

September 23, 2015

Anne-Marie Knighton
Edenton Town Manager
RE: Historic Edenton Ice Plant Proposal Review

Anne-Marie,

Thank you so very much for reaching out to the SBTDC for additional input and analysis of the two (2) submissions for your Request for Proposals for redevelopment of the Historic Ice Plant property on Water Street in Edenton. The Town has before it, what initially appears to be two widely different visions for the property, but I would submit that with a little imagination the each might compliment one-another.

The first proposal is from the group in Texas, Williamson County Investment Corp. – SBTDC is not in the position to vet the viability of the proposed use of and value of the tax credits proposed to be utilized. Considerable vetting by a professional with knowledge and experience in these specific tax credits should be undertaken as part of the Town's due diligence.

Their proposal appears to me to be a significant undertaking with limited return reward. If my analysis and assumptions are accurate, the projected Annual Return on this proposed investment of \$4 Million (plus) results in a combined LOSS of \$25,795 for the initial Ten (10) years. Given the Net Cash Flow noted for Year Ten (~\$12,275) it would be sometime in Year Thirteen (13) before the project would realize a positive return on any level of Investment. [The Entire \$4.0 Million or the Developer's Portion of \$1.0 Million]

Given the aforementioned financials - why would a Developer make such a proposal on such a project? My initial thought [*presumption*] there would be any potential Tax Benefits tied to the Losses as well the probability that there would be significant Depreciation Expense in the initial years. With that said – I think the CLEAR factor for such an offer is spelled out in the last sentence on Page 33 under Section B. Ownership: Developer / Investor Structure: - where it states: “Typical to such structures, full ownership would revert to the developer or related entity at the time the tax credit investor [*sic*] -Town of Edenton- exits the ownership structure following Year 15”

The way I read that, the developer becomes the 100% owner of the Real Estate and therefore ALL Streams of Revenue Generated after the Fifteenth (15th) Year. Between the Depreciation [~\$226k annually] write-off for the first fifteen and full ownership for the second fifteen – that may be a worthwhile investment/development opportunity. The key to this Developers Strategy is that they seek out long-term investment opportunity that ultimately results in their ownership of Premium Historic Properties – with an overall investment rate of 25% initially, as well as the previously noted Tax/Depreciation benefit(s)...

RE: Historic Edenton Ice Plant Proposal Review – September 23, 2015 (Page Two)

The Second Proposal is for the Brew Pub from Joh Glover - From our discussions and the initial Balance Sheet provided in the package – this proposal is reflecting \$600,000 in Paid-In-Capital. This initial Cash Investment will be utilized to purchase the property, make the required alterations, and outfit the operations equipment needs for a turn-key operation.

This presumption is further supported in that the financial planning spreadsheets for the Brew Pub entity are NOT reflecting any Debt Service or Rent(s) for their Project. As a general rule of thumb on Restaurants I've worked with here at the Beach – Successful operations have been able to live by two (2) Golden Rules: A) Keep Rents/Debt Service to between 8-10% of Gross Revenues and B) Maintain Salaries/Wages at ~25-28% of Gross Revenues.

Given that there will be NO Rent/Mortgage - that allocation of such a typically significant expense could then be re-assigned to other areas. Within the projections the Salaries and Wages percentages are notably higher than the Rule-of-Thumb noted – but within tolerance when taking the re-allocation of the Rent(s) at approximately. [*Projections = 35-40% where the Rule would be 38% on the High-Side*]

This operation is marginally profitable – however, there is the potential for growth and therefore expansion to be considered. This industry has exhibited that successful operators with a proven demand for their product have and often outgrow the capacity to maintain product supplies with just the initial equipment established on the Brew-Pub sight and must seek out other alternative brewing facilities. It has been noted in our discussion that this is something that Mr. Glover has already anticipated and discussed with the Town so any-and-all applicable consideration along that thought process – would be supported by evidence in the industry.

In summary, and to echo my comments on our conference call, it is my understanding that the ultimate desire is for the Town to maximize the potential of the sight, and in some form-or-fashion maintain ownership/control. To that extent – I am not certain that the effort and 'strategy' of the group from Texas can financially participate without the result of ownership and the Brew Pub might then become the only viable option.

If it the case that this presumption is inaccurate and the group from Texas has alternative motivation/strategy (*perhaps one that encompasses a Long-Term Lease Agreement*) I would reiterate that it might be the case that these two (2) groups be introduced to one another to perhaps parlay their respective Plans and join forces with the Texas Group completing the redevelopment and the Brew Pub becoming the Center Piece Restaurant envisioned.

Matthew J Byrne

Matthew J. Byrne
General Business Counselor
SBTDC, Elizabeth City State University