

M E M O R A N D U M

To: Mayor Isganitis and City Council
From: James D Chaousis II, City Manager
Date: May 1st, 2015
Re: Report on Order #17- Options For One Park Drive and Coast Guard Collection

On March 9th, 2015 the City Council ordered specific action and recommendations to come forward from my office regarding One Park Drive and the Coast Guard collection. Some of this order was technical and easy and the rest was challenging and grueling. The technical aspects of the order have been complied with.

- The City has verified that property insurance is paid and current.
- Critical expenses have been paid and are current.
- The collection is secure to the most reasonable level.

Making technically and fiscally viable recommendations on options has been a challenge and demands some explanation of the history of the arrangements and the collection.

Maine Lighthouse Museum and City History

In 2004, the City, the Museum, and other community organizations entered into a lease of One Park Drive from MBNA Corporation with a shared vision of establishing a visitor's center, police station, and a site for the public display of significant lighthouse, life-saving, and other maritime artifacts and memorabilia formerly housed at the City's Shore Village Museum on Limerock Street. The lighthouse collections consisted largely of items belonging to the U.S. Coast Guard and on loan to the City since the 1970s, and the City's own collection of similar maritime artifacts. The City and the Museum entered into a Revocable License Agreement to document the City's loan of these collections to the Museum, stating as the sole consideration for the loan the requirements that the Museum insure them, and make the collections available for display to the general public for a minimum of 500 hours per year.

On March 19, 2007, the City, the Museum, and the sponsor of the annual Lobster Festival in Rockland – The Rockland Festival Corporation – entered into a Memorandum of Understanding for the purchase of One Park Drive from MBNA's successor, Bank of America, and for the establishment of a condominium association to consist of three units in the structure owned, respectively, by the Museum, the City, and the Festival Corporation. The parties closed on the purchase of the property, the resale of Unit 1 to the Museum and Unit 3 to the Festival Corporation, and the establishment of the One Park Drive

The group created the Business Condominium Association, on September 6, 2007. The Museum capitalized its \$250,000 purchase price for Unit 1, and fit-out and operational costs, with a loan from Camden National Bank. As the owner of Unit 1, the largest unit in the Condo

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Association, the Museum secured a 50% controlling vote on the Condo Association Board, with the City having 30% and the Festival Corporation 20%.

Unfortunately, almost immediately from the formation of the Condo Association and notwithstanding the Museum's important role on its Board, the Museum fell into arrears on annual dues and Capital Expenditures Reserve assessments approved by the Board. The annual dues fund operational costs such as the heating and air conditioning plant, fuel, and common element expenses. The Capital Expenditures Reserve was established to fund capital expenses such as needed roof repairs and a current, urgent need for a new boiler and related HVAC system upgrades. The City and the Festival Corporation have consistently paid its operating and capital reserve assessments in full and on-time. Yet, as of February 27, 2015, the Museum has not paid any of its Capital Expenditures Reserve and Special Assessments since 2009, totaling \$88,500, or the bulk of the its annual dues since 2012, leaving an outstanding annual dues balance of \$59,914.47. All in all, the Museum owes the One Park Drive Business Condominium Association \$148,414.47.

These arrearages have left the Condo Association in dire straits and facing urgent operational and capital expenditures far in excess of the Association's current resources. In recent years, the City and Festival Corporation have agreed to pay their own assessment early, to fund winter heating costs, but this short term remedy obviously does not address the deteriorating condition of the heating plant serving the building. In addition to the Condo Association's operational, maintenance, and capital needs, the Museum itself has sustained plumbing and water damage in Unit 1 which it has failed to repair, and the Museum has failed to maintain the elevator serving the unit, resulting in the revocation of the State license needed to operate the elevator. Moreover, the City was recently notified that the Museum has failed to pay the premium to measure the City's collections, a mandate imposed under the Agreement for the protection of the collections. In sum, the Museum's arrearages and insolvency threaten the condition and value not only of the Museum's unit, but of the entire building, including the City's lighthouse artifacts collections, and the City's Police Station.

The City has been given to understand that the Museum is consistently in arrears in its mortgage payments to Camden National Bank, and that the Museum's total indebtedness to the Bank has grown over the years to \$512,000.

Notwithstanding these severe financial challenges, the Museum has not implemented, or even formulated, a financial plan to bring the Museum's many debts current and to adequately protect the collections and the building. Assurances over the years have not resulted in action, and the Museum's financial position continues to worsen.

The City's Revocable License Agreement under it which it placed the U.S. Coast Guard and City collections in the Museum's care will terminate on July 31, 2015. The Museum has not requested that the Agreement be renewed, and indeed has not demonstrated how the

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Museum can possibly continue to operate. Against the backdrop of the Museum's long-standing and worsening financial posture, the City Council has concluded that it can no longer entrust the valuable lighthouse artifact collections to the Museum's care. The City has requested, instead, that the Museum provide the City with access to the collections for the purposes of conducting an inventory and planning next steps in how these valuable artifacts may continue to be made available for public display consistent with the City's obligations to the U.S. Coast Guard, and in a manner that is consistent with the City's obligations to its taxpayers.

US Coast Guard Concerns

The collection on loan from the US Coast Guard is sensitive in the manner that the City is responsible for the collection. I didn't immediately alert the Coast Guard of our concerns with the collection out of fear of returning the loaned pieces.

Obviously, by now, everyone is familiar with the correspondence from Arlyn Danielson, Coast Guard Curator. She explains her consideration of the financial situation and overall artifact loan at the Maine Lighthouse Museum. The most recent loan agreement has been in place since 2004, but the bulk of the material included in this loan has been on continuous exhibition for over 20 years. In order to properly preserve, care for, and maintain these important artifacts we need to make arrangements to return them to the Coast Guard as soon as possible. The duration of this loan as well as the recent financial hardships have put this collection of valuable and historically significant artifacts at risk.

Coast Guard records indicate that the Maine Lighthouse Museum has over 700 items on loan. This loan, having been established many years ago and under unusual circumstances, is an outlier in terms of the number of items on the agreement. In order to maintain consistent control and monitoring ability for Coast Guard heritage assets with the staff and financial resources at hand, loans executed today are generally limited to under 10 items to any one organization.

However, in the interests of maintaining a Coast Guard artifact presence and interpretive opportunity for Rockland, going forward, the Coast Guard is willing to consider a much smaller, tightly focused loan of artifacts to the museum (only 50 to 60 items), but cannot renew the vast majority of items for extended loan.

The Coast Guard is planning on visiting the Maine Lighthouse Museum on June 8th and 9th. At that time, the City will be expected to provide a written proposal articulating our vision for a professionally planned exhibition. Items that we would approve for continued loan will have to be in good to excellent condition and able to withstand further time on display. Alternatively, if the City decides that a loan renewal of fewer artifacts within a professionally designed exhibition is not feasible, the City and the Coast Guard can discuss the issues pertaining to the return of the entire collection.

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Suggestion

I have had a few conversations with fellow stakeholders about a theoretical plan. Ideally, it would be more developed by now but I have been stretched on resources. Also, the news from the Coast Guard has accelerated my delivery of this proposal. Some framework of this proposed action must be presentable to the Coast Guard when they attend Rockland to inspect the collection. Please forgive its rudimentary structure.

A coalition of investors can be formed in short notice with Council support to make an offer to Camden National Bank to purchase the debt owned by the Maine Lighthouse Museum. Very brief conversations have been had with the Penobscot Bay Chamber of Commerce, the American Lighthouse Foundation, and the Penobscot Marine Museum about joining this coalition due to shared interest in the future of the condo, visitor's center, and the collection. Ideally, the Maine Lighthouse Museum and interested donors can join this coalition.

If each investor produced \$50,000 to \$60,000, the coalition could produce an offer of \$200,000 to \$300,000 for the purchase of the Camden National Bank debt. I believe the bank would consider this proposal. This is a calculated expense for the City because the cost incurred in returning the collection will be much more than investment in the debt. This also provides full control of the building and collection in the event that the current Maine Lighthouse Museum defaulted on the debt.

In control of the Maine Lighthouse Museum debt, the coalition of investors would mandate restructuring of the bylaws of the Maine Lighthouse Museum. The investing coalition would name designees to represent positions on the restructured Maine Lighthouse Museum Board of Directors. With governance control of the Maine Lighthouse Museum, ownership of the assets, and professional museum experience the restructured Maine Lighthouse Museum Board of Directors is poised for success. The investor coalition can consider the forgiveness of the debt.

The City can award a new sublease to the newly restructured Maine Lighthouse Museum if approved by the City Council. I think it is important to establish reporting criteria. That will ensure that the City does not fall into this situation again.

The City is not interested in running a nonprofit museum, and therefore, should consider leveraging its interest in the Maine Lighthouse Museum. The Maine Lighthouse Museum Board of Directors should apportion the responsibilities of the business through administrative contracts to the investors' host organizations. Ideally, the Chamber of Commerce can run the building and visitor center. The museums can split responsibilities of the donation and use additional display space for comingling their collections.

Additionally leveraging the City's interest in the museum, we could address the donation to Rockland Main Street, LLC. The City donates \$30,000 annually to Rockland Main Street, LLC. Rather than incrementally increasing donations to this organization the City could use its

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interest to carve out office space for the City. This City office space would be donated to Rockland Main Street to reduce overhead. This would likely include shared meeting space with the Chamber of Commerce. Increasing the cooperation between the Chamber of Commerce and Rockland Main Street by proximity will further the vision of the City and increase the potential of the City donation.

Risk

With investment there is risk and this is not risk free.

- The investment in the Maine Lighthouse Museum debt may not be sufficient.
- The US Coast Guard may not let the City retain a meaningful amount of the collection or any at all.
- The Coast Guard may make the City return the entire collection after investing in the museum debt.
- The coalition may not be prepared to join forces with the City.
- The public may resist any City intervention.
- The Maine Lighthouse Museum may not cooperate.
- There is limited time to act and convince the Coast Guard.

Recommendation

I have a hard time recommending to the Council to take risks. I am in a profession where conservative financial calculations are rewarded over boldness but the unfunded liability of the US Coast Guard taking the collection is likely severe. Pieces in the collection are expensive and sensitive. Some are priceless. The community investment in the museum is hard to calculate but also valuable. The City has obligations to the building, the collection, and the visitor's center. I recommend that the city enact my plan but I defer to the City Council's better understanding of the community values.

By taking the leading role in this plan it changes the default storyline. No longer is the Maine Lighthouse Museum failing but it is recovered. The community's rallying investment is no longer spent on debt and bills but the long term vision of the museum. I believe donors will be more likely to get involved. Our federal representatives can help the City negotiate with the Coast Guard and they have already shown interest.

This is one of the more difficult situations I have been asked to weigh in on. It is far from normal public administrative assignments. There are sensitive attachments to the history of the museum. Change will not be easy or embraced but there is a hopeful outcome.

I believe in the community support that will follow.

