

**Penn Square Partners  
Status Update, February 26, 2004**

**Background**

The executive director of the Lancaster County Convention Center Authority and the president of Penn Square Partners attended a meeting of the Lancaster County Commissioner on February 25 to update the community on the status of the downtown Lancaster Marriott at Penn Square and the Lancaster County Convention Center project. Here is the most recent information about common concerns regarding the project.

**Penn Square Partners has a financing plan for the hotel tower.**

Penn Square Partners has a financing plan totaling \$43,050,000, representing 93% of the estimated \$46,300,000 cost of the hotel tower. The current funding gap is \$3.2 million, not \$31 million as has been reported, and the Partners have identified a potential source for that \$3.2 million. Because of delays in the project that have not been caused by the Partners, some elements of the financing plan cannot be “signed, sealed and delivered” until the total cost of the project, including site development costs and the costs of spaces that will be shared by the hotel and convention center are determined.

Here are the components of the hotel financing plan:

<b>Source</b>	<b>Amount</b>	<b>Note</b>
PSP's equity investment	\$10,800,000	Funded
Redevelopment Authority loan	\$ 7,250,000	Funded
Mortgage loan	\$19,000,000	PSP is committed to obtain. Five banks have expressed strong interest in participating as mortgage lenders when the amount required is known.
Tax Increment Financing	\$ 5,000,000	Cannot be applied for until plans and costs are finalized
City investment	\$ 1,000,000	Committed
<b>Total</b>	<b>\$43,050,000</b>	

**The Lancaster County Convention Center Authority has a financing plan for the convention center.**

Like the Partners, the Authority also has a financing plan. Here are the components of the convention center financing plan:

<b>Source</b>	<b>Amount</b>	<b>Note</b>
Bond issue	\$40,000,000	Funded
State grant	\$15,000,000	Committed
Room tax revenue 2004 – 2006	\$ 5,000,000	Committed
Interest income	\$ 1,000,000	Committed
Cash in hand	\$ 1,000,000	Funded
<b>Total</b>	<b>\$62,000,000</b>	

The Authority estimates that the convention center with a 50,000 square-foot exhibit hall combined with the ballrooms, meeting rooms and pre-meeting spaces that it will house within the footprint of the Watt & Shand Building will cost \$50,850,000. Therefore the Authority will have an \$11.1 million surplus.

**There is a funding gap.**

However, neither the Authority’s estimated cost for the convention center nor Penn Square Partners’ estimated cost for the hotel tower include the remaining costs of \$26.6 million required to transfer ownership of the Watt & Shand Building to a public entity, complete necessary demolition and renovation and to create the common spaces that will be shared by the convention center and the hotel in the Watt & Shand Building.

As the chart below shows, **the total combined financing gap is \$18.6 million**, which will be shared in some way between the Authority and the Partners.

	Hotel Tower	Shared W&S Space	Convention Center	Total
Cost (in millions)	\$46.3	\$26.65	\$50.8	\$123.65
Financing Plan	\$43.0	0	\$62.0	\$105.0
Total Financing Gap				<b>\$18.6</b>

The Partners and the Authority are working with the Redevelopment Authority of Lancaster City (RACL) and state legislators to include a new grant to the RACL in the state’s capital budget. This grant would allow the RACL to acquire the Watt & Shand Building and, together with the Authority’s surplus, to fund the site preparation and building restoration costs.

Further, this grant would allow the RACL to increase its *loan* to Penn Square Partners, thus closing the \$3.2 million gap in the hotel financing package. Based on our conversation with local legislators, we anticipate that action on the state capital budget will be completed within the next few months.

**The Convention Center will be designed with a 50,000 square-foot exhibit hall.**

The Partners support a 50,000 square-foot exhibit hall based on the financing strategy shown above.

**The Partners and the Authority jointly stopped further architectural design until critical issues affecting the design can be resolved.**

In the summer of 2003, the Authority and the Partners agreed that it would not be prudent to spend any more money on architectural drawings until we both received confirmation from the state regarding our joint request for additional financial support of the project. The Authority and the Partners jointly directed High Associates to stop any further work by the architects. The delay in design was an owner-directive and *not* the developer’s decision.

**Penn Square Partners is proposing to sell the Watt & Shand Building to the Redevelopment Authority.**

Penn Square Partners initiated the suggestion to sell the Watt & Shand Building to a public entity as soon as the integrated use concept for the Watt & Shand was developed, believing that it would give the public sector more confidence in its control over the property. Selling the building to the RACL has nothing to do with building the Marriott Hotel. The Partners are in no way backing away from the commitment to develop or to own the hotel. The Partners still will develop, own and operate the Marriott Hotel at Penn Square.

**The Authority has no intention of seeking another developer.**

The Partners and the Authority have a joint development agreement. The Authority said that it “has no intent to change the role of Penn Square Partners as hotel developer,” as some rumors have suggested. Neither is the Authority seeking to build the convention center without the proposed hotel. The hotel is a condition of the County’s guarantee of the Authority’s bond and a part of the program that the state agreed to support with a \$15 million grant that the development of the hotel and convention center occur simultaneously.

**Delays in the project are caused by parking issues and issues with the Historic Preservation Trust**

Although detailed design and building timelines *are* drawn-up, the Partners and the Authority have been unable to direct to the architects to complete its designs because two critical issues must be resolved to do so:

After three years of negotiation, the Convention Center Authority and the Parking Authority have not come to an agreement about transferring ownership of the King Street garage. Control of the King Street garage was assumed in all previous designs for the convention center. As local political leaders attempt to forge a resolution to this issue, the Authority has agreed to explore alternate parking designs that do not include the King Street Garage.

The Historic Preservation Trust (HPT) has an agreement with the Authority that requires it to define its program and to identify sources of financing to implement its plans to preserve and fund certain historic structures on the convention center property within a set timeframe. This has not been accomplished to date and must be in order to guide our project architect on how to integrate the HPT plan with the convention center plan. The Authority is redoubling its efforts to resolve this issue immediately.

**Both the Partners and the Authority have agreed to re-start architectural drawings once the parking and Historic Preservation Trust issues are resolved.**