

**MOUNT AIRY, NORTH CAROLINA
CLOSED SESSION MINUTES
January 22, 2018**

MEMBERS PRESENT: Mayor David L. Rowe, Commissioners Jim Armbrister, Shirley Brinkley, Dean Brown, Jon Cawley, and Steve Yokeley

OTHERS PRESENT: Tanya Jones and Swanson Snow (Surry Arts Council)

CLOSED SESSION:

On motion by Commissioner Brinkley, seconded by Commissioner Brown and passed unanimously, the board entered into closed session pursuant to:

- a) NCGS 143-318.11(a)(4) to Discuss Matters Relating to Economic Development
(*Barter Theatre*)**

Tanya Jones reviewed some needs and strategic planning for the Surry Arts Council. Our board meets every year and has a strategic planning process. I met with Mayor Rowe because we had a list of things that we were trying to determine our status with the City to move forward responsibly. We've been asking for parking lot improvements for years, now we need parking lot expansion and improvements. Regarding the Andy Griffith Playhouse, we have talked about enclosing the portico and adding toilets. We've had somebody donate tile and had somebody donate a thousand dollars to purchase toilets. We had a third person tell us that this is the City's building and they wouldn't give anything until they found out what the city was going to do. I can't set up meetings and talk to people about expansions without having some input from the City. The Earle Theater has issues and one of the big ones is it has no accessible bathrooms. There is no access to the stage for the people that have mobility challenges so we have a lot of things with our facilities. There are issues with parking and bathrooms at the amphitheater. In addition, we need office space, program space, and exhibit space. We have plans on the table for building something pretty exciting that would help us significantly in funding that kind of space, but it's not going to move forward unless we deal with it and deal with it in a timely fashion. All of these things have become apparent to me and to our board. During the month of December, we had four sellouts, bringing to our attention lines, toilets and other things. From January 1st to December 31st, we had 37,000 people visit the Andy Griffith Museum. It's not the Andy Griffith Show that brings people here, it's the concept of Mayberry. We have all these things going on for us, it takes me more staff to deal with it. We are up to 12 full time staff. We are sitting on top of each other down there. I invite you to come and look at us. We have three people in the front office, two people in my office, and our board needs to begin recruiting to fill my position. This is about things for the arts and our community and I personally, having put 30 years of my life into it, have feelings about what I'm leaving for the person who replaces me. I'm aware that your conversation about the Barter Theatre. I've booked programs from the Barter Theatre. I booked touring theater programs for many years and it got to the point that if they didn't do a show, it was very difficult for me to get my money back for that show. I have an entire packet of emails of us trying to get payment of \$850 refund for a show that wasn't done so I will not book shows from the Barter again. I hope you know Barter better than I know them. I have traveled up there and I listen to many

stats about the level of their audience members and the level of ours here and I know for a fact that those were all fabricated on our end because there has never been a conversation or any data collected for demographic or any other kind information regarding our audience members. I would know it and did not appreciate many of the facts that were presented about us that were incorrect. I have communicated by email to Mac at his request regarding stats on our organization and I sent an email without looking at anything to give him some of those numbers. I still have those emails and most of that has changed to a very, very positive and different level and I'll also have access to a lot more demographics. I am going to tell you that the arts climate now is very different than the arts climate years ago when I started here. We have fewer corporate and individual donors. We are building our base, but it is grassroots supported, it's not \$25,000 donations. We're very responsible in the way we operate the Surry Arts Council. I, like the City, want a fund balance so I can operate for 10 months and that's what I've spent 30 years trying to build up. I could not operate in a manner with \$3 million or \$4 million of loans and I just saw where Barter had a building donated and they are planning to move some of their things in that building and begin another renovation project. I think that's great and lovely, but I want to know, I want to be certain that when decisions are made without communicating with the Surry Arts Council about what we do and know about managing an arts venue, I would hope that our City would make responsible decisions. Many local residents can't afford to attend the Barter. There was a play done, there was a nude actor in the play-is this Mayberry? I mean I'm not saying that's the play that's going to be done here, but that's the man you're working with. The fact is, these venues have been on taxpayer life support for years. They may join the failed Ralph Stanley house, William Carter Center, and Story Telling Center in Tennessee. The Barter Theatre is \$400,000 short on their current fundraising and the list goes on. In Winston Salem, what is happening when things aren't working is the Science Museum, the Children's Museum, and Sci Works joined together to be under one umbrella so that they could be economically viable because competition is rampant all over the place. The Roanoke Rapids Theater as you all know closed. The Triad Theater in Winston Salem and the theater in Greensboro combined forces and are continuing to operate and are very challenged in the venues that they are in now. This weekend in the Saturday paper, the Arts Council in Winston Salem is selling the 610 Coliseum Drive Theater because they can't make it. I don't know how we, as a town of 10,000, think that we can have multiple competing theaters and have them viable and sustainable without putting extreme financial life support on them. I think just as we have done with the Surry Arts Council, if we had the Andy Griffith Museum as a non-profit, which we very much could have, the community theater and Andy Griffith Playhouse and the other things there as a viable non-profit, the Blackmon Amphitheater as an entity and the Earle Theater as an entity, we would be bankrupt and the City of Mount Airy would be hearing from us every week, much less once or twice every few years. We would like the opportunity to have a role in if the City of Mount Airy wants to build a multimillion dollar facility with taxpayer dollars and if the City of Mount Airy wants to give an arts entity several million dollars over the course of the next few years, then we would like to be on the table to be considered to be a recipient and to help operate the facility. There are very few companies or facilities that have live theater productions that produce their own shows. There is a reason there aren't that many. There is a reason there aren't that many single screen theaters in downtowns, you can't break even on them. We have life support on the Earle from the Andy Griffith Museum. I would like to be on record as having the Surry

Arts Council be considered to operate a new theater if a new theater is going to be built, because we have proven that we are financially responsible. We also know how to book touring theater—we have been doing it for thirty years. There is a misconception that everybody on our stage is somebody in this community, it is not. The Barter Theatre means nothing in Mount Airy. We just got an award from the Governor's Tourism Group because we have helped so much in bringing wholesome entertainment to North Carolina and Mount Airy. North Carolina uses us on their tourism website frequently (the picture of the Andy Griffith statue and the Andy Griffith Museum), and Our State magazine uses us, so maybe locally there are questions about it. I appreciate what the City has done, but to have the City of Mount Airy talking with people about arts and when Mac McCarley came into my office two years ago, we are not involved in any conversations and to this day that remains true. I don't care about their acting skills. I care about having passion and feelings for this town. There are people out there that we can hire, but that is going to make our job and Swanson's job very difficult when we're trying to explain why we are not under one umbrella. And we can compete and compete well, and we will because we want to survive because we believe in what we are doing and we believe Mount Airy likes it. I'm proud of our financial position. I'm not apologizing for operating in a responsible manner. We spend less than we take in and we try very hard to do that every year and we adjust during the year—not down the road a few years. I cannot move forward responsively without knowing where this City is on some of this stuff with the Surry Arts Council. And I respect the choices the City makes because you have more data than I have about what you are getting ready to make decisions about, but I think there will be folks as surprised as I am about those decisions.

Swanson Snow: I think if we can pull off what we want to accomplish with a new venue here (the new building), we've got to overcome some real issues because we are land locked. We don't have any way to grow, but we've got some real plans in place that we can hope to accomplish if we can tweak that some way to fix the parking issue with another building that we'd put on Rockford Street.

Commissioner Brinkley: I have been here for fifty some years and have known Tanya since she was very small. I appreciate your passion for this City and your passion for what you have done for the Surry Arts Council. I do know what you are accomplishing, what you have accomplished, and I admire you for your determination to make it better and better. I appreciate that.

Tanya Jones: It's my job to fight for the Surry Arts Council. This is a serious step for our city and a serious step for the arts. It's not easy running a non-profit that stays in the black every year and it is not easy dealing with the community because everybody has a different opinion about what you should be doing. We have challenges and I asked the Mayor to direct me to the proper people in the city to talk more about these and certainly about the opportunities because we have a huge opportunity looming before us. It is hugely significant in the world of attracting more diversity to this community.

Mayor Rowe: Can you run both venues, if we build it?

Tanya Jones: We are running four now. I'm saying there is no question. I'm also saying that all these agencies in Winston-Salem right now are selling off venues. They are trying to figure out how they can put things under fewer umbrellas.

Commissioner Cawley: Did you ever consider the Barter and the Arts Council as not in competition?

Tanya Jones: No, the Barter and the Arts Council would absolutely be in a competition. There are limited funds in this town.

Everyone thanked Tanya and Swanson for attending. They both left the meeting.

Barbara Jones: We have asked Tyler Smith and Novogradac to produce some numbers for us to look at as far as with the changes we talked about at the last meeting. Pam has also worked on creating some numbers for us as far as putting everything together, putting together the infrastructure costs, the Barter construction and the subsidy cost along with your existing budget and projections with that to give you an idea if you proceed, what's it gonna cost and the numbers that you're looking at.

Tyler Smith: We have a \$13.5 million project, a portion of the New Market debt that gets forgiven is \$2.9 million. The Federal Historic tax credit of \$1.9 million and since we qualify for the 40% State Mill credits, we enjoy just under \$3.5 million under this model. So, that is a total subsidy of \$8.3 million for a \$13.5 million dollar project and then once we net off, let's assume a \$2 million capital campaign that results in (basically project minus a subsidy minus a capital campaign) \$3.2 million. Once we have assumed those subsidies, what is the net responsibility of the City as far as debt net of subsidy is concerned? We've assumed \$6.68 million bond to make these numbers work. We would pay down part of that, let's assume a \$2 million capital campaign so as those pledges come in they would pay down the bond, then there is excess subsidy because this project qualifies for the New Markets, State Historic and Mill credits. The way the accountants have modeled that is \$1.4 million, so the City's net responsibility is \$3.2 million under this model. We assume the bond issuance cost of \$300,000 so we just add that to total City's net responsibility of \$3.5 million. A lot of this, based on market and tax reform, may move some of this around, but we worked diligently with the Novogradac accounting firm and they always do a really good job of helping model these things up. I wish I could I have a pretty good comfort level particularly since we had the input and advice of the accounting firm. New Market proceeds all come in at closing and we've assumed that if I total the numbers up, I believe that is \$9.6 million. If the "A" loan and "B" loan coming down into Park Place, that money shows up at the construction fund at closing and is drawn down just like a typical construction loan. The Federal Historic and presumably the State Mill credit as well, those will come in over time.

Barbara Jones: Talk a little further about the process itself, and the total numbers. Can you give a little more information on the sources, the total budget, and then the percentage and syndication rates for these tax credits?

Tyler Smith: The Qualified Rehabilitation Expenditures (QRE) would not be eligible for Historic tax credits. At this stage, we had to make an assumption as to what that number would be and I believed we assumed 80% of the total budget would be historic eligible for those items. The estimated eligible QREs is \$10.9 million of total uses based on that 80% assumption and we are saying they are qualified for the Historic and Mill credits. Let's take the Federal Historic, resulting in \$2.1 million when you run the math of tax credit and that

ends up with \$1.9 million of tax credit equity from the historic credits. The Mill tax credits is the same math but it's a 40% tax credit and we have assumed an eighty cents syndication rate so you end up close to double under the Mills credits, just under \$3.5 million. We've walked thru the budget what is qualified for the tax credits and then how much we generate-\$1.9 million of Federal Historic and \$3.49 million of North Carolina Mill tax credit. Above those, we have loan "A" and loan "B" (QLICI stands for Qualified Low Income Community Investment-because we are in a low income community based on the census track, we qualify for New Markets "A" loan and "B" loan). The \$2.9 million of "B" loan is subsidy because that comes from the sale of the New Market tax credits. I've now gotten us to the three main subsidies-the loan "B" of \$2.9 million, the \$1.9 million of Federal Historic coming in (the accountants call it prepaid lease payments), and \$3.49 million of State Mill tax credits. The two things that remain are the "A" loan of \$6.68 million, that's what we are funding with the bond proceeds but once this money flows thru the structure, it creates more sources than we need for projects so it puts out \$1.4 million that can be used for city purposes and other things to do with projects, etc.

Barbara Jones: You said that you could do bridge loans to cover that, so basically, the City will be borrowing the \$6.9 million.

Tyler Smith: Yes, then we assumed \$2 million on the capital campaign and you end up with the city net responsibility of \$3.5 million.

Barbara Jones: At the last meeting, we talked about having to pay back the seven year's interest on the New Markets loan.

Tyler Smith: We talked about how during construction, the interest would be funded from the New Markets loan. The interest is paid thru loan proceeds. Some CDEs charge an annual fee (they call it asset management and accounting fees), but that's basically to help them with their own accounting and compliance reports. That is not a categorical number to show up here. Given the interest rate assumption that was made, we would possibly have a variable rate bond. This would all be subject to what made the most sense, but given the interest rate assumption that the accountants made for this model, there is the principle level amortization that adds up to \$6.985 million of the bonds so that is where the bond amount reappears and then interest on that declining as the bonds are paid off over time. That is the only amount the city is borrowing because, keep in mind that what Park Place is borrowing is really derived from the proceeds from the bonds to do the project.

Tyler Smith: The sublease, remember at year seven, that "B" note gets forgiven and we collapse the structure. There is also a hypothetical-if that "B" loan were not given back to us and forgiven. That would be assuming we didn't get that \$2.9 million-what it would be. The \$2.9 million, the way that works is it subject to what we call a "put call" feature which, at the end of seven years, the investor has the option to "put" the note back and then get canceled. If they don't exercise it, we have right to call it at fair market value and then we can cancel it at that point. Under the tax analysis, let's say we had a \$10 million deal, but we only had \$8 million available to do projects and we knew that \$2 million we didn't have to pay back. That would not be deemed a loan for tax purposes-that would be deemed a gift and gifts do not qualify for New Market tax credits. We have to be able to show that we could still have the ability to pay back that "B" loan even if it were to stay in play.

Mayor Rowe: Are the bonds for the City of Mount Airy a sellable item?

Mac McCarley: Yes, your bonds will sell, your debt will sell.

Pam Stone reviewed the annual budget impact projections sheets. All we can go on right now is tax revenue-that's the only thing we've got control of right now.

Barbara Jones: You need to recognize that we are only looking at expenses, there is not a good model to look at what your revenues are going to be. Revenues are assuming everything as they are today. You are really looking at possibly the worst case scenario on what you are doing. There are no additional revenues included in here because we can't include Food and Beverage until we know that can be a possibility. We can't and haven't included monies from the county until we know that. There are still some potential revenue sources, but they are not shown here because we don't know if they will happen. I think you still have some options. It's probably past time to get the county at the table...we haven't yet because it's been said that we have to keep everything very private and confidential. You need to give us your feed back if you want to go forward and we need to start talking about the public meeting. We need to start talking about the county, getting them on board. We were told that they were not going to look at the food and beverage tax until after the November 2018 election.

Commissioner Brinkley: My thought on the Barter goes right back to when we first started talking about it and I made a comment that I had done some research. As much as I like the Barter, Tanya did nothing but seal that. We are fixing to gamble and it's going to be very, very painful because of them not being able to get the funding and what's it going to do to what we already have, that's being publicized through all she said.

Commissioner Yokeley: Did you expect her to say anything different than she said tonight?

Commissioner Brinkley: No, I didn't know what she was going to say but she just confirmed everything that I had studied and learned about on the Barter.

Commissioner Yokeley: The Barter is going to bring in people that have no intention of going to Surry Arts Council, but it will also bring in a lot of people that will stay and go to some of the Surry Arts Council programs. I don't think it will do anything but increase the attendance at the Surry Arts Council.

Commissioner Brinkley: I see what you're saying, but I also know what I have studied and learned about the Barter struggling for money and is that what's going to happen to us? How much are we going to have to give once we get it? What's it really going to cost the City that's not on paper now?

Commissioner Yokeley: What is it really going to bring into the City? That's intangible too. So there's gonna be a lot of initial investment.

Barbara Jones: There are a couple of things you need to think about as far as that point goes, you're going to have a \$13.5 million building that you're going to have \$3.5 million in (assuming everything lines up). You've got to decide if that is a good investment you are willing to pay for and if it is, do you continue negotiations with the Barter to make that work. If the Barter doesn't work, what are you going to do with that building? You've got a nice asset sitting there and at that point, can you still figure out how to program it.

Pam Stone mentioned that Tyler's summary doesn't take into account the interest that you will pay over time.

Barbara Jones: Do you want to proceed moving forward with the Barter? Do you want to schedule a public meeting? Where do you, as a board, stand on the project?

Commissioner Armbrister: I've said all along until it gets in front of the public, I'm not going to vote for it-I don't know which way to vote until it gets in front of the public. I can't represent the people without hearing from the people. I don't need to hear the repetition of those that always attend board meetings.

Commissioner Brinkley: What do you do when you go into a meeting and you've got a hundred people who all have a different opinion-how are you going to determine what kind of decision to make?

Commissioner Armbrister: Right now with the Barter, if you want to go with that, that's fine with me. I don't think it is a wise investment, I don't think the money is going to be back to us. It's a liability and it would be crazy to support a business that is losing money every year. If you want my opinion, you got it.

Mac McCarley: If you want to put this in front of the public, you would do three things--you will finish up negotiations with the Barter; Set a date for a public meeting; and then tentatively set a date for your vote to whether to adopt the agreement.

Commissioner Cawley: I don't think we should take it to the public. We are not being responsible because we cannot pay for it. Without a Food and Beverage tax, I will not, cannot, and should not support it.

Commissioner Yokeley: I think we need to be talking to the county because they can really help a lot with the funding.

Commissioner Armbrister: I look at Abington and I see a hotel and restaurant making money. That city is still subsidizing it, along with everybody else. How can you put that on the taxpayers back? Is that wise spending of taxpayer's money?

Mayor Rowe: In Abington, I have heard it is a \$32 million per year boost to the city. They have also lowered the tax rate twice.

Commissioner Cawley: That is just \$32 million thrown into our economy in sales tax or in sales. I don't see any way we can recoup without the Food and Beverage tax.

Commissioner Yokeley: I think this all needs to be laid out before the public very soon.

Mac McCarley: When we get ready to do a public presentation, Rick is ready. I told him the possibility was that meeting could be within two weeks and then your final vote would be two weeks after that.

Barbara Jones: Do you want to move forward with a public meeting?

Commissioner Armbrister: The only chance of me changing my mind would be public input, so I'm fine with a public meeting.

Mayor Rowe: We will need to have folks from the Barter there as well as Dana.

Commissioner Cawley: I think Tanya should be invited to have a view if she wanted to.

Commissioner Cawley: When are we going to decide who talks about what at the meeting? We need someone to talk about what it will cost us, how much the tourists would spend, etc.
Commissioner Yokeley: Staff needs to talk about that, the commissioners do not.
Barbara Jones: We will have to talk about what the costs are. I would suggest inviting Tyler to talk about the model that Novogradac has put together, then Pam and I will talk about the numbers that Pam put together. Rick Rose will talk about what the Barter does, what he can project for the Barter, and Mac will need to talk about the agreement and how that is going to pan out.

Barbara Jones: Does everybody feel good about moving forward and taking it to the public?

Commissioner Cawley: I don't.

Barbara Jones: If your mind is made up, you need to say it tonight and save a lot of time and trouble, but if you feel the other way, we'll move forward with it.

Commissioner Armbrister: Based on the information I've got tonight, I'll go with Jon.

Commissioner Yokeley: You have to have public information meeting, it's too big for the City not to do it. You owe it to the public to do it whether you agree with it or not.

Commissioner Brown: That's right, I agree with that.

Commissioner Brinkley: I think they know we have had so many meetings it would be nice for them to have a public meeting to hear why we have been having closed sessions.

Commissioner Cawley: I would like to ask Tanya what she could run it for, even if she is just hiring these people, because we already subsidize her.

Consensus: Finish negotiations with the Barter Theatre. Move forward with public information meeting on February 1, 2018 at 6 pm.

These minutes are sealed until the transaction consummates or terminates.

OPEN SESSION:

On motion by Commissioner Brinkley, seconded by Commissioner Armbrister and passed unanimously, the board entered back into open session.

Approved this the 6th day of September, 2018.