



## TOWN OF DEWEY BEACH

[www.townofdeweybeach.com](http://www.townofdeweybeach.com)

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February 23, 2015

As Town Manager I wanted to follow up on my previous letter (posted on the Town website; [www.townofdeweybeach.com](http://www.townofdeweybeach.com)) regarding the purchase of additional town space being contemplated.

During our publicly held February Town Council meeting we heard from the listing agent for the former Seasons Pizza property (and adjacent property), who explained that our two offers below the asking price were rejected. She also indicated that the seller would not have waited any longer to accept our last offer as she had other people interested in the property. Debbie Reed, our selling agent described how the purchase price and valuation of the land were determined. For more details, please listen to the tape of the meeting which is posted on the Town's website.

We also heard from the Town Solicitor who conveyed that the Mayor acted appropriately in signing the contingent contract. He also went on to explain that should the town commissioners decide against the purchase during our March meeting the agreement automatically terminates and our deposit is refunded. At that point we have absolutely no contractual obligations to move forward with the purchase.

I wanted to share some thoughts regarding the economics and offer some additional thoughts from my perspective in moving forward.

As you may be aware, the Town recently relinquished the space (3,000 sq feet) that was provided by the MAR at the Ruddertowne complex. The space would have been provided as a shell. There was a provision where they were giving us \$60,000 for a build out. This money would have been used to put up a "drop ceiling", some type of flooring, drywall and restroom. At that point the town would have had to determine the usage and all associated costs to finish the space. In addition the town would have been responsible for all utilities, insurance, maintenance etc. To my knowledge, neither the Town Manager at the time, nor the commissioners at the time, ever came up with any budget for the build out or any ongoing carrying costs for the space.

By relinquishing the space the town in exchange has a revenue stream that provides the following;

1. \$37,500. per year in perpetuity to begin December 2015
2. \$400,000. to be paid mid 2017
3. \$100,000. to be paid mid 2020

There are protections in place as security to help ensure we do in fact, get paid.

In addition, the town will receive money in the form of Building Permits, Transfer Taxes, Business License fees as well as Accommodations Tax from the project as would be paid on a regular ongoing basis.

As to our current financial condition, we have the ability should we decide to move forward with the purchase of additional space.

As of Jan 31 2015, we have approximately the following amounts of cash or cash equivalent on hand

- Checking and saving \$1,204,352
- Self committed funds \$1,092,451

The above amounts listed above do not include the Beach Fund account which currently has approx \$3.7 million in it.

Keep in mind the town currently has two debt obligations,

1. Bayard Ave loan, originally in the amount of \$450,000 at an interest rate of 2%. Current balance is \$339,602. with an annual payment of \$52,246 and whose term expires 9/1/2021
2. A loan funded the parking system currently in place. The original loan in the amount of \$142,990. was taken out June 10<sup>th</sup> 2012 for three years. As of today there is a loan balance of \$16,579 with the last monthly payment due May 2015

Currently the town finances are being managed both responsibly as well as conservatively.

Our outside auditors gave us their highest approval and for the last two years we have experienced large surpluses. As to cash flow, there will be a slight decrease in cash for Feb and March (approx \$50k) then we begin our year in the black as April and May are positive cash flow months.

So, if we should decide to move forward with the acquisition of the properties our costs will be \$875k for the purchase price and another \$5,000 (estimated) in closing costs. That would leave approx \$324,000 in our checking/savings account with an additional million dollars that is liquid. Keep in mind these numbers do not include the Beach Tax reserves.

It is my opinion that the town has the cash and the reserves to make the purchase by paying cash.

Here are my thoughts as to moving forward;

I suggest we move forward and purchase the property as defined in the contract. I say this because there is good reason to believe now, and or in the future, we will need additional space. Having space contiguous to our current location with Route 1 frontage will in all likelihood never be available again.

Next steps,

I suggest we form a group that will solicit the commissioners (past and present), Town staff as well as the public to determine how much space would be needed and how we would use the additional space. Some of the ideas I have heard have been (in no particular order); welcome center, parking facility, public restrooms, recycling center, adequate alderman court space, additional office space, better meeting space, Jail/holding cells.

I'm sure I am missing some things.

Then,

We retain the services of a firm to work on a design that will allow for the usage as determined.

At that point we should be in a position to look at costs. At the same time we will be looking into, local, state and federal grant funding.

Once we determine the costs to the town for the additional space it may be too ambitious for the town. It may be more advantageous to renovate our current building if we do not need the additional space.

At that point we can always then sell the land. Transaction costs are lessened given the fact that as a municipality we are not subject to a Transfer Tax.

On the other hand this might be the right opportunity to move the town forward.

Two additional thoughts;

1. I strongly urge that we commit that any and all payments from DBE to relinquish the space to include the \$37,500 annual payments as well as the \$400,000 and \$100,000 payments are not included as revenue in our operational budget and is placed in a segregated account to pay for any costs required to acquire and or modify any additional space.
2. It would be my opinion that should we decide to move forward with the acquisition, we will need to determine how we want to utilize the space, design the space, get costs to build, along with ongoing costs to the town and seek grant funding. At that point we will know information that at this point we do not. Once we have a good solid design, gross and net costs to build, a good faith attempt to project on going costs, I would suggest we hold a Referendum to have our citizens weigh in to get support to either move forward or to sell the space.

I believe there is a great deal of misinformation about the terms of the contract and the process, so I hope this information is helpful to your understanding of the situation.

Please feel free to contact me by phone or email to discuss further.

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