

THE DORCHESTER HOTEL: VOTING MY CONSCIENCE

Darin L. Gerdes
Charleston Southern University

R. Scott Pearson
Palm Beach Atlantic University

In recent years, public-private partnerships have become common. When the town of Summerville, South Carolina was poised to enter into a public-private partnership with Applegate & Co to build a boutique hotel in the historic district, Councilman Walter Bailey faced a dilemma. As a lawyer, he was wary of the downside, but the potential income that the project could create for the city was quite appealing. The case for the public-private partnership appeared compelling. The contractor promised only upside, but as a lawyer, Bailey was trained to think defensively. He wants to do what is best for the city, but he is not sure that this particular arrangement is in the best interest of the city.

Councilman Walter Bailey had seen it before. Public private partnerships (PPPs or P3s) had become a common feature of the governmental landscape. He hoped that, if structured correctly, the new Dorchester Hotel could be a boon to the city's revenues. After all, that is what the developers promised.

BACKGROUND

In January of 2013, citizens first learned of the potential project. It was just one item among a dozen discussed in council's vision brainstorming session. It didn't even rank among council's top priorities. Top priorities included infrastructure, public safety, annexation, and "holding the line on taxes" according to newspaper reports.

Yet, the boutique hotel was near and dear to the mayor's heart. He had made a hotel an issue in his 2011 bid for mayor. He was the chief proponent of the hotel. No one else seemed to care that much about the hotel project. He worked behind the scenes

and by June, the mayor mentioned the hotel project again in his newspaper column. By December, the mayor discussed the hotel as part of a new town “master plan.” In his newspaper column of Wednesday, December 17, 2014, he explained:

The town put out a request for proposals to hotel developers who might be interested in building a boutique hotel in downtown Summerville on property the town purchased along Cedar Street more than a decade ago. We have had discussions with several groups about such a project but only one proposal was submitted by the deadline last Friday. We have just begun to evaluate it and I will keep you posted.

The following Wednesday, by a unanimous vote, council authorized Mayor Collins to engage in non-binding negotiations with Applegate & Co. Applegate & Co. was the only bidder to respond to the town’s request for proposals.

PUBLIC PRIVATE PARTNERSHIP (P3s)

Public private partnerships are becoming more common, but the town had a poor track record with them. The town purchased the Historic Berry house and Teacherage for \$700,000 using hospitality tax funds and they spent \$90,600 to refurbish it. They were negotiating with a local manager to run the facility for 20% of the proceeds. According to the local paper, everyone agreed that, “the historic Berry house next to Azalea Park would make a lovely venue for wedding receptions, debutant balls and other functions.” But they sold it four years later for \$300,000. According to Mayor Collins, “Council felt that property had become a continuing money pit.”

That same year, Council spent \$3.5 million from the hospitality tax to pay off a little-used public parking garage. The garage was funded by a \$4.9 million bond in 2006. But this use of the funds all but exhausted the hospitality tax. According to Councilman McIntosh, funds from the Berry house would replenish the nearly exhausted hospitality tax fund.

The state government was not doing much better with public-private partnerships. South Carolina Electric and Gas (SCE&G) entered into a disastrous P3 to build a nuclear power plant. Customers have been paying higher rates for the \$9 billion project debacle ever since. As part of a takeover bid, Dominion Power will pay \$1.3 billion to customers who, according to the news reports, “unwittingly helped bankroll” the failed nuclear power plant with higher rates.

The federal government has had mixed success with P3s. On the positive side, the express lanes around the Washington Beltway seem to indicate hope for successful P3s. On the other hand, P3s may be more prone to become taxpayer-funded boondoggles. Solyndra, for example, has become synonymous with a waste of tax dollars.

A RANGE OF OPTIONS

Bailey thought about how the town had done business in the past. When the town needed to fill potholes, it had a choice. It could maintain a government maintenance organization, or it could bid the project out and let private sector contractors compete to perform the specified work at the lowest cost. Either option is valid; it is just a question of efficiency.

However, when the town wants to build a building, a township maintenance organization would be ill-equipped to oversee such a project. The city staff would be involved in overseeing the process, but generally, this would follow public procurement procedures.

EXHIBIT 1

Range of Procurement Methods

Pure government action and management	Bidding on project procurement and managing it as a government entity	Entering into a Public-private partnership agreement	Pure private -sector action
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Now if the town fathers wanted to build and manage a convention center, they could take the pure government route, creating a city-building organization in order to build the building and run the business. They could put a bid on the building and then run the business as a government entity. Or, they could enter into a public-private partnership to create the building and then run the business. There were a number of available choices. Each had benefits and drawbacks.

THE DORCHESTER HOTEL

Bailey knew that it might not be right to judge this proposed P3 by others that have gone sour. Each P3 contained specific details that made them better or worse, and Bailey determined to understand the project before he decided one way or the other.

The project would be situated on West Richardson Avenue near Cedar Street in the heart of downtown. It would sit on roughly two acres. The town owned 1.58 acres. The developer purchased an additional .65 adjacent acres.

Applegate would put in \$20 million and complete the hotel in two years (not more than 2.5 years according to the contract). The town would provide the 1.58 acre tract and \$8,950,00. All said, it was a \$30 million project. The project would include:

- A general partnership between the town of Summerville, the redevelopment corporation, and the developer, Applegate & Co.
- A 4-story, 74,000 square foot, 66-room boutique hotel
- Approximately 34 condominium units
- Retail and restaurant space on the ground level
- A rooftop bar/restaurant
- A 10,000-square-foot conference and events facility
- 179 parking spaces in the garage and on the surface

According to the plan, the developer would pay for the condominiums and hotel. The town would pay for the conference center and a parking garage. They would use hospitality taxes to service bonds to pay for construction of the facility. Hotel management would run the conference center and parking garage, though the center would be owned by the town of Summerville.

According to the P3 agreement, the municipality would provide an interest free \$3,750,000 gap loan for 24 months. This money was earmarked for private improvements. After the project has been completed, the developer would pay 3.75% on the loan.

The town would also put \$5,200,000 toward public improvements such as the conference center and the parking garage. They would pay \$600,000 per year for twenty years to service those bonds, using hospitality taxes. But they also projected an annual revenue of \$600,000 in increased taxes, fees, and licenses associated with the project, and the mayor claims that the project will create 60 new jobs.

IT'S TIME TO VOTE

The benefits appear wonderful, but Bailey wondered if the town should be paying the bill or even if it should be in the conference center business at all.

What if things did not go as planned? Taxpayers would be on the hook if anything went wrong. The future was always uncertain. If the economy turned, would the town lose the millions of dollars that they were putting into the project?

Even if it worked, it would commit 20% of the town's tax money for twenty years and they all knew that they had other priorities they needed to address with the \$3,750,000 interest-free loan that they planned to give to the developer. Bailey wondered if the real public benefits outweigh the costs, and whether the methods used to weigh the relative costs and benefits were appropriate to the project. Moreover, there was no discussion about the appropriate discount rate for the project. Should the higher risk level of this project carry any weight in the analysis? Bailey wondered if the town should sponsor such a project. He wondered whether the financials would work out as projected.

These were all risks Mayor Collins was willing to take. The mayor called for a vote. How should Walter Bailey vote?

APPENDIX 1

Main Street in Summerville, three blocks from proposed Dorchester Hotel



APPENDIX 2

Main Street in Summerville, three blocks from proposed Dorchester Hotel



APPENDIX 3

The First Mock-up of the Dorchester Hotel



New hotel to be built downtown

Monica Kreber Jul 9, 2014 (0)



Photo source: https://www.postandcourier.com/journal-scene/news/new-hotel-to-be-built-downtown/article_79c17d96-18fa-569d-b8c2-f30be3600663.html

APPENDIX 4

Preliminary Rendering for the Board of Architecture



Photo source: https://www.postandcourier.com/journal-scene/news/town-denies-wrongdoing-in-the-dorchester-case/article_667bcb1b-8f87-5b8d-bfb5-2cabcb2da48.html

APPENDIX 5

Proposed site of the Dorchester Hotel



APPENDIX 6

Arial View of the Proposed Site of the Dorchester Hotel



Photo Source - Google Earth:

<https://www.google.com/maps/search/cedar+street+summerville+sc/@33.0194772,-80.1791838,89a,35y,78.33h,45.03t/data=!3m1!1e3>