YORK COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
SPECIAL MEETING MINUTES
Monday February 21, 2022

The special meeting of the York County Industrial Development Authority was held on Monday February 21, 2022 at 8:15 a.m., in person and on Zoom, access was also available to the public by toll-free number, pursuant to notice.

The following Authority members were in attendance, representing a quorum:

Doug Becker	Dr. Gunter-Smith	Patti Stirk - ZOOM
David Brinton	Oliver Hoar - ZOOM	Coni Wolf
	Jack Kay	
Kerryn Fulton	Chuck Noll	

In attendance: Ron Hershner, Esq., Stock and Leader; Michael Blume – General Manager of YTH; and the following members of the York County Economic Alliance staff: Kevin Schreiber, President & CEO; Nancy Barry, Vice President, Operations via Zoom; Kenetha Hansen, Director, Economic Development & Financing; Kim Hogeman, Director, Strategic Development via Zoom, and Alva Smith, Administrative Assistant

<u>CALL TO ORDER</u>
Chairman Jack Kay called the meeting officially to order at 8:15 a.m., verified each Authority member could hear and be heard by all others and noted that a quorum was present.

<u>PUBLIC COMMENT</u>
No Comments from the public

<u>HISTORIC TAX CREDIT TRANSACTION</u>
Chairman Kay noted that he intended to defer the consent agenda items until later and asked the Authority to first address the requested actions required to consummate the Historic Tax Credit transaction. Chairman Kay provided the following overview and background for the transaction and the requested action items:
You are all aware we have been working with Foss & Co. to complete the tax credit transaction under the terms of a Letter of Intent the Authority approved some months ago. Foss & Co. has obtained a tax credit investor, JP Morgan Chase, and we are moving closer to closing on the anticipated tax credit investment, which is a significant part of our capital stack for the project. The gross amount of the tax credit generated by the rehabilitation is in the $10 million range. After fees, after the discount factor, we are hoping to net in the range of $8.2/$8.3 million, somewhere in that range, which will be coming into our capital stack of funding. And we will touch on this in a moment, but that investment comes in traunches. One quarter of the investment comes in when we close on the transaction and hopefully that will be this month on the 28th. There is another piece, about half of the total, that comes in when the property is placed into service. And then the last piece comes in after the closeout audit. And all of this is dependent upon closing under the terms of these various resolutions. I think all of us that have been working on this have come to learn how complex this is. And it's driven, in addition to the tax credit complexity, by the fact that the sponsor of all of this is the Industrial Development Authority and we are a quasi-government entity so we have to operate under the laws that dictate how an industrial development authority has to work in Pennsylvania. That includes bidding requirements, open meetings, public discussions, and so forth, but it also addresses the challenge of how to ultimately get tax credits generated and sponsored by a quasi-government entity to pass through different tax paying entities, so when it all washes out, the buyer purchasing credits can legitimately claim the credits. And

to do that Ron and our consultants, both financial and legal, have set up what you have seen in the past, this really complex flow chart of various entities that depend and relate to each other to be able to do this transaction. And that is why we have so many resolutions and consents to consider today: the different entities are approving, they are inter-related, there is a legal relationship, there is a financial relationship, and we are dealing with a number of different entities, of our own and of third parties, to accomplish this.

So, what I thought I'd do very quickly, is go through how we fit into all of this. And I guess, let me start with the bottom line, the bottom line is, at the end of the day, we are the responsible party. So, you know, all kinds of things could happen, hopefully they are good things, but there will be challenges and there may be issues that surface. It is our responsibility, legally and financially, to address those at the end of the day. Now, we built up mechanisms, there is a structure in place that addresses different contingencies, but ultimately as the Authority it is our dime, it is our deal, and I can't stress enough: the IDA is the one holding the bag at the end of the day. So, going back a few months ago, we presented for your approval the conventional debt piece. That is a combined loan that is with Members 1st, who has been with us since the beginning and is also funding construction through a bridge loan of the RACP grants, and with the Glatfelter Foundation. To Ron's credit they were able to work out an agreement that is a little unusual, it was challenging in and of itself, it's like mixing oil and water, we have a foundation joining hands with a credit union, each holding a first lien position. And I think that our knowledge of both of those entities has helped greatly. We have worked with Members 1st and of course Glatfelter Foundation and its leadership have been major proponents and supporters. I think had it not been that group, we probably would not have been able to structure this in a way that satisfied everyone.

So, this is the conventional debt piece. They are in first lien position. The real estate is securing those loans and we have obligations to them to fund that debt. The terms of that debt were reviewed with you and approved: it is flexible, there's a period of interest only, it flows into a permanent amortization. So, because YCIDA guaranteed the loans, we have an overall obligation for that, that is part of our financial exposure.

Then we get into wanting to get the historic tax credits and we evaluated that. As it became clear that it was a significant opportunity, we of course went down that path. We have with approval of the Authority, hired different consultants, Spencer Fane as legal counsel and CohnReznick as financial and accounting advisors. We also, as mentioned, engaged a firm that regularly puts these deals together: Foss & Co. And as we've gone through various exercises, we are now at a point where we have documented how all of these various entities have to coexist and interrelate.

The taskmaster of all of this is the investor JP Morgan Chase and the requirements they have for this tax credit transaction. The big deal here is that their ability to use those tax credits is dependent on YCIDA and its entities doing what they say they will do. And there are a couple pieces to that. There is a financial piece: we have got to keep the place in operation. There is a construction piece: we have got to build it the way it was approved for tax credit purposes. There will be a review of that at the end of the day. If we have deviated from that without getting permission, we've violated those terms, that starts the dominoes falling, and we violated our various commitments to the tax credit investor. And to the extent that they suffered damages as a result of that, we are on the hook for that. There is also a financial performance piece. It is critical that the ownership of this property not change hands during the tax credit period and that tax credit period is a five-year period and then there is the closeout.

So, let's just walk out a path where there is a default with a conventional lender and we are not able to cure it, there isn't an ability to work it out. So now, Members 1st and/or Glatfelter pursue a remedy: they want to take over title to property and sell it to someone else or find a different operator. To the extent that we lose ownership, it makes the tax credit, makes the tax credit transaction invalid, so once again, if we do something that violates our agreements where title changes within that five-year period, once again we are on the hook to the tax credit investor if they suffered damages. We have to make them whole.

There's a financial performance piece. We are making a commitment to them that in addition to finishing the project, in addition to funding the construction if there are overruns and so forth, we have to finish it the way the plans have been approved for tax credit purposes, but also what was presented to the tax credit investor. In addition to finishing the construction, as a part of the financial performance requirement, if in a year, there is a cash flow deficit, we have to make that up. We can't just say "Well, maybe we'll make it up in the future." We have to take steps to protect everyone's investment in this project so there isn't any level of default.

So, we have relied on a number of pairs of eyes and consultants to put us in a position where we have some comfort and confidence that this thing will operate the way we expect it to. We originally hired GF as a consultant to help guide us through this process. They studied the market, they put together an initial pro forma, they have experience in operations in this market and they came back using fairly conservative assumptions about the average daily rate, overall occupancy during the year, the competition that is in this market. They came back and felt, given the unique status in the way our deal was structured, and when I say unique what I mean is most deals are heavy on leverage and debt with a lower percentage of equity. We are the reverse. We have more equity than we have debt and looking at what our debt service obligations will be to that conventional lender and the other operating requirements, we have a stronger balance. Because we are a hotel, we want to fund a reserve every year because under our franchise agreement with Hilton, they don't want it to become shoddy looking, old, antiquated, so you can expect that after five years, six years, we'll have to refresh it, new wallpaper, carpets, update systems, all of that. So, we are building in every year a reserve to be able to accommodate that. We also have to pay a franchise fee to Hilton every year. We also have an operating agreement with a division of GF Hotels and Resorts to manage the hotel. That agreement spells out the fees that we have to pay them. We have to give them assurances that we are going to fund this thing so it stays viable and financially stable and there may be things that surface in the interim. The Authority is backing all of that. But we have confidence in feeling that we can based on all of the analysis that was done financially.

So, as I said, GF started with their analysis, then we brought on Foss& Co.: they took a look at the market, they looked at the pro forma and came back and felt that it was valid and was a reasonable set of assumptions, and all of these, by the way, conclude that the project will cash flow. And after the first couple years, that cash flow is not insignificant. It's able to cover all of these expenses that I have been outlining. So, with Foss & Co. having looked at it and feeling that they can market this, it is a viable project in spite of the fact that it is a hospitality project in the midst of a COVID environment. Not the most popular type of investment when we started more than a year ago. Nevertheless, they felt there was potentially a market for it and they went out and beat the bushes, came back and recommended that JP Morgan Chase was probably the best horse to ride in all of this. All of us working on this can attest: JP Morgan doesn't take anything at face value. Their due diligence is unbelievable. You have got to prove you exist. If you say what your name is, show me the birth certificate. They have brought in a whole set of consultants. They brought in a construction consultant that looked at the plans, the specs, the budget, the schedule. They looked at Kinsley, they looked at change orders. They wanted to make sure that the plans really were appropriate for the scale of the project. That at the end of the day, it would be built appropriately: code compliant, safety compliant. And in their mind, most importantly, that the tax credit investor can rely on their report that what they are buying into is really going to be built according to historic standards.

So, with that now approved, our tax credit investor indicated that they would go out and hire their own financial consultant. They brought in another appraiser called Bankos, a firm out of Philadelphia, they are a hospitality specialty group. They came in, they studied the market, they looked at everything, came to the same conclusion: the project is viable, it will cash flow. I forgot to mention that when we struck the deal with Members 1st, they brought in another appraiser. They did the same thing: studied the market, looked at the rates. Everyone has concluded, four sets of different eyes, that this is a viable project. It should cash flow.

So, all of this goes to say then when we are taking on these obligations, I feel that we have done the homework. Again, there are unforeseen things like COVID, there could be a war that has global impact. There are all those variables that we can't control or predict, but, assuming some sense of normalcy, the project should be viable, it should throw off cash, and it should be a reasonably good investment for the Authority and for our investors that are coming into the project: the individuals and institutional investors, that this is reasonable, and they may potentially someday somehow get some money back.

So, all of this goes to say that all of these various resolutions affirm what I just briefly described. There is also the operating agreement with GF Management: it touches on the various points more specifically that I just described. So why don't I stop there and I'll ask Ron if there's any other sort of nuances or comments that he would like to bring up, or Nancy before we get into the resolutions themselves.

Ron Hershner then commented:

There are lots of nuances, but I can't say it any better than Jack did. Note that there are a number of resolutions and consents for your consideration. You need to understand the distinction: the Resolutions that you will vote on today are things that the Authority, in and of itself, is doing as the Authority. There are also a number of Consents which are actions that the Authority is taking in its capacity as a member of one of the several LLC's. So, you are acting in two different and distinct capacities. Always as the YCIDA, but one set of actions in your own right, and one as a member of all of these various entities because much of this is happening at, actually two levels down, at an entity called YTH Landlord, LLC which is a tax-paying, for-profit LLC. So, it has to authorize all these things through its member. It is owned by The Yorktowne Hotel LLC which is in turn owned by YCIDA. That is why there are two different types of actions on the table today. I am happy to answer any questions.

Chairman Kay added:

One thing I neglected to mention is I indicated that the tax credit investor's money comes in in tranches. So, when we close, they're going to give us 2 million and change, roughly. So, as we progress in the project, we have taken steps to have an interim lender, a bridge lender, and this is also an entity that was brought to us by Foss & Co. And the whole idea for the bridge lender is they are lending the difference between what the tax credit investor initially puts in as the first tranche, and the total amount that is actually going to come due when the project closes out. So, there is another piece of debt that sort of gets woven into this and there is a resolution and consent that specifically addresses that.

I will say the terms of our deal with the tax credit investor are 99% resolved. There are a couple of open issues we still need to pin down, but we are still in negotiation before we ultimately sign off on the tax

credit interim bridge loan, but what we want is your approval so we can finish that up. And when that comes in and how it comes in may also be a cash flow function that Nancy will help guide us on.
The Authority then considered the proposed Resolutions and Consents:

RESOLUTIONS HTC TRANSACTION, HTC BRIDGE, AND GF AGREEMENT
Distributed electronically in the meeting packets were the resolutions for the historical tax credit transaction, the HTC Bridge Loan, and the Operating Agreement with GF. On a motion by Mr. Brinton, properly seconded by Mr. Becker, a vote was conducted and unanimously approved by the Authority.

CONSENTS AUTHORIZING HTC TRANSACTIONS, CONSENT HTC BRIDGE, AND CONSENT GF AGREEMENT
Distributed electronically in the meeting packet were the c consents related to the historical tax credit transaction, the HTC Bridge loan, and the GF Operating Agreement. On a motion by Ms. Wolf, properly seconded by Dr. Gunter-Smith, a vote was conducted and unanimously approved by the Authority.

ELECTION OF TREASURER AND CONSENT TO ELECT TREASURER OF LLCs
Due to the passing of Alvin Hayes, a resolution was presented to elect Doug Becker as Treasurer of the YCIDA and its subsidiaries. On a motion by Ms. Fulton, properly seconded by Mr. Noll, a vote was conducted and unanimously approved by the Authority.

RESOLUTION OF RESPECT – AL HAYES
A Resolution of Respect was read by Kim Hogeman. On a motion by Chairman Kay, properly seconded by Mr. Brinton, a vote was conducted and the resolution unanimously approved by the Authority.

RESOLUTION OF RACP AWARD – YORK COUNTY LIBRARIES
Kenetha reviewed the approval of $5 million RACP awarded to York County Libraries. On a motion by Ms. Wolf, properly seconded by Mr. Becker, a vote was conducted and the Resolution was unanimously approved by the Authority.

RESOLUTION LSA GRANT
The Authority intends to apply for a $1 million dollar grant to be used for the Ballpark Commons Northern Gateway. On a motion by Dr. Gunter-Smith, and properly seconded by Ms. Fulton, a vote was conducted and approved by the Authority.

CONSENT AGENDA ITEMS Chairman Kay requested a motion to approve the matters on the Consent Agenda. On a motion by Mr. Becker, seconded by Mr. Noll, a vote was conducted and unanimously approved by the Authority.

GOOD OF THE ORDER
Mr. Michael Blume gave an introduction of himself and James Parker, Director of Sales, for the Yorktowne Hotel.
Chairman Kay recognized the hard work of Solicitor Hershner, Kim Hogeman, Kevin Schreiber and his team for everything they have done with the historical tax credits.

ADJOURNMENT

There being no further business to come before the Authority, Mr. Kay adjourned the meeting at 8:55 a.m.

Respectfully Submitted,

Patti Stirk,
Secretary

Prepared by:
Alva Smith; Administrative Assistant, YCEA