MUNICIPAL FACILITIES COMMITTEE
Evaluation/Recommendations for Watts Block

Agenda for January 14, 2021
Meeting at 6:30pm
Zoom (access instructions send by Kara)

1. Review/approve minutes from 12/10/20 meeting

2. Review draft recommendation to Select Board

3. Discuss next steps and timeline

4. Set next meeting (if necessary)

Report to the Select Board by Municipal Facilities Committee on Recommended Disposition of Watts Block

Recommendation:

The Town should retain ownership of the Watts Block, giving the Watts Block Trustees the opportunity to increase the property's viability and value with no burden on the tax payers by implementing the aggressive management strategy outlined below.

- The Watts Block Trustees would continue to manage of the building and first floor rentals.
- A new non-profit (501C3) would handle the marketing, scheduling and management of events for the second floor, paying to the town rent and/or a share of net profits. The 501C3 would also cover any improvements to the Hall through profits from events, fund raising and grants.
- First floor and distributions from the 501C3 would cover the expenses of the building, including building a reserve fund for periodic capital expenses needed to maintain the building.

The Select Board would review the financial status with the Watts Block Trustees and Municipal Finance Director annually. If at any time during the next ten years (starting March 1, 2021) the property is not on track to being financially viable, the Select Board shall take the measures necessary to sell the Watts Block property.

Rationale for the Recommendation:

<u>Financial Impact</u>

- Rental income from the first floor likely covers nearly all of building operating expenses, with 2nd floor closing the gap.
- A 501c3 allows tax free donations from supporters of Watts Hall, not placing the burden on the entire town tax base.
- Even if 2nd floor is not income producing for a period (such as during the pandemic) and the 501c3 has no endowment yet built up to cover rent, the Watts Block is only an estimated $4,200 annual risk for the town for that period.

<u>Community Value</u>

- Provides an anchor point to help revitalize the town and attract visitors and business growth.
- Retains a beautiful venue for community sponsored activities.
- Ensures the preservation of the historic Watts Block, part of National Historic District.
- Respects Samuel Watts' gift – *"to keep and enjoy forever, as long as the town shall live"*
- Provides maximum control over what businesses are allowed on first floor which, along with events in Watts Hall, can help to revitalize downtown and possibly increase the tax base.

<u>Risk Control</u>

- The building can be sold as a fallback position if it becomes a financial burden on the town.
- Selling and leasing 2nd floor offers two risks: 1) the loss of Watts Hall if owner refuses to renew the lease and 2) grants and fundraising for Watts Hall are more difficult as donors see this risk to their investment.
- Avoids the risk of the building deteriorating if an owner's financial position does not allow it upkeep – and worst case scenario, its ownership falls back on the town in poor structural condition.
- Alternative estimates of possible perceived return on investment by potential owners could take the income from the sale of the building to a lower financial value then keeping the building.
- While a lot of background work went into the financial calculations, they are just best estimates.

Background:

Based on research and expert consultation, the Municipal Facilities Committee narrowed to three options for in-depth analysis: 1)Sell Outright, 2) Sell with Lease Back of 2nd Floor, and 3) Retain Watts Block.

Three criteria were used to assess options in coming to a recommendation: Financial impact on town, Community value and Risk.

Appendix A summarizes key points for each of the three options. Appendix B shows the estimated financial impact on the town budget for each option.

Appendix A: Summary of Options for Disposition of Watts Block

Sell Watts Block Outright

Sell outright with a deed restriction requiring the owner to maintain exterior façade of this building as it looks today as part of the National Historic District.

- Increases tax base by about $9,000 per year.
- Invested net sale $s can provide income to offset future town expenses, estimated at $8,300 per year depending on sale price.
- Retains historic appearance of the building.
- Eliminates cost of building/property maintenance, rental management and unexpected expenses.

Sell with Lease Back of 2nd Floor

Sell with 10-year renewable lease of second floor either by the town or by a new nonprofit. Issue a deed restriction on the sale to maintain exterior façade of this building as it looks today as part of the National Historic District.

- Increases tax base by about $9,000 per year.
- Invested net sale $s can provide income to offset future town expenses, estimated at $8,300 per year depending on sale price.
- Retains historic appearance of the building.
- Retains access to Watts Hall as Community Center and possible revenue source as long as a new owner is willing to renew the lease.
- Allows for activities at Watts Hall to attract visitors to town center.
- Shifts Financial burden from town to those committed to maintaining Watts Hall.
- Eliminates cost of property maintenance/ management, except for 2nd floor.

Retain Watts Block

Keep the building, renting the first floor. Second floor could either be managed by a town committee or a new non-profit. Apply for the building to be named a National Historic Structure and pass ordinance that the façade must be maintained in the style it is today.

- Ensures the preservation and maintenance of the historic Watts Block.
- Respects Samuel Watts' gift intention: *"Watts Block is to be the property of the citizens of the town of Thomaston to keep and enjoy forever, as long as the town shall live."*
- Rental income from the first floor likely covers nearly all of building operating expenses.
- Provides additional support from events in Watts Hall.
- Ensures Watts Hall will always be available as cornerstone for community activities.
- Allows for activities in Watts Hall to attract visitors to town center.
- Provides maximum control over what businesses are allowed on first floor which, along with activity in Watts Hall, can help to revitalize downtown and possibly increase the tax base.
- Allows selling the building as a fallback position if it becomes too much of a burden on the town.
- Even estimated worst case scenario, where 2nd floor is not income producing for a period, the Watts Block is only a $4,200 annual risk for the town.

Appendix B: Financial Assessment of Alternatives

Watts Block Options	Sell Outright	Sell, Lease 2nd Floor	Keep, Rent Both Floor	Keep, no rent 2nd floor
Sales of Building Financial Outcome				
Sale[1]	$370,000	$370,000		
Sale commissions/expenses 6%, $700 legal fees	-$22,900	-$22,900		
Improvements needed for sale or rental	-$14,000	-$14,000		
Final Gain from Sale	**$333,100**	**$333,100**		
Annual Income				
Sale investment income or reduction in debt (2.5%)	$8,328	$8,328		
Property Taxes	$9,000	$9,000		
Rent from first floor			$45,975	$45,975
Net income from 2nd floor		$15,000	$15,000	
Vacancy and Collection Allowance (6.15% - 10%)			-$4,598	-$4,598
TOTAL Income	**$17,328**	**$32,328**	**$56,378**	**$41,378**
Annual Expenses				
Property and Liability Insurance		$200	*$1,562*	*$1,562*
Rent for Lease back 2nd Floor		$15,000		
Building Management			$0	$0
Leasing and Marketing Fees		$2,758	$2,758	$2,758
Rental Management			$0	$0
Admin/Legal		$200	$500	$500
Utilities		$2,000	$10,600	$10,600
Repairs and Maintenance			$9,000	$9,000
Debt Service[2]			$7,200	$7,200
Reserve Account for Improvements & Repairs			$10,000	$10,000
Pest Control			*$500*	*$500*
Plowing			$0	$0
Custodian		$1,000	$2,500	$2,500
Miscellaneous			$1,000	$1,000
TOTAL Expenses	**$0**	**$21,158**	**$45,620**	**$45,620**
NET TOTAL stable year after sale or implementation of plan	**$17,328**	**$11,170**	**$10,758**	**-$4,243**

[1] The sale price is not based on the Appraiser's Report. If the Income Capitalization approach used in that report were applied it could result in a significantly lower sale price.

[2] The basic upgrades recommended that would be covered by debt services total $100,500. This includes repairs/repointing brickwork ($16,000), asbestos remediation ($17,500), electrical upgrades ($26,000), heat pumps for retail spaces ($34,000), and contingencies ($7,000). This defers replacement of the furnace as back up heat until the reserve account can cover this.