505, 507, and 509 Race Street

How the City’s Lien Could Be Released

Under a Modified Resolution 20-02

Memo to: The Mayor and City Commissioners, City Manager, and City Attorney

From: Commissioner Stephen Rideout

Date: March 30, 2020

Re: City Lien on Race Street Property

The current ownership regarding the above properties appears to be as follows:

* 505 Race Street is owned by Historic Cambridge, Inc. (HCI) based on a purchase from Provident State Bank on June 27, 2014. Its assessment is $113,700 as of July 1st, 2019 and $109,800 as of July 1, 2020. As HCI is a nonprofit, the property does not generate any taxes to the city. It has no apparent ability to develop the property.
* 507 Race Street is also owned by Historic Cambridge, Inc. (HCI) and is open land because the city paid over $116,000 to tear down the dangerous remains of the partially collapsed building during the summer of 2019. Its valued is $36,100. It was obtained from Easy Rentals, LLC on December 30, 2013, after County and City taxes on the property were not paid for years. It had been purchased by Easy Rentals, LLC in 2009 for $400,000. As HCI is a nonprofit, the property does not generate any taxes to the city. It has no apparent ability to develop the property
* 509 Race Street is owned by Hearn Ownership, LLC. It was acquired from Historic Cambridge Development on August 28, 2019, after it had acquired the property from Dorchester County on December 20, 2016, and its assessed value as of July 1, 2020 is $70,600. As Hearn Ownership, LLC appears to be a nonprofit, the property does not generate any taxes to the city. The property had been sold by the county to Cambridge Development because of the nonpayment of taxes by its prior owner. Hearn Ownership, LLC and/or its owner want to develop all three properties or want to find a developer to develop all three properties.

The lender of the monies for the development of the Hearn Building (thought to be NCOL or some other acronym) through negotiations with the Maryland Department of Housing and Development (DHCD) appears to be the entity to which DHCD wants to transfer ownership of 505 and 507 Race Street by acquiring them from HCI and paying off a lien by Victor MacSorley held for work done on either or both 505 and 507 Race Street.

As part of this transfer plan, DHCD is demanding that the city waive its lien for the costs of taking down 507 Race Street last summer and, in effect, giving up any hope of the city recovering any of those costs.

Last August city council agreed that it would not place a lien on the property for which it had a right to claim a lien (507 Race Street) but directed the city attorney to pursue negotiation of some compromise that would protect, to the extent possible, the city and its demolition costs.

Since last Spring and early Summer and before the summer collapse of 507 Race Street, I heard that DHCD was talking with nonprofit entities about becoming the developers of 505 and 507 Race Street. I also heard that city representatives were talking with DHCD to have it provide funding to the city to pay off the MacSorley lien on 505/507 Race Street. His lien was approximately $30,000. HCI has, I understand, very little if any monies available that could be used toward paying that obligation. What funding that does remain may be a portion of the money that I understand was granted to HCI for it to put a roof on 507 Race Street in order to prevent it from further deterioration. The roof was not done, which helped result in the deterioration of 507 Race Street to the point that it partially collapsed.

I recently heard that DHCD was not moving forward with helping the city become the owner of one or both 505 and 507 Race Street but rather that those two properties would be transferred to the lender that now owns 509 Race Street under the name of Hearn Ownership, LLC. As part of that transfer, monies would be provided by the lender or DHCD to pay off the MacSorley lien but not any portion of the city claim.

The purported reason for the city not being compensated according to the proposed Resolution is that DHCD has invested over “a million dollars in the development of the Hearn Building” and that it “plans to invest another half a million dollars into the site to a have a roof placed on the structure”. The proposed Resolution also states in part that “the financiers of the former owner of the building are investing in the stabilization of the multi-story structure; and … have recently acquired the building from the former owner”.

I am advised that DHCD is funding the roof on the building that was supposed to have been completed before the winter began. It is still not done just as the roof on 507 Race was to have been done to prevent further damage to that building. I am also advised that it was the lender that had put close to $1 million dollars into the Hearn Building and that DHCD may have put some money into the Hearn Building as well, but I am not aware of what that amount is. I have also heard that the city has been threatened by the state regarding other current and possible future funding unless it gives up its right to claim reimbursement of some or all the monies it expended.

I would vote to remove the city’s lien if there were some benefit to the city in the short and long run but not because the state seeks to coerce us. My concerns are the following, which would not be addressed by our simply releasing the lien on 507 Race Street:

* If the lien is released, the potential owner of 505 and 507 Race Street and is the owner of 509 Race Street or Hearn Ownership, LLC will be a nonprofit that will result in all three properties remaining tax exempt. That means for an unknown number of additional years up to three of these properties in the heart of the City of Cambridge will not generate any tax revenue to the city or the county, as the record indicates has been the case for many years.
* I have no information that the owner of these properties has any restrictions on keeping the properties in its name or transferring one or more of these properties to one or more nonprofits or government agencies that would not have to pay any real estate taxes to the city.

If there would be a written and recorded agreement between the lender/owner of 509 Race Street and the city that would be placed on the land records that would require the following in general terms, I would agree that it is in the city’s best interest to waive its lien:

1. Have the lender agree to sell the properties to one or more for profit developers capable of completing the work on these properties.
2. Have the lender agree as part of any sale of the properties to one or more for profit developers to require that it or they upon completion of the building and rehabilitation of the properties to refrain from selling or transferring the properties or any of them to a nonprofit organization or governmental entity so that these properties could, once again, generate tax income to the city and county.

I realize under the current circumstances that Cambridge and its taxpayers will not be able to recover the total costs for the demolition of 507 Race Street; but I also believe that it is unreasonable for DHCD to push the city into submission to its wishes when DHCD failed to protect the city’s interest in its negotiations with the lender and failed to ensure that the money it granted to HCI for the roof at 507 Race Street was used for that purpose.

Releasing this lien without some conditions that would protect the city could place the city in the position of

* Having three buildings improved
* The lender made partially whole
* Mr. MacSorley being compensated
* The city and its taxpayers receiving nothing for the over $116,000 spent on the demolition of 507 Race Street
* The real possibility of one or more of the buildings in question remaining untaxable for years to come.

Based on the above, I will be moving that the city’s lien on 507 Race Street be released upon the signing of a written agreement to be recorded on the county land records between the Commissioners of the City of Cambridge and the lender/owner of 509 Race Street – NCOL (or its formal legal name) and Hearn Ownership, LLC – that states in more formal language approved by the Cambridge City Attorney the following:

1. The lender and owner of 509 Race Street agree to sell the three properties to one or more developers capable of completing the work on these properties.
2. As part of any sale of the properties to one or more developers, the lender and owner of 509 Race Street will require that the developer(s) upon completion of the building and/or rehabilitation of the three properties make no sale or transfer of the properties to one or more nonprofit organizations or governmental entities.

Respectfully Submitted,

Stephen W. Rideout

Commissioner

Ward 1