

**MOUNT AIRY, NORTH CAROLINA
CLOSED SESSION MINUTES
January 26, 2018**

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

OTHERS PRESENT: Dana Bryson

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*)**

(Mac McCarley on conference call for meeting)

Dana Bryson: This is a tax credit rehab project first. The reason why we are even considering this is because it is a historic building and the tax credits are the vehicle to which a development would happen. The impact of the tax credits to rural communities with historic buildings and the need to rehab them is a win/win program for everyone. I contacted Gene Rees to ask why he did these projects and his response was it makes economic sense-he couldn't afford to rehab it otherwise. I asked him what the incentive is for Federal and State. Gene informed me that his metric is \$6.35 in tax revenue generated back to the State for every tax credit they put out. That is for something that is non-income producing.

I have to look at weighing the cost and the benefit with stress and risk to it. The bankers will look at cost and benefit and then put their risk stress attached to it. Have you looked at it as if you want this economic generator, what would it take to get it and what could you afford? Could you afford a \$10 million theater instead of a \$13 million one? I don't think you have had that conversation. This is a tremendous opportunity to utilize these tax credits and generate tax revenues back to the city. It also generates tourism dollars. We made a pass and came up with \$11 million in economic impact directly back to the community. Each dollar in State and historic tax credits issued has been leveraged to create \$12.51 for income producing projects. Why wouldn't Mount Airy want to utilize the tax credits? Even if you don't sell one ticket, you would have a multimillion dollar asset. I believe that the destination of Mount Airy deserves this type of development. When we look at a worst case scenario-a tax increase, are we making a decision based on just the Barter, or are we factoring in the infrastructure, which I think will happen anyway. So let's peel away the infrastructure cost and look at the cost for the Barter-what we can afford because the benefit well outweighs the cost. Without a main generator for the hotel, I don't know what the bank's response will be. Peter told me that the Surry Arts Council is the second most well received arts operation in the state. If we figure out what Tanya's needs are (and I haven't talked to her in a while) and work with her in making this a win for the SAC, I do believe that she truly wants what she has built to see that succeed. Barter is not going to become the new brand-Barter is going to bolster the existing brand. The current report shows that Mount Airy is running 54.2% occupancy collectively. If I build a hotel with 90 rooms and I shut down one property that

has 90 rooms, then we will still be running 54.2%. I don't want that-I want that demand generator that will support the existing hotels and retail.

Commissioner Brinkley: I want the Barter. I think it is outstanding but I am skeptical because of them getting money from Virginia and they haven't always had a good track record of having a good budget. I am skeptical because I am not sure how much they are expecting us to help their budget. Because of what they are asking of us, it looks like we are going to be using a lot of our money to keep their productions going.

Dana Bryson: The Barter is doing well. Virginia and Abingdon gladly gives them money because the benefit outweighs the cost. Barter's operational projections were originally based on a 400 seat theater and I believe the current version includes cost for a 500 seat theater of which the ticket sales that we are using for repayment of debt with the \$2.50 facility hasn't changed, but they feel like their ticket sales will be much higher in Mount Airy because of the larger metro markets they would be in closer proximity to. I think we have underestimated their operational performance but also I feel like the entities that give them seed money will tell you the cost is way less than the benefit. The biggest thing is the quality of life. You guys are making decisions for the future.

Mayor Rowe: Why did the Barter's fund balance go down from \$9 million to \$4 million?

Dana Bryson: They took money out of their fund balance to build their second theater and also to buy and add on to their production facility. I studied their tax returns before I even mentioned the Barter to you. Part of their negative balance on their tax return is due to depreciation on the assets they have built and bought. I would say they are thriving.

Commissioner Armbrister: A while back, I asked you if you were going to build the hotel without the Barter and as I understood it you said yes, we would only change the level of dress up.

Dana Bryson: I would have to reassess and evaluate that. The current version, \$15.4 million, I have asked the GC to go back and give me a \$13 million price tag. All in, it will be \$17 million before tax credits-that is with the Barter. I will have to go back and say without the Barter to underwrite to, can you build it for \$9 million and I would also have to go back to my investors and ask them if they would underwrite. I will tell you that the "sizzle" for the project has drastically decreased in excitement from the bank-the risk is much higher on their part. I would say to you, would you invest \$15 million in a destination that wasn't willing to invest in their own destination.

Commissioner Cawley: In a large sense, that is how I feel about the Barter. They are asking us to fund everything-even to subsidize them year after year. Their guarantee to us is \$2 million when they think they can double that.

Dana Bryson: You aren't looking at the give...none of us are. They realize they are a magnet-they do not want to be set up for failure. We are not looking at the benefit that outweighs the cost. They aren't looking at making money-they endeavor to recruit high talented actors and give the best performance they can and entertain people.

Commissioner Cawley: I understand that but why doesn't the Barter take care of what they have to do to do all of these good things?

Dana Bryson: In that situation, you would be asking them to put a lot of money in when they don't have access to the benefit. If they funded their deficit and they don't have access

to the upside, they are looking at covering cost and they do a lot of fundraising, but they have to put their parameters in there. I think I could come up with at least 20 different situations where municipalities heavily invest in their arts because they do generate well more than they invest and the generation comes from dollars spent in the community. This whole development is a public/private development and I do think there are incentives for municipalities to work with private developers.

Commissioner Cawley: From the beginning, our part was for infrastructure...not to be building something that we can't pay for. Borrowing for the theater, there is \$5 million of interest unless you pay cash for it.

Pam Stone: What they provided shows \$3.5 million in interest and that is on a borrowing of \$6.9 million. The cost for the theater we are showing is \$13.5 million.

Dana Bryson: What can you afford if not the \$13.5 million? Let's look at what you can afford and see if we can build it for that. We haven't considered that yet.

Commissioner Cawley: Mayor told us the economic impact in Abingdon is \$32 million per year. In that scenario, if that were here, the sales tax would only be \$2.5 million to go to the State, County, and City. Of that \$2.5 million, the City would get \$53,000. When the Mayor was talking about \$32 million, I don't know if he was talking about restaurants or hotels-I was hoping he was talking about just the theater.

Dana Bryson: For that investment, how much are you calculating for a return?

Commissioner Cawley: The only numbers I know to count are sales tax.

Dana Bryson: Is it safe to say that at least one job would be created? So you would take a realistic approach and assign some value to that-you can't look at it with zero value. We need to pass on what we don't know to have a realistic approach. There are metrics out there to do that. What I know is tourism dollars spent for the ticket sales in Abingdon-160,000 tickets...I know what their metrics are and I know what their visitor spending is. I applied the same thing to this project when I did my underwriting-before I mentioned Barter to anyone. When I multiply it all out, I get the economic impact of \$10,996,109 direct impact.

Mac McCarley: Barbara asked for a provision to be in there that says if the Barter makes money, not only does the city not have to put in subsidies, but that we would split any revenues over expenses.

Commissioner Brinkley: You mentioned job creation-are you talking about outside of the Barter because I was under the impression that Barter would bring their people in.

Dana Bryson: No, there are two categories-direct and indirect job creation. Last May, there were 81 restaurants in Mount Airy and Abingdon had 66. Mount Airy had 32 things to do and Abingdon had 24. Mount Airy had 8 hotels and Abingdon had 10. Mount Airy had 6 B&B's and Abingdon had 16 B&B's. My suspicion is your retail, restaurants, B&B's will grow and a need for more hotels. The question is what do you want Mount Airy to look like in 10-15 years.

Commissioner Cawley: I would like to make this happen but I need to know how to pay for it.

Commissioner Armbrister: Why does the money have to come from the city to get the building built to begin with? Where are the investors? The Barter should raise the money to build it all. We have an existing theatrical program-Surry Arts Council. We haven't taken a look at what we already have.

Dana Bryson: Local community theater is great but it doesn't generate overnight business.

Hugh Campbell: The Barter is a non-profit and wouldn't be eligible for the tax credits, so they would have to raise the full amount to build the theater.

Commissioner Armbrister: I am not in favor of the city owning another big building. I am in favor of supporting something like this going back to we are going to do the infrastructure with public money and the rest will be on the private developer.

Commissioner Brinkley: I am looking at it from the standpoint of Dana's eyes and I see why she would see this to be a good project. I also understand the importance of drawing people into this town and generating more money. I like the idea of the Barter. My fear is where is the money coming from. We need something for families-for young people to do. I know which way I want to go but I think about the cost.

Commissioner Brown: I have worried about this for two years-sometimes for it and sometimes against it. The past few weeks, it has been heavier on my shoulders. I feel we have led the hotel and apartment developers to believe that we were going to bring the Barter here and I think we indicated in some ways that we are for it. Many citizens have found out about the potential theater and are excited about it. We have known for a long time we would have to raise taxes after several years of lowering them. I have liked the idea of Barter all along. I have been in 29 local productions here in Mount Airy. When we first started talking about it, Tanya Jones said she had no problem with it and that was one of my biggest reliefs. She went on to explain how it would be different. I talked with some people and decided not to vote for the Barter, but after several sleepless nights, I have had other thoughts. Some of the public have talked to me about the Barter. There is no guarantee that the Barter will work. I have decided to vote to continue the development of the Barter.

Barbara Jones: What we know is the fact that we felt that we had to give the worst case scenario. I understand there will be other tax revenues-we are hopeful for business growth and we can look at the different projections. What we presented to the board is exactly what was talked about today-what money they have control over as we go to borrow money. When we go to borrow money, we have to say we have these dollars to pay you back with and as of now, the only thing we can put on paper is your tax monies. Pam did run the numbers for the Barter alone, she ran numbers for infrastructure alone and we know what our budget deficit is, so we did take independent looks at that. The board wanted a combination of all of that as well and that is what we tried to do. I think there will be projected revenue and I think we can look at those estimates but when we look at what the city has to pay out on debt, the only thing we could look at in good faith is what we know we have definite control over. I have been listening and still uncertain about where we are going to end up, does it make sense to look at a \$10 million facility instead of a \$13 million, does it make sense to talk to Rick Rose and ask to increase the fundraising amount, does it make sense to look at hopes of getting a grant instead of taking fund balance. What we ran and

Novagradac ran for us was \$13.5 million facility over a 20-year period and taking the tax credits/\$2 million fundraising, that is where you get the \$3.5 million. At the same time, after that seven-year window, it takes into account your continued debt, principle, and interest. Another thing we know right now is that the largest portion of that theater is outside of what we put in a for-profit LLC and I know there is going to be potential risks, does it make sense to give ourselves time to check on these unknowns.

Mac McCarley: We might not know until mid-summer what the final transition rules are but even if they go against the back part of building 9, it really only makes that \$150,000 difference.

Dana Bryson: We have seen the worst case-a \$0.10 tax increase, if you say I am not willing to do a \$0.10 tax increase, let's count in a little bit of tax revenue back to the city coffers and see what that number looks like with a lower cost theater.

Commissioner Cawley: Do you think we may need more police or firemen once this is constructed?

Dana Bryson: You are going to need more of everything-that's the beauty of it.

Commissioner Cawley: So, the other part of our budget is going to continue to increase.

Dana Bryson: It isn't just an increase in cost, you will have visitors coming to town keeping the businesses thriving. There has to be a value assessment to that component.

Commissioner Cawley: We have a budget that was \$4 million above our revenues and we passed it because we had money in fund balance. We only spent \$800,000 of that and were accused of padding the budget. We better have something more than when we build it, they will come. No one wants to talk about trying to create a situation where the Surry Arts Council could be responsible for theater in Mount Airy. I asked the question what does Tanya think about it-I was told Tanya was fine with it. It bothers me that when Tanya, someone who has given 30+ years of her life to theater was given 15 minutes to speak in a closed session and another one who isn't in Mount Airy yet has free reign in a closed session. When Tanya did speak, she expressed that she wasn't fine with it. We can take 1/10 of the money for a new theater and pay for touring groups to come to the SAC to perform and accomplish the same thing. Are we trying to get people to town or are we trying to get the Barter.

Dana Bryson: I am trying to get people to town. Would you invest \$17 million in a project with no demand generator and the existing visitors now when I have records showing Mount Airy has 52% occupancy? We need a demand generator here. I don't have to have this-this could make me or break me. There is room to help the local arts with the facility fee for the Barter. The demand generator will help all of Mount Airy.

Commissioner Cawley: Was Fish Hippie going to be a demand generator?

Dana Bryson: Fish Hippie was going to create jobs-bring manufacturing back. We were still looking at the Barter fitting in the dye house-it would have been a smaller version, but we were still looking at a theater with the manufacturing component.

Commissioner Brinkley: I go back to we can't make money without spending money. We were put on this board to be the spokesperson for this town. We need to make some wise

decisions for the betterment of this community. If the tax rate goes up \$0.10, we already lowered it \$0.10.

Barbara Jones: We are here today because after the other meeting and conversations, it sounded like four of you were ready to vote no on the Barter. Here is my opinion on that-if you knew you were going to vote no, in my opinion, it wasn't fair to Rick, Dana, Steve Powell, us as a city, any future development to bring them here and have them do a presentation and then the board vote no. I feel like if you know in your heart that you are going to vote no, it is misleading to everyone to put it out there. I am hearing a different tone today. If it is unknown, if you direct us to re-run these numbers, we are going to have to move quickly if you want a public information session on it next week.

Commissioner Armbrister: My statement was I want it public...period. If I am forced to make a decision, I will make it and that decision is no because you aren't allowing me to rely on what the public says.

Dana Bryson: I think that if you have a public session saying we are thinking about this but I can't tell you anything about it because we don't know yet...we want to have productive conversation of here is what we are talking about, here is it would look like, here is the impact, here is the cost, and here is how we will pay it back. We would need to be ready to answer those questions and we haven't been there up until a couple of weeks ago. Steve Powell has been ready but we didn't quite have the program together and I think we all needed to see what Pam put together. I think you all need to know what we are going to share in a public session. I want you guys to make a decision for the right reason.

Commissioner Cawley: I want to know what is really going on because I don't think I do. I have been frustrated during this process because every time someone gives up something, it is the city. I want to know how we are going to pay for it. I don't have a negative agenda on bringing the Barter to town.

Dana Bryson: I have been involved to the extent where I want to know what is going on because it impacts our common space in the building. When I hear and feel things are unraveling, you are right, there really isn't a city voice at the table. I don't think it's personal. I am used to dealing with municipalities that have one designated person that communicates back to everyone and if you aren't getting information, I don't know. I do know that we have been following along with the program and I was under the assumption that you received the same information.

Commissioner Cawley: What I want to know is that the Barter is going to put some skin in the deal.

Dana Bryson: This is a different program. We are talking growing tourism. In looking towards a demand generator with a financing mechanism that works, nobody is forcing that-it is an opportunity that fits that need from the tourism feasibility study that you paid a lot of money for. Having that approach, what is going to match the feasibility study that pulls people in, spends the money to grow the brand. We have explored a lot of demand generators and this one checked all the boxes.

Commissioner Cawley: I understand all of that but we never had a number go up because the manufacturing portion left.

Dana Bryson: Because the Barter wasn't going to go in that space. We think it will fit in there and as we explored it, this last option is the most physically logistical and economic option because we now fit all of the cost dollars within the historic structure. What we looked at before was fitting the theater in the dye house and the manufacturing portion was going to be on the other side. When we looked it at first, we thought it would fit in there but as we pulled the architect in, we found out it would cost a ton of money to raise the roof, etc. After Mr. Webb withdrew, we started looking at this area.

Commissioner Armbrister asked the difference between local theater and the Barter.

Dana Bryson: The Barter has performances that are professional, Broadway type productions. It is different in the level, quality, and talent of actors. I do think Tanya will be a key player in this.

Commissioner Cawley: I don't like that the Barter doesn't have any skin in the game. I don't like that this process has put the City always having to keep everyone afloat. I hear that if we could just get them here, everything will be fine. We have 4,300 people who pay property taxes and if we are going to say that, I need more to bank on. I don't dislike the Barter.

Dana Bryson: I know this is unique, new, and complicated. I do believe we have a great project to share with the public. I believe in it and I believe there will be a benefit that we haven't measured yet. I do know there is going to be more indirect cost, but there is going to be indirect benefit that we haven't looked at. Community theater arts is not the same caliber as the Barter.

Martin Collins: The architect was hired for \$25,000 to create a schematic design. What he will do will be a ballpark-it's not a design, no real costs-the real cost could look exceedingly different. If you could do it for \$10 million, it will be a big feat because building costs go up. From an economic development standpoint, if ultimately the answer is no, I don't think you want to have a public meeting to come back and say no.

Barbara Jones: Martin is correct. How we came away from the meeting Monday night is the majority of your minds were made up and we didn't want to create that environment for the current players and future development. If we know this isn't the route that we want to go, that was a protection for everyone. For clarity, I don't think we want anyone to feel pressured to vote, but if you know that is how you feel, I don't want to hold an information session for the purpose of letting people know what we have been doing...I think an information session is for the purpose of getting information out there on what you are evaluating and what you think you want to do. If you definitively know that you are just doing this and know how you are going to vote, I don't think that is fair to anyone.

Barbara Jones: If you want to hold your information session on February 1st, give us direction. If you want staff to ask the architect to lessen the cost, we need to know what your parameters are so we can have the numbers accordingly that Novogradac will have to rerun in a hurry to make sure we are presenting the correct things. What I heard today is that \$13 million isn't acceptable to you, so I need to know what is.

Martin Collins: One thing that will happen if you bring the cost down is you have less leveraging from the tax credits.

Barbara Jones: We have to remember there is a difference in investment and valuation so that will be hard to calculate.

Commissioner Armbrister: There are two different things. One is-do you want Barter and the other is do you want to proceed with the Barter...there are two different things there.

Commissioner Yokeley: I think we need to have an information session and all information needs to be out there-including the Barter. The Barter needs to be here in person to make their presentation. I think both Dana and Steve Powell need to be here in person also. We also need all of the bottom line figures and an estimate of potential income. I think it needs to be a public information session with the public given the opportunity to ask questions after the presentations. This is one of the biggest decisions we will have to make and I think we need a lot of input in doing it and I think citizens need information before they can make an informed decision.

Commissioner Cawley: I agree with that. I think it needs to be a place where they can ask questions. That would be a great time to put the question out there about the food and beverage tax.

Barbara Jones: We will schedule the public information session. We will invite everyone we have discussed. We will talk with the architect but we need parameters to go along with that.

Martin Collins: Mac and Novogradac ran an analysis based on a lower borrowing number.

Mac McCarley: We did but for every one it is going to be different. I sense that you want the most exact numbers you can get. One of the runs we did was taking the excess funding number out and the result was that when you borrow less, it costs more because we lost so much in tax credits. For every dollar we cut out of the project, you are losing \$0.60 to \$0.80 per subsidy.

Barbara Jones: Pam and I met and talked about using fund balance and/or a grant, we looked at it on the back end to pay down the interest and principal and it would have some savings there. Can we do that on the front end? Once everything is in play, if there isn't a penalty for paying it down?

Mac McCarley: Yes, you can do that.

Barbara Jones: That should be a savings but we need them to run the numbers to see what that would be.

Mac McCarley: It would be a savings in one form or another but as Scott Leo has explained, this is likely to be a private placement debt instrument so we would go negotiate with a bank and if what we plan to do is borrow \$6 million and immediately pay back \$2 million, they are going to up the interest rate.

Barbara Jones: Everything we have looked at has been a combination of infrastructure, Barter, and city deficit. Do you only want to look at the numbers for the Barter and looking at the revenue sources that we can control?

Commissioner Cawley: I don't want to go back to ground zero on this thing. Outside of providing information, why not mention all the numbers during the meeting.

Commissioner Yokeley: The hotel is going to invest millions for a hotel and Ken Reiter has a signed contract to do a \$14 million or \$15 million investment for market rate apartments. We have agreed to spend up to \$4.5 million for infrastructure to support those projects. We have a new project that we want to provide information about.

Commissioner Cawley: I believe that the public would be more willing to spend \$4.5 million on infrastructure than they would a theater.

Barbara Jones: We do have the Golden Leaf Foundation grant that is strictly for the infrastructure, which has been taken off of the numbers they have run.

Consensus: Recess the February 1, 2018 board meeting to 6:00 pm for a Public Information Meeting at the Mount Airy High School Auditorium. Show numbers for Barter only during the February 1, 2018 public information meeting. Contact Tom Joyce to inform him about the public information meeting.

These minutes are sealed until transaction consummates or terminates.

OPEN SESSION:

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

Approved this the 4th day of October, 2018.

CLOSED SESSION