

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

September 26, 2011

The Town Council of the Town of Carolina Beach met with CBP3, Inc. in a joint meeting on September 26, 2011 at 6:00 p.m. 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 Efird; 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. Members of the CBP3 Board: Dennis Barbour, Greg Reynolds and Lisa Wills.

Mayor Macon called the meeting to order.

SUMMARY OF RECENT JOINT WORKSHOP WITH CBP3, INC AND THE TOWN COUNCIL AND FUTURE DISCUSSION

Mr. Owens said that during the last workshop meeting we talked about several items. One was to determine the value of the properties, and he called the tax administrator and he was going to get back with him but he hasn't heard anything yet. .

Mr. Owens said a decision needs to be made about the future of Village Realty and if we want to renegotiate the contract or put out an RFP. Village Realty wants to extend their contract for 4 years. The contract ends of December 21st so we need to decide. He said there are other things that we can do as far as revenue goes that may work. It needs to be a flat fee management contract which is what we have now. We should establish a contract with them paying the insurance and taxes. We need to stay away from a percentage based contract. At this point we get \$57,000; our loan will go up to \$415,000 next year if we don't anything with it; payment for insurances is estimated at \$35,000 and taxes \$46,000. The RFP could be structured with a flat fee and with them paying insurance and taxes. The RFP should be structured to accept proposals from firms with motel experience and that can provide a financial statement so they have revenue available to pay that management fee. We need to figure out if we want to go out with an RFP and it needs to go out by the end of October at the latest. The town attorney may need to assist with the RFP.

Councilman Wilcox asked how do we handle this with regard to Council instruction to CBP3 and where is the division responsibility? Mr. Owens said CBP3 will take up these issues at a separate meeting. Councilman Lewis said that according to Steve we are still responsible.

Councilman Lewis said that during good times in commercial real estate properties are on the market for 30+ months so now it is probably twice that much. If you look at the \$4

million dollar loan that we have we are incurring \$225,000 in interest every year at about 5% per year. The market index over the last 10 years will not support even catching up to that. We will lose money every year in interest. So in five years, if we decide not to do anything, it will probably become a \$5 million property. It was suggested that we might want to thin out the property and get it on the market because it might take 3-4 years. It is never a good market but we need to plan for what we want to do. We can not recover if the market index doesn't go up. He hates to see the residents of Carolina Beach stuck with this property for 5 years and we have no value in it. He has talked to commercial people here and in Raleigh and they said if you decide 3-5 years from now that you want to sell it then it will take another 3-5 years from that time so we need to decide now what we want to do.

MPT Efird asked, have you made any contacts? Mr. Owens said we haven't met with anybody from Raleigh, but he called David Griffin awhile back. There is no support at this point. Ms. Wells asked, but what about in the future? Mr. Owens said there could be and that is what he thinks we are still trying to decide. Councilman Wilcox said he doesn't think we have gotten to that point yet to determine if we have any support at all. Mr. Owens said that he believes there should be for either a pier or some kind of beach access park, etc. We need to find out if there is anything that we can salvage grant wise. His recommendation is that a committee be appointed with 2 people from CBP3 and appoint 1 from Council to meet with our local delegation in Wilmington and in Raleigh. Mr. Owens said that Steve is trying to make a connection with the Governor's office. Councilman Lashley said what he doesn't understand is that he thought we were going to make contacts 2 weeks ago and that we asked the town manager and town attorney to do that. Mr. Owens said that Steve made some contacts. Mr. Owens said he didn't know if we were going to have the meeting here or in Raleigh. We need to decide on that and then he can make some calls tomorrow.

MPT Efird asked if the \$250,000 could it be used along with some other grant money to construct a nice park. Mr. Owens said that is also what we need to do is go to the Parks and Recreation Trust Fund. We may be in line for some money for one of those lots to take that down for half the cost, and he believes we are in line for some money for that one Water Resources lot. He then went over some other potential funding sources.

Mayor Macon said what we are going for is the memorandum of understanding. He said that we need to appoint a couple of council members and someone from CBP3 and start setting up some meetings.

Mr. Owens said the debt service is \$740,000 that we have to recoup to break even.

Councilman Lewis mentioned that an up-lift is needed of the buildings. Mr. Owens said that is what he sees too.

Mr. Owens said we talked to BB&T about some options such as: (1) Extending out the interest only loan for a duration of loan with balloon in 2014. That was BB&T's least favorite option. (2) Extend the tax exempt loan out to 15 years which will bring the total

cost down from around \$415,000 per year to around \$386,000. (3) Consider switching to a commercial loan for 20 years fix (5.75%) with a payment cost of \$367,322 or for 10 years at 4% interest with a cost of \$522,000. (4) The only advantage to switching to a commercial loan is that it would then allow for a percentage based management contract for hotel. We talked about other ways to finance the loan but there are very limited ways to do it.

The town attorney contacted the Governor's office for a meeting. It is possible the Governor can meet with us in 2-3 weeks. Mr. Owens said he can contact Senator Goolsby and the other state representatives in the area such as DENR representatives and we may be able to that when we visit Raleigh. The town can lobby and find out if the pier will happen or not or for a beach access/park facility. We need to find out if we have their support.

Mr. Owens then turned the presentation over to the town planner to talk about what is the highest and best use of the property.

Mr. Ferguson said they were asked by the manager to determine what is the highest and best use for the property and what would be the limitations or biggest obstacles. The first one would be CAMA. The buildable area is limited by two setbacks that we have to be sensitive to. No buildings are allowed in front of the 60' setback line. Behind the 60' setback line buildings may be constructed up to 5,000 sq ft. Any buildings over 5,000 sq. ft. must meet the 120' setback line.

The second problem would be the FEMA or the National Flood Insurance, and all the CBP3 lots are in the VE-14 flood zone and will be required to be elevated 14 feet above base flood elevation.

All of the CBP3 properties are in the CBD. We are subject to the 50% rule which means these nonconforming structures cannot be improved by more than 50% of the buildings fair market value. We need to make sure that we get the highest value for these properties because we can only improve up to 50%. We need to make sure that we can get the highest value for these properties. The CBD does not allow single family homes and residential use would have to be subordinate to a commercial use. The trouble is if you start from scratch then it is subject to flood zone issues. In our first analysis we tried to look at just fixing the properties as they are now and do just cosmetic stuff and stay within the 50% rule. The following year the values go up because of the improvements that you make and then you can do 50% more to improve the property. One of the ideas is to look at renovating the hotel to contemporary standards. The second alternative would be to change some of the uses such as making the hotel rooms larger again that would be converting to a different type of use with residential on top and commercial on the bottom. As long as we stay within 50% we will be fine. Another option is converting to condotels. Condotels are currently not allowed in Carolina Beach so this allowance would require the use to be added as allowable in the CBD. The parking standards would have to be worked through. The other alternative would be to look at, for a quick turn around of the property, to look at subdividing the existing 3 oceanfront lots into 6 lots.

We would have to change some of our zoning and subdivision rules to make that happen. In 2004 it was zoned T-1. There is also the possibility of creating approximately 140 parking spaces on that property with a revenue of about \$140,000 per year or as Tim estimated about \$80-100,000 per year. Councilman Lashley said the other option is to just sell the property. Mr. Owens said we were just trying to present some of the highest and best uses of the property and some of the obstacles. Mr. Ferguson said those parking lot numbers do not include the west side properties. Councilman Wilcox said before we could do anything as far as repairs we would need to know the conditions of the buildings. Mr. Ferguson said the building inspector went out and looked at the exterior of the buildings and found they are not in the best of shape but not in the worse shape either. His concern was more of the conversion to change uses. Repairing isn't a big deal, but conversion means new sprinklers for fire protection, etc. Councilman Wilcox commented that the value may be in the land and that we won't know that until we know the conditions of the buildings. Mr. Owens said look at the properties because you could keep some of the tracts, you could take down some of the buildings or leave it, some tracts could be used for parking with access to the beach, it is just a matter of where we get grants. Mayor Macon said we should look into keeping lots that would open the site way up from the ocean to the sound. Council talked about another option of keeping some of the lots for a parking and a park beach access area.

Mr. Coggins provided Council with a handout containing information that he was asked to put together basically answering the questions: How did we get here? Why didn't we go out for bids? Mr. Coggins said the answer is simple - the arrangement is temporary and there was no time. Council makes its recommendations to the board of directors.

Mayor Macon asked what will be done now about setting up meetings with the folks in Raleigh. Mr. Coggins said the Governor's office staff informed him that the soonest you could meet would be in 2 weeks. Mr. Barbour said he thinks there should be one if not two alternative plans and that Council should make a decision about that in case they don't get the support in Raleigh for the pier/aquarium project. Mr. Owens said the state was never going to pay for the land anyway, but they may help with grant funding. Mr. Owens said he could come up with a few options. Mayor Macon said we should ask if they are going to help with the project and if not this is our second option because we went out on a limb. Mr. Barbour said you also need to lay out what our constraints are on the property should there not be an aquarium. Councilman Wilcox said that in addition to Dennis he thinks the Mayor should be there, and he would be glad to go unless someone else feels strongly about it. Mayor Macon said he could do that.

Council discussed keeping the 30' easement and there would still be six ocean front lots and sell the other 4. Mr. Owens said that we went out on a limb for them and they need to help salvage it and make it a park and it will still be an amenity of the town that links to the marina and it will be there for the future if they ever want to build a pier. The manager will take some options back to Council so they can narrow it down.

Mr. Barbour said when we go to Raleigh we need to know for each of these what are the current commitments for grant money and what the balance will be in terms of burdening

the taxpayer. Say you need another \$1 million then they can scratch their heads about how to come up with it. We need to be a position to say this is how we can make it happen or it cannot happen.

Mayor Macon said he feels that we need an option with the pier, without the pier, and maybe one or two other options and that is all we probably need to take to Raleigh.

Mr. Owens said the CBP3 Board will meet shortly to decide if they want to do an RFP and he would like Council's authority because of a timing perspective this needs to go out by October.

Mr. Barbour asked do you have direction about what to put in an RFP. Mr. Owens said he thinks we should leave it open, no percentage based contracts, bidder provides insurance with 5 years experience in hotel property management. The financial thing he thinks can be negotiated. There was discussion about what the penalties are to get out of a contract should the state come in. Mr. Owens said there is some question if there should be a 30 day out or 60 day out. Mr. Barbour said he should consider if you receive grant funding and how long it will take from the time you get the word that you will receive grant money to construction time and how to tie that into a management contract.

Somebody in the audience said if you ask someone to put money into the motel and then you ask him to get out then you have got to figure out a way for them to get their money back.

Councilman Lashley asked are we wasting our time going to the state. Do we really know the answer that they are not going to help us. Mr. Coggins said no, there is powerful equity involved in this. He expects the taxpayers would like us to get a definite answer from the powers to be before we assume the answer is no.

Mayor Macon said he can give you some history on that. The previous director came to us because there were already pressures on her boss and other legislators from different beaches, and it was part of our master plan and when we spoke with her we told her we would like to be one of those options but she wanted it at Ft. Fisher or Kure Beach which would be closer to the Ft. Fisher Aquarium. Kure Beach did not want it and we did and that is when we started looking at the property. Councilman Lewis said they may feel obligated to do something. Mr. Owens said he still feels it is a good regional project for the state and the town if we can get enough grant money to do it.

David Pierce said you threw some numbers around for lot value, but he thinks the town should get with some real estate agents and find out if properties are selling and what is the value so you can make an education decision. Secondly look at the highest and best use. He recommended that if you RFP it that the bidders need to know what to do and that you get everybody that is interested in it and let them give input on putting a package together because he doesn't think that committee has the experience to make that decision. They may put something together that isn't viable. Let the people that are in the business help put a package together for leasing the property that will give the town

the highest and best use. You have three options: (1) the pier, (2) sell it, or (3) lease the hotel out if the time isn't right to sell it. He feels that Council doesn't have the experience or knowledge to make the lease agreement so let the people that know that business help you.

Mr. Owens explained that it will be an open bid. It will be more of a sales pitch than an RFP. Mayor Macon said I think suggestions are one thing but he isn't sure that having people that are going to bid on the contract should be the ones to put the contract. He thinks putting suggestions on paper is a good thing. Mr. Owens said he would be willing to accept anything that is submitted to him.

Councilman Wilcox asked, if we go to the state and get substantial grant money what would realistically be a time period to take action. Mr. Owens said 1-2 years. The state would want you to close the property and tear it down.

Mr. Coggins said under the lending option all we can let out is a management lease.

Someone in the audience said to give him a date, say two years but we really want four because some things have got to be done to keep the property up and more than cosmetic. If you offer a one year lease then he really isn't interested.

Mr. Pierce said common sense tells me that it probably won't happen for two years so we will make our business plan probably based on 3-5 years.

The members of CBP3 Board agreed to meet tomorrow, September 27, 2011 at 4:30 p.m.

There being no further business, a motion was made by MPT Ebird to adjourn.

MOTION CARRIED UNANIMOUSLY.

Respectfully submitted,

Lynn N. Prusa
Town Clerk

Approved: _____