

NSS Headquarters Commission

Status Report as of June 19, 2011

The Headquarters Commission comprises: Chairman John Scheltens, Secretary Dave Luckins, Financial Officer Tom Rea, Steve Ormeroid, Bert Ashbrook, and OVP Wm Shrewsbury (*ex officio*).

Report summary

Since the Commission's last status report dated February 28, 2011, describing the leading sites in Huntsville and Cave City, the Commission has conducted due diligence on both sites. As its Charter requires, the Commission is now seeking the Board's approval to proceed with the site in Huntsville. If the Board gives that approval, then assuming that the Commission can negotiate a satisfactory price and obtain financing consistent with the project budget previously approved by the Board, the Commission will promptly complete the purchase of the Shriners' site.

Due diligence

The Commission has substantially completed its due diligence on the two leading sites described in its last report, the "Shiners' site" on Pulaski Pike in Huntsville, Alabama and the "Indian Cave site" along SR70 between Cave City and Mammoth Cave National Park, Kentucky.¹ That diligence included a preliminary environmental assessment of each site by a consulting engineer.

For the Shriners' site, the Commission entered into an "Agreement of Intent to Purchase" with the current owner on March 23. This letter of intent does not bind the Society to buy the property, nor set a price, but instead effectively allowed us to

¹ As this phase of the Commission's work concludes, the Commission wishes to thank those who have offered their generous assistance in the site evaluation process. The Commission apologizes to all whom it may have inadvertently omitted. Individuals include Ed Arterburn, Gordon Baylis, Gary Berdeaux, Dick Blenz, Don Brandstetter, Mike Branstetter, Jim Bullington, Jay Clark, Jim and Lynn Cummings, Jim Curran, Greg Davis, Dave Foster, Julie Gackenbach, Chris Grooves, Jeanne Gurnee, Maureen Handler, Alex and Jenny Hicks, Bob Hunt, Rho Lansden, Chuck Lundquist, Larry McCarty, Roger McClure, R.D. Milhollin, Camille Mueller, Jennifer Pinkley, Jason Polk, Bruce Powell, Tim Riddle, Ladonna Rea, Patrick Reed, Bob Reid, Stanley Sides, Gordon Smith, Richard Toomey, Michelle Vaughn, Norm Warnell, and Nigel Willis. Organizations include the American Cave Conservation Association, the Bernstein Companies, Cave City Kentucky, the Cahaba Temple, the Cave Research Foundation, Clark Hair and Smith PC, Diamond Caverns, Huntsville Grotto, Mammoth Cave National Park, the NSS Office, TAG, the University of Alabama at Huntsville, and Western Kentucky University.

perform due diligence on the site and provide us first right of refusal should another buyer come along.

The diligence process for the Shriners' site has not revealed any material issues except as noted below. Although there are some additional diligence items not yet complete, the Commission does not expect that they will substantially change the Commission's request to the Board.

One issue identified by the Commission's due diligence concerns zoning of the Shriners' site, which lies in the City of Huntsville. The first 300 feet of the property fronting Pulaski Pike are zoned commercial, and the remainder of the property is zoned residential. Thirty years ago, the Shriners received a zoning variance that allows them to conduct their current operations on the site, provided that there would never be a large group of people present on the grounds "except perhaps an annual outing . . ." The Commission, on behalf of the Society, has applied to have the variance transferred to the Society upon any purchase of the Shriners' site. On June 21, 2011, the Huntsville Zoning Board is expected to approve that transfer. This variance, in the opinion of the law firm of Clark, Hair and Smith, PC, would be sufficient to permit the NSS to engage in its current businesses, to rent the banquet hall, and hold outdoor events annually at the Shriners' site.

As part of its due diligence process, the Commission obtained an appraisal of the value of the Shriners' site. That appraisal is not part of this report and must be kept confidential to preserve the Society's bargaining position, should the Board grant the Commission's request and the Commission seek to purchase the Shriners' site.

For the Indian Cave site, due diligence has not revealed any material issues except as noted below. Although there are some additional diligence items not yet complete, the Commission does not expect to proceed further. The major issue outstanding at the Indian Cave site is the reduction to writing of an agreement with the owners of property adjacent to the site, Jenny and Alex Hicks (who are members of the Society), concerning subdivision and purchase of the land, access to Indian Cave, and the disposition of the remaining 3 years on a lease on a house at the site. The Commission has established very cordial relations with the Hicks and has no doubt that an agreement could be finalized on terms acceptable to the Commission, with the possible exception of the existing lease. A second issue is the property's enrollment in the Conservation Reserve Program, which would require a payment to the United States for the acreage removed from the program for development.

Request for approval of the purchase of the Shriners' site

The Commission's charter requires that it seek Board approval prior to the purchase of real estate. On June 8, the Commission adopted the following resolution:

The Headquarters Commission of the NSS requests approval of _____ as the location of the new NSS office pursuant to requirements listed in paragraph G of the National Speleological Society Headquarters Commission Charter. Our choices are: A) Cahaba Temple; B) the land

adjacent to Indian Cave; or C) none of the above. Votes should indicate their choice from the list above.

The results of the vote adopting the motion were:

- A) Cahaba Temple: Ashbrook, Luckins, Ormeroid, Rea, Shrewsbury
- B) the land adjacent to Indian Cave: Scheltens
- C) none of the above: none

Through this report, the Commission is requesting that approval.

The Commission's rationale for the Shriners' site

The Board is well aware of the Society's acute need for a new headquarters, the inadequacy of the current facility and of the stop-gap measures now in place, and the need to act promptly. The Commission's rationale for purchasing the Shriners' site is summarized below.

The facility meets and exceeds the Society's needs. The 20,000 square feet of space adjacent to the auditorium would be used for the office, library, meetings, training, and the Society's "museum" collection storage and display. The Commission estimated that its budget would provide no more than 16,000 square feet of new construction. Even excluding the auditorium, this site provides 25% more office area for what we would spend on other sites.

Commercial and municipal services are convenient. Huntsville boasts many banks, office supply and hardware stores, and building, appliance, communication equipment, and computer repair services. The city has a full-service post office, a UPS customer service center just 5 minutes away, and multiple FedEx locations. The UPS/FedEx address within city limits lowers shipping rates. The city has professional fire, rescue, and police services. Rural sites lacked some of these conveniences.

Huntsville is a dynamic location. Huntsville is the county seat of Madison County and is the fourth-largest city in Alabama. The Huntsville metropolitan area's 2010 population was 417,593. In 2005, Forbes Magazine named the Huntsville-Decatur Combined Statistical Area as sixth best place in the nation for doing business. In 2009, Kiplinger's Personal Finance named Huntsville as America's Best City. Home to several Fortune 500 companies, Huntsville also offers a broad base of manufacturing, retail and service industries. The National Trust for Historic Preservation named Huntsville to its "America's Dozen Distinctive Destinations for 2010" list. In 2008, visitors spent an estimated \$991 million in Huntsville/Madison County, providing jobs for nearly 14,000 residents. Huntsville boasts five higher education institutions, and satellite locations for ten other colleges and universities.

Remaining in Huntsville allows the Society to retain its skilled employees and commercial relationships. Relocating the headquarters outside of the Huntsville area would require the Society to hire and train new staff to take over our critical accounting, membership, and bookstore tasks. The delay and expense in

getting new staff up to speed on our system and culture would likely cause disruptive delays. Additionally, Huntsville offers a larger pool of prospective, educated, and experienced future employees than more rural sites. The Society enjoys a good commercial reputation in Huntsville and has established excellent banking relationships, which has worked to our advantage on numerous occasions. Remaining in Huntsville allows us to continue these relationships.

Local and regional support is strong. The Huntsville Grotto is large and enthusiastic about this site. The grotto has an outstanding history of support for the NSS office and for providing a steady stream of volunteer assistance. Several office functions are performed by local caver volunteers. Regional membership support of this site is very strong and is expected to be a significant source of fundraising.

Travel to Huntsville is convenient. The city is served by commercial air carriers and an interstate highway. There is a large selection of travel services (rental cars, hotels, restaurants, etc.) Huntsville is reasonably convenient to a large part of the Society's membership.

Huntsville is cave-friendly. Huntsville was originally referred to as "Cave City." There are 240 caves within the city limits, over 1,850 caves within 25 miles, and 3,950 within 50 miles. The region boasts over 13,000 recorded caves, including many TAG classics regularly visited by cavers from around the U.S. and Canada. The annual TAG Fall Cave-in attracts over 10% of the cavers from the East and Midwest, as well as further afield, and is a significant event for the NSS Bookstore.

The site has other potential uses by the Society's membership. If the Board were to approve, Society members might use the Shriners' site for camping and as a base for caving. The building and grounds are sufficient to host the NSS convention (except for vertical sessions), and assuming that the zoning allows it, holding the convention at the Shriners' site could save \$30,000–\$60,000 which might be used for other purposes. These uses would attract more members to the office to use the library, see exhibits, and shop at the bookstore.

The site has other potential uses by the Society. The large auditorium and meeting rooms provide the Society the opportunity to stage large conferences. Building this auditorium in a green-field site is not possible within our existing budget. The building and grounds are compatible with NCRC training needs.

The University of Alabama at Huntsville is nearby. In the past, UAH has been interested in helping the Society maintain its library collection, but has been frustrated by the lack of adequate space. A larger facility near UAH would permit the Society to take advantage of UAH's expertise.

The Shriners' site is a "green" option. Renovating an existing building is significantly more environmentally sound than new construction, in terms of disturbance of the site and the use of new materials. The Commission believes that rooftop solar panels are fiscally feasible at the Shriners' site.

There is a potential to generate income offsetting operating costs. The Cahaba Temple currently generates in excess of \$30,000 in gross income from

rentals of the auditorium and campground for events, although there are presumably additional expenses associated with that income.

The Commission's views regarding the Indian Cave site

The Commission recognizes that some on the Board have expressed a preference for the Indian Cave site. Indeed, the Commission itself feels that the Indian Cave site has many attractive features. For example, new construction on raw ground, as opposed to renovating an existing building, could result in a building tailored to the Society's needs which would cost less to operate and maintain. The Commission is concerned that the Shriners' site could impose large and ongoing maintenance costs upon the Society, and that the Society has no experience in the rental hall business as a way to offset those costs. Nevertheless, in the Commission's opinion those concerns did not outweigh the other merits of the Shriners' site.

The Commission ultimately concluded that a headquarters near Mammoth Cave National Park would not serve as a significant catalyst to expand the Society's role and influence in cave-related policy matters (*e.g.*, white nose syndrome policy) and speleology (*e.g.*, through cooperation with Western Kentucky University). The Commission concluded that those functions could be accomplished from anywhere and were affected more by Society policy than by the headquarters location. With respect to public relations (*e.g.*, contact with visitors to Mammoth Cave National Park), the Board has neither asked the Commission to change the focus of the Society in this way, nor indicated its feeling that this would be an economically viable business model. Therefore, the Commission was not willing to base its location recommendation on this change in the Society's historical practice.

Finally, the relatively small up-front cost of buying raw land (as opposed to the relatively large up-front cost of the Shriners' site) did not sway the Commission, because the Commission was reluctant to purchase either property before it was confident that the Society could finance the entire project through to its conclusion, including being able to pay off any loan or mortgage.

The Commission is aware of a proposal to purchase the Indian Cave site for some future use by the Society. The site is uniquely situated and may well have value for the Society for a purpose other than for a headquarters; however, that plan is outside the responsibility of the Commission.

Next Steps

If the Board gives the Commission the approval it now seeks, the Commission will promptly (1) complete any remaining due diligence, (2) evaluate the Society's ability raise the funds necessary, (3) negotiate an acceptable purchase price and terms, (4) secure financing, and (5) provided that the previous steps are successful, purchase the Shriners' site. Under the Commission's charter, the Board's approval would authorize the Commission to consummate that purchase on behalf of the Society.

Diligence. The Commission will complete any remaining due diligence on the Shriners' site. (By the time the Board meets in Colorado, the remaining diligence may already be complete.) It is possible but unlikely that an issue will arise which would cause the Commission to reject the Shriners' site.

Fundraising Assessment. Although the Commission is confident that, in general, the Society has the ability raise the funds necessary to complete a headquarters project, the Commission must assess whether this vision for the headquarters project is shared by that portion of the membership that has the wherewithal to spearhead a capital campaign. The Commission will work with the Fundraising Committee and may use an outside consultant to conduct this assessment.

Negotiation. The Commission will negotiate with the Cahaba Temple in hopes of reaching an acceptable price and terms for the Society's purchase of the Shriners' site, given the constraints of the Society's ability to raise capital, the budget previously approved by the Board, the cost of necessary renovations, and the real estate market. (The current listing price is unacceptable.)

Financing. As the Board is aware, the Commission's financing plans may involve a combination of use of existing Society funds restricted for appropriate purposes, borrowing from either the NSF (against the Society's own funds)² or commercial lenders, seller-financing, bond sales, and a capital campaign. The Commission's understanding is that, through its charter, through its Board-approved budget, and through the Board's approval of the acquisition of the Shriners' site, the Commission would be authorized to enter into any combination of these arrangements on behalf of the Society, including incurring significant debt.

Purchase. If the Board approves the purchase of the Shriners' site, then upon satisfactory completion of the preceding steps, the Commission would promptly enter into a purchase agreement for the Shriners' site. The Commission's charter does not require further Board approval of that agreement, although the Commission's own policies and procedures require review by the Society's legal committee (or another lawyer, *i.e.*, a lawyer barred in Alabama) and the President of the Society.

Respectfully submitted,
John Scheltens, chairman

² As the Board knows, Commission chairman John Scheltens, Commission Secretary Dave Luckins, and Commission member Bert Ashbrook are trustees of the Foundation and have potential conflicts of interest.