

**BUDGET WORKING PAPER**

To: Mayor and Town Council

From: W. Calvin Horton, Town Manager

Subject: Recommendation of Citizens Subcommittee of Budget Review Committee  
To Sell the Old Library Building

Date: April 27, 2005

The Citizens Subcommittee of the Budget Review Committee in its April 11, 2005 report to the Council recommends:

- Sale of the Old Library Building
- Relocation of the Chapel Hill Museum from the Old Library to the main floor of the Old Post Office building
- Relocation of the United States Postal Service operation from the main floor of the Old Post Office to the basement of the Old Post Office
- Relocation of the State District Court from the main floor of the Old Post Office to the basement of the Old Post Office
- Charging market rate rent for use of the Old Post Office and the Old Town Hall
- Holding funds from the sale of the Old Library Building in a reserve to earn interest rather than using proceeds as one-time money to reduce the tax rate.

Below we offer brief comments and recommendations for consideration by the Council.

**OLD LIBRARY**

**Location and Present Use.** The Old Library is located at the corner of East Franklin and Boundary Streets. The Chapel Hill Museum, a private non-profit corporation, occupies the building under the terms of a lease authorized by the Town Council. The lease is for a period of ten years expiring September 3, 2006 with provision for early termination by the Town upon 180 days written notice.

The property is in the Historic District and is zoned Residential-2. A privately operated museum is not allowed in the Residential-2 zoning district. However, from its inception the museum archived certain Town records and, because of the archival function, was considered to be a "governmental agency" under the Town definition of Public Use Facility. On October 11, 1999, the Council adopted a resolution declaring that the museum was being operated on behalf of the Town, thus qualifying it as a Public Cultural Facility and allowing more flexible use of the building.

**Zoning.** Uses permitted in the Residential-2 zoning district are primarily residential, including single family dwelling units, single family dwelling units with an accessory

apartment and duplexes. Permitted non-residential uses include: elementary or secondary school, non-profit recreation facility, public use facility, public cultural facility, place of worship, essential services, child day care and adult day care. Uses permitted under terms of a Special Use Permit include: cemetery, group care, park-ride and public service.

**Sales Value.** Limitations on use imposed by zoning restrictions may affect the potential sales value of the property. The Subcommittee suggested in its presentation to the council that the Old Library would be a good site for such uses as a law office or an accounting firm. We believe that these uses would not be allowed under the present zoning. Because the property is in the middle of the Historic District and a residential zoning district, we think it would be difficult to establish zoning that would allow private office or other commercial uses.

The estimated insurance value of the Old Library is about \$2.7 million. We do not know what the sales value of the building might be.

**Reserve of Sales Proceeds.** If the Council sold the Old Library and paid for the relocation of the museum, and if net proceeds were \$2.3 million as estimated by the Subcommittee then the proceeds could be placed in reserve as recommended by the Subcommittee. The Town is authorized to invest funds for up to a year. At present rates of about 3.5%, earnings would total about \$80,000.

**Market Rate Rent.** The Subcommittee recommends that the Council charge market rate rent for the Old Post Office and Old Town Hall. If the Old Library is not sold, we assume that the Subcommittee would recommend securing market rate rent for the building. The Council has allowed the Museum to lease the Old Library without rent as a Public Cultural Facility providing services valued by the Council. The Museum is repaying the Town a relatively small amount each year for the amortized costs of certain major maintenance items. We do not know at what dollar level rent would be considered “market rate” for a facility of this type with limitations presently imposed by zoning and the Council. The Council could consider authorizing negotiations for an annual rental payment from the Museum.

**Affect on Museum.** In the attached April 15, 2005 letter from Larry T. Loeser and Nancy J. Fanner the Museum states that the discussion of a possible sale is “having a discernible impact on the Museum’s day-to-day operations, membership renewals, and fund-raising activities” and requests “a reasonable right of first refusal on all plans for the current building.” The Museum also requests a meeting with representatives of the Council “to learn the facts and be active members of the decision-making process.”

The Subcommittee recommends relocating the Museum to the main floor of the Old Post Office Building. The Old Library building now occupied by the Museum totals about 12,800 square feet, with a portion of the space used for other purposes, including archive of Town records and quarters for the Historical Society. The main floor of the Old Post Office totals about 7,600 square feet. The Museum needs office, storage, and preparation

space as well as display space. We do not know whether Museum operations would fit on the first floor of the Old Post Office.

The site of the Old Post Office has the advantage of being in the heart of downtown Chapel Hill, making it easier to find and perhaps more attractive as a destination near restaurants, shops and the campus of the University. The Old Library is more difficult to find, seems less likely to draw traffic to downtown businesses, but has convenient free parking.

**Neighborhood Interests.** Based on personal recollections and review of records, we believe that neighbors in the Historic District surrounding the Old Library will be interested in what use is made of the building, because of potential effects on the neighborhood. The Council has been able to exert relatively detailed control over the effects on the neighborhood by retaining ownership of the property. The Council would have less control if the property is sold. If the Council wishes to further explore sale of the property we believe that conducting a public forum on the issue would be appropriate.

**Town's Long and Short Term Interests.** The Town's population is expected to reach about 73,000 in 2030, and we believe that the need for public services, public offices and public meeting space will increase with population over the next 25 years.

We think that it would be in the Town's long term interests to maintain ownership of the Old Library property so that the Council could control the use of the property and preserve it for future Town needs. Finding property for Town uses already is difficult and will become more challenging and expensive in the future. Retaining ownership would not preclude the Council from seeking market rate rents from non-Town users in order to gain revenue, if the Council determines that such a course is desirable.

For the short term, we think a good argument can be made that the Town should recover the use of the Old Library for use as public meeting space and offices for the Parks and Recreation Department, which now operates out of a metal building that was formerly a maintenance shop.

## **OLD POST OFFICE**

The Subcommittee recommends relocating the Chapel Hill Museum from the Old Library to the Old Post Office, and moving the State District Court and United States Postal Service retail operation to the basement of the Old Post Office in renovated quarters. The Subcommittee also recommends charging market rate rent for tenants of the Old Post Office.

**Location and Present Use.** The Old Post Office is located at the corner of East Franklin and Henderson Streets on one of the most prominent and storied corners in downtown Chapel Hill. The building was purchased by the town in 1979. It now has multiple uses:

- The State District Court occupies about 3,000 square feet on the main floor for use as court room and offices.
- The Postal Service occupies about 3,000 square feet on the main floor for retail operations.
- The remainder of the first floor is lobby space for the court system and access space for postal customers queuing for services or accessing postal boxes.
- The Franklin Street Teen Center occupies about 2,300 square feet in the basement.
- About 1,000 square feet in the basement are developed as offices and have been used in the past by the District Attorney and the Downtown Commission.
- About 500 square feet in the basement are used for storage of Town records.
- The remainder of the space in the building is in restrooms, hallways, mechanical space, loading dock, etc.

**Present Use Agreements.** Some uses of the Old Post Office are allowed under the terms of lease agreements and some by less formal arrangement, as described below.

**Postal Service.** The longest term use of the building is that of the United States Postal Service. The Postal Service constructed the building in 1937 and has continuously occupied it since that time. A condition of sale to the Town in 1979 was a 25-year, no-cost lease-back of 3,000 square feet of space along with parking and access arrangements. The present lease is for a period of ten years expiring August 14, 2014 with provision for early termination by the Town upon two years written notice. Rent is established at \$15,140 annually. The rent is intended to recover basic utility costs and custodial services.

**State District Court.** There is no lease associated with the judicial functions in the Old Post Office. The Town is not required to provide court facilities and has chosen to do so because of benefits to citizens and Town operations. The Town receives a portion of fees paid in to the Court for certain types of cases dealt with at the Old Post Office court facilities. Total fees remitted to the Town in 2004-05 are estimated to be about \$50,000. We believe that the Court could be required to vacate upon reasonable notice.

**Franklin Street Teen Center.** The Teen Center has been leasing a part of the Old Post Office basement since 1984. No rent is received; the consideration for the lease is the services provided by the Teen Center. The last lease for the Teen Center expired August 21, 2004. Discussions for renewal of the lease are underway.

**Basement Office Space.** The Downtown Commission continues to use a portion of the office space in the basement for storage without a lease and with no cost charged. Its use could be terminated at will upon reasonable notice.

**Relocation of Chapel Hill Museum to Old Post Office.** We already have commented above on the potential for relocation of the Museum to the main floor of the Old Post Office as recommended by the Subcommittee. Such relocation would require moving the Court and the Post Office to the basement.

**Relocation of Court to Basement.** Relocation of the Court to the basement would require relocation of the Teen Center, relocation of the Town's records storage facility, and reconstruction of the basement area that it would occupy.

Reconstruction would be necessary to rearrange the space for Court use and provide modern services. We do not know whether the basement space could be reconstructed in a manner that would meet the requirements established by State standards for court rooms; however, we believe it to be unlikely, especially because of handicapped access requirements, limitations on fire exit ways, and security concerns. In addition, the relatively low ceiling height of the basement seems not to be appropriate for a court room use. We believe that the cost of reconstruction would be substantial.

We do not know whether the Court would be willing to occupy a reconstructed basement space. If the court decided not to hold sessions in Chapel Hill, we believe citizens who now have the convenience of attending court in Chapel Hill for certain cases would have to travel to Hillsborough. We also would be concerned about additional Police Department operating costs required by travel to and waiting time in Hillsborough.

**Relocation of Postal Service to Basement.** Relocation of the Postal Service to the basement also would require reconstruction of the basement area that it would occupy and such work would be expensive. We do not know whether the basement space could be reconstructed in a manner that would meet the requirements established by the Postal Service for customer access and convenience. Based on our previous experience in negotiating with the Postal Service, we would expect the process of negotiating about such a change would be deliberate.

We believe that there is value in retaining a retail Postal Service station in the Old Post Office. It has functioned as a community gathering place for many years, in part because a large number of citizens regularly go there to collect their mail or conduct other postal business. It continues to be a viable business location for the Postal Service because citizens find the location convenient.

**Adequacy of Space for Both Operations.** Because of the layout of mechanical equipment, plumbing, exit and access points it may not be possible to fit both the Court facilities and the Postal Service operation in the basement of the Old Post Office.

**Relocation of Teen Center.** Putting either the Court or the Postal Service in the basement would require relocation of the Teen Center because of space limitations and the basic incompatibility of the uses. The Town has no other space to which the Teen Center might be relocated. We believe its continued operation might be questionable if relocation were required. The Teen Center serves young people who are not attracted to participate in other recreation and service programs offered by the Town.

**Relocation of Other Uses.** Relocation of the Court and the Postal Service to the basement would require relocation of the Town's records storage facility. We presently

have no other location available and likely would have to rent space. The Downtown Commission likely could relocate to space provided by a member of the organization.

**Market Rate Rent.** We discuss above the possibility of negotiating market rate rent with the Chapel Hill Museum. The issues would be the same whether the Museum was located at the Old Library or the Old Post Office.

As to the Court, we believe it is likely that the court would agree to provide only the designated fees collected from the cases tried in the facility, just as it does now.

As to the Postal Service, when we negotiated with it previously, it was with an objective of recovering more of our costs for allowing their occupancy but ensuring that their occupancy continued, as directed by the Council. A different negotiating environment with different guiding objectives could produce a different result.

We do not know whether the Teen Center would be able to pay rent, whether at market rate or some lesser amount. It is a non-profit organization that has no source of funding other than donations, as we understand it.

**Town's Long and Short Term Interests.** We believe that the Town's long term interest will be best served by retaining ownership of the Old Post Office. At least for the near future, we believe that it is beneficial to retain both the Court and Postal Service as primary tenants in the building. We also believe that the Town benefits from operation of the Teen Center.

## OLD TOWN HALL

The Subcommittee recommends charging market rate rent to the occupant of the Old Town Hall.

**Location and Present Use.** The Old Town Hall is located on the northwest corner Columbia and West Rosemary Streets. The entirety of its 10,300 square feet is used by the Interfaith Council as a community kitchen and men's shelter.

**Present Use Agreement.** The Council has leased the Old Town Hall to the Interfaith Council since 1985. The present lease expired August 31, 2004 and continues from month-to-month. The Interfaith Council is preparing a request for lease renewal

The Town charges no rent for the lease and pays for all utilities and custodial service in exchange for the services provided by the Interfaith Council. The Town also pays for regular and capital maintenance of the building. In addition, the Council has authorized several grants in support of the operations of the Interfaith Council.

**Market Rate Rent.** It seems unlikely that the Interfaith Council would be able to raise funds necessary to pay market rate rent for the property. If the building were not occupied by the Interfaith Council, we believe that it would be relatively easy to lease the

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facility at market rate, possibly after discounting for the costs of space reconfiguration and upfitting.

**Town's Long and Short Term Interests.** We believe that it is in the Town's long term interests to retain ownership of the building to meet future municipal needs. As noted above, the need for town service, town offices and public meeting space will increase with population over the next 25 years. Retaining this property will reduce the challenge of finding space for Town operations in the future.

The Town already leases about 1170 square feet of office space for the Stormwater Management Utility Program. We expect additional space will have to be leased over the next few years as service demands increase in several departments.

Relocation of the Interfaith Council kitchen and men's shelter to more appropriate space would return the Old Town Hall to the use of the Town. We believe that it is in the Town's interest to assist the Interfaith Council in developing a new facility in a new location in the next few years. In recent discussions authorized by the Council in response to a request from the Interfaith Council, we identified Town-owned properties as potential sites for a new men's shelter.

## CONCLUSION

The Subcommittee's recommendations deserve the careful consideration of the Council. Their advice has prompted a review of the use of Town properties that otherwise might not have been done because of the press of regular business.

Based on our review, we believe that the Old Library, Old Post Office and Old Town Hall should be retained because they are important assets that will be useful to the Town for the long run.

We think, in particular, that the Old Town Hall will be needed within a few years to meet Town public service, office space and meeting space needs and that the Town should work to recover the use of this building. We also believe that the Town should explore the option of recovering the use of the Old Library as public meeting space and offices for the Parks and Recreation Department.

We believe that the Old Post Office should continue to serve as a District Court facility for the next few years, that there is continuing value in having a Postal Service retail operation in the downtown, and that the Teen Center lease should be renewed for the foreseeable future.

Although this report is not as thorough as we would be able to provide given more time, we thought that it would be useful to the Council to have at least an initial assessment for discussion. We also know that all of the organizations affected will be interested in learning the Council's thoughts about how to proceed.

**RECOMMENDATION**

We recommend that the Council consider the recommendation of the Citizens Subcommittee and give direction to the Manager as to the need for additional information or as how to proceed.