

***MINUTES OF THE REGULAR MEETING
OF THE CAROLINA BEACH TOWN COUNCIL
AND CBP3, INC.***

November 18, 2011

The Town Council of the Town of Carolina Beach continued their November 15, 2011 meeting to November 18, 2011 at 4:00 p.m. in order to hold a joint meeting with CBP3, Inc. The meeting was held at the Municipal Administration Building, 1121 N. Lake Park Blvd., Carolina Beach, North Carolina. The following were present: Mayor Joel Macon; Mayor Pro Tem (MPT) Pat Efir; Councilman Dan Wilcox; Councilman Bob Lewis and Councilman Lonnie Lashley. Also present was the Town Manager Tim Owens, Town Clerk Lynn Prusa; Finance Director Dawn Johnson; and Town Attorney Steve Coggins. The following members of the CBP3 Board were present: Dennis Barbour, Greg Reynolds and Lisa Wills.

Mayor Macon called the meeting to order.

RECOMMENDATIONS BY CBP3, INC. CONCERNING THE AWARD OF A MANAGEMENT CONTRACT FOR GUY JOHNSON AND SURFSIDE HOTELS

The town manager said he has two proposals one from Village Realty and Management Services, Inc. and the other from Surfside Management, LLC.

Mr. Owens said let's start with Village Realty. He said they are the current operator of the hotels. They are requesting a 4 year lease. The operator will pay for all operating expenses and liability insurance in the amount of \$5 million with the town named as additional insured. There are no plans for property taxes, flood insurance, hazard insurance or property insurance. They propose a management fee of \$121,332 for the first 2 years and \$124,332 for the last 2 years. The fee is to be paid in different increments during the course of the year and can be seen on their proposal. There is a 60 day window for termination outside of the Labor Day timeframe. They will continue some of their improvements. They submitted a \$10,000 bid deposit and did not provide a performance bond. There are pros and cons of the proposal that he provided to Council.

Dennis Barbour interrupted and said before proceeding any further he disclosed to Council that it is necessary to point out that we are a small town and he is distantly related to David Pierce with Surfside Hotels by second or third cousin. He said at the meeting earlier today with CBP3 he disclosed this information upfront before the companies' representatives that bid on the lease of the properties and neither had a problem nor did any of the representatives of the corporation therefore we proceeded.

Councilman Wilcox said he had the same disclosure that he is in a relationship with the former wife of one of the applicants and he asked the same and neither had an issue with it.

Mr. Barbour explained to Council that he is not a voter for you, but you have the opportunity to request that Councilman Wilcox not vote on this issue if you plan to do so.

Mayor Macon said that he doesn't see that he has a direct benefit and the rule is that it must be a direct benefit and it is very specific. Councilman Wilcox said that it doesn't matter to him. There were no objections and Council proceeded with the meeting.

Mr. Owens went over the pros of the proposal, as follows:

- The proposal is an increase of \$64,332 for each of the first 2 years over what is currently being paid and increases an additional \$3,000 in year 3 and 4. Current payment is \$57,000 per year. The additional \$64,332 can be used to offset the current taxes, insurance and mortgage costs. Ad Valorem taxes should decrease by approximately 40% which could also be applied toward the debt and expenses.
- Proposal is straight forward and a simple contract can cover the proposal.
- Proposal allows for more flexibility with no cost to terminate the contract after a date certain. This will allow the town to close on the property quicker and with no cost which is important given the uncertainty of grant deadlines for implementation.
- Operator has run the property for many years with little incident reported to CBP3, Inc. or the town.

Next he went over the cons of the Village Realty proposal:

- Management fee is \$35,668 less per year for years 1 and 2 and \$32,668 for years 3 and 4 than the Surfside Management Proposal.
- Minimal amount of renovation has been done to the property during their operation.
- Renovation and purchase of new personal property less than Surfside Management.
- No performance bond.

The proposal was with Surfside Management, LLC's, and Mr. Owens provided the following information:

The proposal is for a four year lease term with the opportunity for 2 year option in that lease. The management fee will be \$157,000 per year. The termination period with 1 year guaranteed occupancy with CBP3 repaying the operator for improvements made in the amount of \$75,000 in year two if terminated and \$50,000 of the improvements if terminated in year three. The operator proposes the following renovations estimated at \$229,000 within 90 days of beginning operation given contractor availability. The will continue to market the property. The submitted a \$10,000 bid deposit and will provide a performance bond in the amount of \$200,000.

The pros of the Surfside Management proposal are as follows:

- Increase of \$10,000 over current contract. Current payment is \$57,000 per year. The additional \$100,000 can be used to offset the current taxes, insurance and mortgage costs. Ad valorem taxes should decrease by approximately 40% which could also be applied toward the debt and expenses.
- Operators currently have hotels and other commercial ventures in town;
- Operators propose a significantly more aggressive approach to maintenance, upgrades, and purchase of equipment and person property
- Operator will provide a performance bond of \$200,000

The cons of the Surfside Management proposal are as follows:

- Agreement provides less flexibility and more costs to terminate the contact. This could provide difficult if deadlines for grants must be met.
- There are still a number of items that were not thoroughly addressed in the proposal.
- The contract creation will have to address the nuances of the proposal so that all parties understand what is expected of each if the contract needs to be terminated.
- Improvements and renovations will have to be accurately tracked to implement the termination section of the agreement.

Mr. Owens said to give you some statistics, the total cost of the whole endeavor is \$492,034 when that mortgage goes up. When you look at the two proposals there is a roughly a \$35,000 difference.

Councilman Wilcox said at this time he will give an update on the work session. We had asked for some performance requirements in the RFP and someone who could come in a make the most improvement to the property and better operation. They had a very detailed discussion and only one of the applicants submitted all of the information back in the RFP. One of the applicants is planning on making an investment and the other wasn't so we had to work on the details of what the town's exposure would be and if the applicant made the investment and at some point was pulled out from underneath them so there was a lot of discussion about that. Surfside is the group that was voted by this board unanimously. We felt that the plans for the property and everything about their business plan was the most desirable for the community and they were looking at the future rather than just coming in with a management contract. We negotiated some of the risks should there be a buyout and we broke down their initial requests for improvements and things that would deprecation such as carpeting, painting, striping, etc.. They broke that out from some fairly substantial changes to the property as far as fixtures such as new televisions, ice machines, washer, dryers, signage and that sort of stuff. We did that in an effort to try and reach a buyout that would make more sense to the town. The initial proposal was about \$87,000 worth of hard improvements and the applicant agreed to absorb \$27,000 of that and you are left with remaining \$60,000 for the buyout schedule. If for some reason they invested this money and they were not able to operate even the first year they would be entitled to be reimbursed 100% of that money. After the first year of operation \$60,000 would then be in a buyout 60% the first schedule and second year it would be 40% and everything thereafter they would continue to do that work but it would have nothing to do with the town. We requested they cap the fixed improvements to \$100,000 and anything after that in later years would simply be part of their operation such as more televisions, ice makers, etc. it would be part of them doing business. We looked at the hard improvements and if they installed it then the first year they would get 100% of that back. There would be very little loss because they would all be brand new so there would very little exposure to the town. If they operate the first year and not the second they would get 60% and second year 30%. Also one of the conditions was to resolve the Guy Johnson rental issue and we don't have a hard plan for that but we need to see what can be done to renovate at a minimal and maybe combine some of the smaller units as suites. One of our main goals was to resolve part of that problem with weekly residents because there are activities that have been going on there that is not good for the town's image. They would have to provide detailed accounting. Part of their business model is to operate with the expectation that it might run into 6-8 years that part of the challenge is trying to get the clientele back that you want and part of this is turning it around and giving back that desired clientele that takes years and at the year of the 4 year period there was accomplish there then we would give them a 2 year option to renew with an increase of 5% on the fee and after that they would have an option to purchase the property and those details would have to be worked out. This is provided they meet the performance standards. They also submitted some payment options that the finance director looked at and they would select one of those payment options. It was a unanimous decision on the committee's part and if any of the committee members or applicant would like to speak with Council this would be a good time to do it.

Mr. Pierce said they are looking at this as a one day lease because after the first day if the town gets grant money or sales the property they would be more than happy to turn it back over. If you look at the \$100,000 number and say they go 3 months and they spend that amount and the town sells it and you they get the \$100,000 it looks like a big number but they have done everything to that property and it is brand new but they are not going to tear it down but the town is not obligated for the \$400,000 year so it is good trade off. If you have to buy early it is a good thing. So he doesn't want that to scare Council off. If we go in there and invest all of this money and the grant comes through then this is a good medium he believes.

Mr. Owens went over the status of the grants.

Mr. Barbour said we also discussed, and it will be the contract if we chose the Guy Johnson and got a grant to tear it down, then we would negotiate what percentage of the revenue that reduces versus what percentage of their lease would be reduced.

Mr. Owens said that Council will have to decide what amount makes it a viable project and once you buy the land you have to decide and move on.

Councilman Wilcox explained that the balance they were looking for was to limit the exposure to the town if there were a buyout through grants and Council sold the property, but if not then what is the best use of the property years later as a hotel and they make the improvements then we will be in a better position to offer something competitively for the property.

Councilman Lewis said that it was mentioned by the town attorney that he had some kind of verbal that someone had interest in the property. He asked if that is legitimate or not. Mr. Owens said he doesn't believe so.

Councilman Wilcox thanked everyone that was involved in working on this.

Mr. Pierce said they looked at this project in the worse case scenario for the town and if we don't get the grants and we have to sell the property. He said if we ever sell it then we need to get the value of the property up to a higher number also to get the revenue up because that is how most hotels are sold is by it makes.

Councilman Lashley said they asked them if they wanted to buy the property and it will be put in the contract that they will have first option if it comes to that.

A motion was made by Councilman Lashley to accept the CBP3 recommendation to accept Surfside Management as our new management for the town's hotels ...

Councilman Wilcox said with the town manager and town attorney working out the details.

Councilman Lewis said he would like to see the details of the lease contract before we make that approval. He would like to see the contract, walk through it again so he can understand what we are going to be paying for and not paying for, and to understand what the options are if we want to add something to it before it is signed.

Councilman Lashley said that he accepted his comments and would like it added to the motion.

For clarification, Councilman Lashley motion was to accept the CBP3 recommendation to accept Surfside Management as our new management for the town's hotels subject to seeing the details of the lease contract before we make the approval so Council can walk through it, understand what the options are if we want to add something to it before it is signed. MOTION CARRIED UNANIMOUSLY.

A motion was made by MPT Efirid to recess the meeting to December 6, 2011 at 5:00 p.m.

There was discussion about how long the Council will want to carry the long term debt and how that will impact the lease.

There was also discussion about the various grants and how this ties into the properties and how it will affect the lease.

Mr. Barbour said another curve is that if we don't get the beach renourishment authorization that could change the whole game with CRC and the setback lines. Then you could tear it down and you couldn't build a new hotel. Mr. Owens said and then to add onto that we would be spending money to finance a beach renourishment project. Mr. Barbour said tearing a hotel down to make a vacant lot should be last on the agenda before a lot of other things fall in place.

Mayor Macon called for a vote on the motion. **MOTION CARRIED UNANIMOUSLY.**

Respectfully submitted,

Lynn N. Prusa
Town Clerk

Approved: _____