property.

The Counter proposal has been shared with the developer and we have not received their feedback yet.

The \$500,000 would be split amongst the members of the NCDP although we have heard the NCIDA may be limited to \$100,000 participation. They have not yet approved anything. That would leave the other partners to increase their participation. NCNJ has committed they would be willing to go up to \$200,000.

We are requesting this board to commit up to \$200,000. The worse-case scenario return would be at the 3% interest rate proposed for the \$350,000. The \$150,000 at no interest would be paid back upon the sale. Mr. Hartney proposes we should try to negotiate a better deal, but we'd like a better sense of your appetite to do this project so we can negotiate and come back with a formal agreement for your ultimate approval.

Mr. Koplin asked how much is 1<sup>st</sup> lien position. Mr. Kingsley explained the 1<sup>st</sup> lien will be \$2,825,000. If we were going with the full \$500,000, as subordinated debt, it would net out at \$2,325,000.

Mr. Lushis expressed concern that due to location, would J.G. Petrucci Co. have the opportunity to do this themselves. Mr. Kingsley explained this is a lower priority for them and a high priority for economic development. Mr. Hartney also indicated they are very risk averse and they don't do smaller buildings on spec. This site has been shown to several prospects and the challenge is always timing. They need the building in 6 months but it will take 9 to 12 months to deliver.

Mr. Koplin recused himself due to his professional banking relationship with J.G. Petrucci Co. He made a general comment that the financial motivation to do a building this size would not be there. He feels the Wind Gap interchange is up and coming and this is a good starting part for that market area.

Mr. Dowd commented at the recent Economic Forecast luncheon it was discussed that the availability of buildings this size is non-existent. Currently they want these building now and can't wait 9-12 months, but that could also change in the future. If we can incent that and participate in the NCDP and arrangement, I really do think the proposal for the partnership is more in tune where I'd like to see us be.

Mr. Hartney asked the Board to keep in mind that we're providing an incentive to get a product developed that is needed, but even at a 3% return, that's more of a return we will receive on our funds. The staff feels it's a good investment for the GPA and the risk is mitigated by the quality

of the developer. If something would go wrong, I think we'll get paid back. He's not going to want to upset the economic development community and the entities involved.

Mr. Koplín questioned giving a sub-prime rate on a 2<sup>nd</sup> lien and no return on the \$150K

Mr. Dowd expressed that if things were easily financeable they'd be done in the conventional fashion. The idea of this organization was being the incentive group that helps something work and this project probably would work in a conventional way. Our role has been one to assist in getting things done.

Mr. Kingsley explained the value of this property when finished will be a \$3.5 to \$4M property.

Mr. Lushis agrees that you won't find a better developer. The structure of this transaction involves two other entities and in numbers there is strength. With three different boards, three different entities will have looked at this, he feels we would be fulfilling our duties.

Mr. Schiavone asked if this was put together by the NCDP. Mr. Kingsley indicated it was put together based on something the market needs. The market demand is for 20,000 to 80,000 SF buildings so this program was put together in response to that. What the NCDP needs to pull off is offering an incentive program versus becoming a bank.

Mr. Kingsley explained that Petrucci knows they can get a better rate and it really comes down to the \$150,000 carrying costs. He considers that to be the real incentive.

Mr. Langen also expressed how these mini-manufacturers are also job creators. What he'd like to see on the next one is that we come up with more programmatic things on our end. What he'd like to see on the next go-round is a wider base of respondents and more innovation. He's looking at the no interest on the \$150,000 as our community economic development grant.

Mr. Kingsley explained they weren't sure why they didn't receive other proposals. He does know one developer who didn't submit because they were concerned that they received the benefits of a lot of economic development resources during their recent history and were concerned they would suffer by comparison. He encouraged them that this wasn't case and we recognize one building doesn't solve the problem.

Mr. Langen expressed he doesn't see our money being exposed too long. He doesn't see this as a 2 year pay back. It will be tied up quickly and off the books. Mr. Langen questioned the break-up of the money. Mr. Kingsley clarified NCIDA would contribute \$100,000 and NCNJ has approved up to \$200,000 so we're looking at picking up the balance. Mr. Langen explained the questions are; 1) do we want to be in which he thinks we already decided that when we put this program together, 2) to what financial commitment do we want to be and 3) do we want to increase the 3% interest rate. The other partners have asked to increase to prime floating.

Mr. Dowd asked Mr. Kingsley to go back with a sense from the GPA that we are prepared to commit up to \$200,000 and the interest rate at prime floating. The \$150,000 is also a negotiating point.

Mr. Lushis wanted to state that his firm represents NCNJ. His firm made a commitment to write the governing document without cost. What he envisions is forming an entity or an LLC with each of the three entities' ownership interests probably matching the degree of the loan they put in. Those are our initial thoughts. It still needs to be decided how the entities would be managed. The entity could certainly outlive this project and live for another day if there are more projects. From his perspective, that entity would then be the lender and there would be appropriate loan documents.

Mr. Kingsley indicated he knows the proposed terms will not be acceptable to one of the partnerships. There will have to be some negotiations.

Mr. Langen told Mr. Kinglsey to take back the feedback relayed at the GPA meeting that we are prepared to commit up to \$200,000 and the interest rate at 3.75%. The \$150,000 is also still a negotiating point.

#### 6.2 PA Ethics Statement of Financial Interest

Mr. Hartney emailed everyone this year's Statement of Financial Interests and asked everyone to please make sure to get them in.

### ITEM #7 STAFF REPORT

#### 7.1 Project Updates

Mr. Lushis indicated all of the P3 project documents have been signed and the closing binders are being prepared. Mr. Lushis also mentioned as an FYI that Mr. John Brown has asked him to become fully involved and engaged on the new prison project which he is trying to do through the GPA.

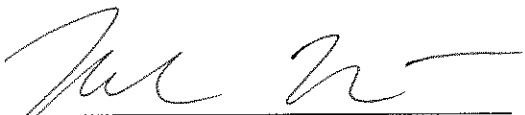
Mr. Langen asked if there was sufficient housing in DCED offices to start storing things in one spot for the P3 project. He would like one dedicated spot where he can have the GPA's files associated with the P3. Mr. Herrlinger indicated the DCED does have a dedicated space where P3 files can be housed. Mr. Hartney committed DCED to filing and organizing the P3 files.

### ITEM #8 – NEXT MEETING – TUESDAY March 7, 2017 8:15AM.

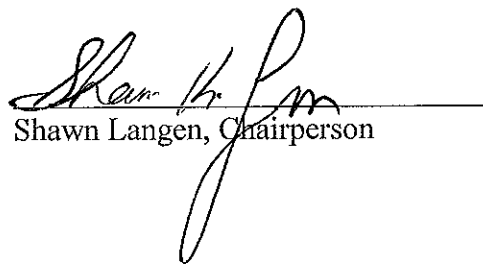
### ITEM #9 – ADJOURNMENT

Motion was made by Mr. Koplín. It was seconded by Mr. Langen. Motion passed unanimously.

ATTEST:



Mark Hartney, Administrator



Shawn Langen, Chairperson