

**TESTIMONY
TO
COMMITTEE ON NATURAL RESOURCES**

Pat McCabe, Mayor
City of Hot Springs

Lessee: Zest Enterprise, LLC
Member: Pat McCabe
Property: Hale Bathhouse, Hot Springs National Park

September 17, 2018: “Historic Leasing in the National Park System: Accessing Challenges and Building on Successes”

As Mayor of Hot Springs, let me welcome you to our community. We are very pleased that the House Committee on Natural Resources has elected to hold a meeting here to explore the feasibility of expanding the Leasing Program to other National Parks across the country. The vibrancy of any community can be measured with a stroll through their downtown area. The heart of downtowns across America have not been without challenge. Many have seen businesses move to fancy centers out of the heart of the city, leaving vacant buildings and storefronts. The City of Hot Springs has not been without similar style challenges over the years. Hot Springs differs from other communities in that a large footprint within the downtown area is the Hot Springs National Park. Bathhouse Row had been very vibrant up to the 1970s, but from that point forward until recent years not so much so. The Buckstaff Bathhouse for years was the only facility on Bathhouse Row that was operational. Today, the only structure which is vacant is the Maurice Bathhouse. When visitors and locals alike now stroll Bathhouse Row, they are able to avail themselves to the very bathhouses that have been repurposed.

Without the Leasing Program of the National Park Service, the vacant Bathhouses would have remained vacant. We thank the National Park Service for their assistance in the revitalization of our downtown. I would like to thank former Hot Springs National Park Superintendent, Josie Fernandez, for her efforts in this regard. We also look forward to working in partnership with Superintendent Laura Miller as we strengthen ties and complete the buildout of Bathhouse Row and the business side of Central Avenue.

The business side of downtown Central Avenue has also undergone a renaissance of sorts. This occurred, in part, with the creation of the Thermal Basin Fire District in November of 2013. The Thermal Basin Fire District required structures within its boundaries to provide a fire suppression system if the structure was three floors or greater. This resulted in a number of property owners selling their structures in lieu of meeting the new standard. New buyers of these buildings did so with creative ideas for new business opportunities. Recently, we celebrated the hundredth new business in downtown since February of 2014. Now, both sides of downtown Central Avenue are very robust and provide an economic engine to the community.

On a personal note, in September of 2013, my wife, Ellen, and I were interested in implementing a business in downtown Hot Springs. I inquired of our architect friends, Bob Kempkes and Anthony Taylor of Taylor Kempkes Architects, as to structures that may be available on the business side of Central Avenue. They indicated that, while there were no buildings available for lease/purchase on the business side of downtown Central Avenue, there were a couple of bathhouses available within the National Park. We immediately scheduled a day and time to walk through the Ozark Bathhouse and the Hale Bathhouse. My wife and I had a concept of establishing a boutique hotel with dining area within a downtown structure. While the Ozark Bathhouse appeared to be in exceptional condition for immediate use, the configuration of the rooms would require substantial demolition prior to repurposing as a boutique hotel with a restaurant. Upon entering into the Hale Bathhouse, we were greatly surprised and pleased that the demolition had already occurred, and we would be in a position to begin a restoration process with minimal additional demolition. The National Park Service years before had moved forward with the abatement of lead-based paint and asbestos, thereby, essentially leaving the structure bare of interior finish. The ability of the National Park Service to ready any facility in this manner makes it very desirable for leasing since the abatement process can be time consuming and expensive.

Following the walkthrough, we contacted the Hot Springs National Park Administrative office to determine the next steps. We received the Request for Proposal and set out to complete and provide the same. We did so in late February of 2014 in advance of the deadline of February 27, 2014. Toward the end of June 2014, the National Park Service issued a Letter of Intent which we executed and began the process of securing financing following receipt of cost estimates from the architect. After working 18 months with a local bank and another entity, the local bank elected not to finance the project. Therefore, we were caught without any wind in our sails. However, the other entity was still onboard, but needed to have a bank partner which we then sought. One of the challenges in securing financing, in part, was the fact that my wife and I would not be owners of the building. Therefore, for the bank to get comfortable with their ability to be made “whole” should we fail was a challenge for them since the building could not be used as collateral nor could the physical improvements to the building be held as collateral, as the bank would not be able to remove the physical modifications to the facility, such as electrical, plumbing and heating and air. This would leave the financing entities with only items such as beds, mattresses, tables and chairs, refrigeration units, stove, etc. as collateral. The National Park Service needs to be sensitive that collateralizing projects of this size can be a challenge for the banks.

The Lease that was proposed by the National Park Service was a Lease that the lending institution felt was overweighted in favor of the National Park Service and provided greater exposure to the lending institution. A significant area of concern was the distribution, or lack thereof, of insurance proceeds if the structure was significantly destroyed or destroyed in total during our occupancy. The original Agreement allowed the National Park Service to retain all the insurance proceeds, elect not to rebuild, leaving my wife and I with no ability to satisfy the loan balance except through personal funds. The financing entity was able to negotiate a provision within the Lease that would insulate them, as well as ourselves, should the Park Service elect not to have the structure rebuilt if the historic nature of the facility was

compromised. As such, it took no less than nine months for the financial entity and the National Park Service to negotiate an appropriate Lease.

Our loan was to be guaranteed by the Small Business Administration, and they had their issues as well and needed to have agreements modified, specifically pertaining to the Collateral Agreement so that the federal government would be protected, and the exposure would be minimalized to the greatest extent possible. This too required some time and energy, though it was significantly less than that of the Lease negotiation. However, some of these concerns should not have been as great given that the funds being expended on this project were going into a federal building and not into a structure owned by Pat and Ellen McCabe. If we were to fail, the taxpayers would not really be out anything, as the McCabe's would not have profited since the funds expended would have gone into a federal building. Perhaps there can be some recognition of this fact and the ability for the SBA to gain comfort could be reviewed. In speaking with our leading financial institution, it appeared that the goals of the Park Service and the SBA were polar opposites in this regard.

Developing the plan for the reuse can be challenging, and even more so when a number of varied players inject themselves into the design process. Superintendent Fernandez and I agreed early on to remove ourselves from the process and allow the professionals; the Project Architect, the Historic Architect of the Midwest Region, Health Inspector and the Life Safety Codes Officer to be responsible for decisions relating to how the varied codes would be met. The Regional Office has the capability of working directly with the Project Architect. While we all desire to have the National Park Superintendent accept an ownership role within their respective parks, the repurposing of this bathhouse would result in looking at varied ways in which to meet the required standards which would not necessarily be contained within the skill sets of a Superintendent. I would recommend that the National Park Service focus on being an advocate for repurposing these styled structures with decision making at the Regional Office level.

The National Park Service was very thoughtful in the development of the Lease in many ways. The National Park Service allowed the Lease to be \$1.00 a year for the first three years prior to elevating to the full Lease price. In this manner, the holder of the Lease would be able to build out the project and become operational with essentially zero Lease expense for the first three years. We anticipate being operational before year end which will allow us approximately 20 months of operations at \$1.00 per year Lease expense. After which, we will increase to the stated amount in the Lease document. We will be well on our way to stabilizing business operations.

Furthermore, the National Park Service provided credit in the Lease for the renovation costs of the facility. Here again this becomes favorable to the tenant, as the renovation costs are prorated over the term of the Lease reducing the effective monthly Lease expense. Without this credit for renovation costs, the Bathhouses may not have been renovated.

The Lease requires that 2% of all gross sales be placed in a Capital Improvement Fund. Access to these funds can be used to repair and replace major plant and equipment. This better ensures that the tenant will always have funds to make major repairs and capital improvements should the need arise.

The National Park Service provides for up to a 60 year lease. Ellen and I secured a 55 year Lease. While we certainly do not anticipate operating the project through the 55 years, we wanted to ensure that those that would come behind us would not be concerned that the Lease was about to expire. We felt that the project could change hands a number of times in advance of the expiration of the Lease. Consequently, those who would assume the project will know that they had the ability to purchase the operations and not have the Lease expire from underneath them.

In closing, the Quasi-Public Private Partnership in the restoration of Bathhouse Row has been a win for the National Park Service, a win for the taxpayers, a win for the Hot Springs community and a win for the Lease Holders. The ability to establish a program that allows others to develop creative ideas within these fine structures ensures that they will be safeguarded and available for years to come without any holding costs to the federal government.

Thank you for the opportunity to address the Committee today.