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CONCLUSIONS

REDEVELOPMENT APPROACHES



COMPREHENSIVE APPROACH

The study team evaluated two comprehensive scenarios—a recommended program and an alternative—for the redevelopment of the Historic Broughton Campus and surrounding property comprising the new district. Both scenarios encompass a vision for a district that would drive new private investment, expand public amenities, and create a destination that could be transformative for the region. As presented in this report, the recommended redevelopment program would anchor the Historic Broughton Campus with a residential school, while an alternative program would locate a hotel on the campus. In both cases, the surrounding properties lining Hunting Creek would support a mix of complementary residential, hospitality, and retail development. And the recommended and alternative programs—plus other potential variations of the scale and siting of the uses—could be explored in parallel until a deal to develop the district is executed. However, these comprehensive redevelopment approaches would require cooperation among state agencies, local governments, and private developers.



NARROW APPROACH

The comprehensive approach to redeveloping the wider district can be compared, in terms of costs, benefits and risks, to a narrower approach of redeveloping the Historic Broughton Campus alone without the other elements (see table below). If the narrow approach is pursued, the most viable reuse for the historic Broughton facility would be a publicly funded residential school with some ancillary, multi-family residential marketed to school faculty and hospital staff. For any private development entity—including a private residential school or hotel—the underutilized properties surrounding Historic Broughton Campus and the lack of a regional draw, such as the draw that could be created by strategic investment in the parks and trails on the site, would discourage the kind of investment that could transform the site into a destination for top students or hotel guests willing to pay premium rates. Even for a publicly funded residential

school, such as the North Carolina School of Science and Mathematics (NCSSM), the isolation that would result without a strong connection to compatible development elsewhere on the site could be inconsistent with the school's strategy of creating a world-class education and life-enriching experience.



DEFERRAL

The State has the option to defer action on the Historic Broughton Campus when it relocates the hospital to a new facility. However, locking the doors and walking away from the campus would lead to a blighted property. At a minimum, to delay the deterioration of the historic buildings, it is advised that “mothballing” of the structures be done according to the National Park Service standards at a cost of approximately \$10/SF, a total of approximately \$6.6M for the contributing historic buildings. However, such interventions will not eliminate the ongoing economic and public safety liability of an abandoned 800,000-SF campus at the doorstep of the new \$155M+ hospital and gateway to Morganton. Delays in putting the buildings into productive use through an intentional public-private partnership strategy could increase the costs of redevelopment in the future—as in the case of the Buffalo State Asylum in Buffalo, New York—or could risk the complete loss of the buildings—as in the case of Greystone Park in Morristown, NJ (see appendix for case study write-ups). A recent appraisal commissioned by the Department of Administration of the 50.4-acre core Historic Broughton Campus property recommended pursuit of adaptive reuse of the facility because the cost of demolishing the Broughton Hospital structures (approximately \$6/SF for a total of \$4.38M, not including abatement of hazardous materials that would be required, which is estimated to cost at least \$4/SF, or an additional \$2.9M) outweighs the value of the land (approximately \$75,000/acre for a total of \$3.78M). Accordingly, a “do nothing” approach is likely to result in demolition of the buildings and sale of the land at a net loss to the State. Thus, the minimalist approach might be to mothball the structures at a cost comparable to complete demolition (approximately \$10/SF) yet still preserving the historic and cultural asset for an appropriate redevelopment opportunity in the future.

RISK ASSESSMENT

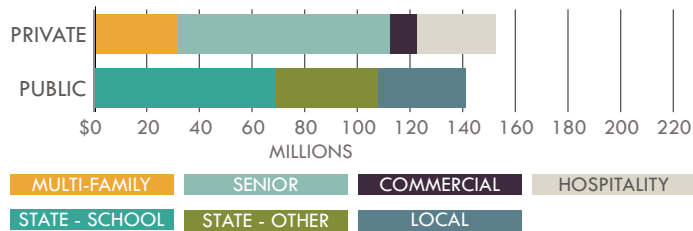
The vision for the Historic Broughton Campus and wider district seeks to mitigate development risks for the public and private sectors through a comprehensive redevelopment strategy. However, the recommended and alternative programs within the vision differ somewhat in their fulfillment of that goal. The recommended program allows for a phasing strategy that can reduce market and financing risk for the private sector more effectively than the alternative program. Consequently, the public sector's risk of carrying a vacant Historic Broughton Campus and attracting private investment to the district is also lowered in the recommended program. Meanwhile, the narrow approach and deferral approach do not avoid risk by lowering the development's ambitions. Rather, the narrow approach relies on public investment and places at risk the opportunity to leverage private capital later, and deferral carries opportunity cost by losing the present moment in time to transform the site before it becomes stigmatized as a vacant psychiatric hospital. A comprehensive approach engaging all the key public stakeholders and early private adopters creates a confidence model that draws in the additional capital to arrive at the transformative outcome.

SCENARIO COMPARISONS

COMPREHENSIVE APPROACHES

RECOMMENDED PROGRAM | ANCHORED BY A RESIDENTIAL SCHOOL ON HISTORIC BROUGHTON CAMPUS

FINANCIAL INVESTMENTS & BENEFITS



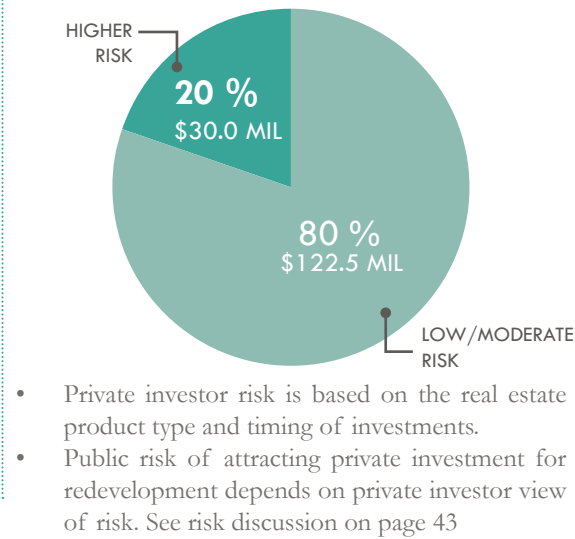
Land sale proceeds received by public: **\$11 million**

Incremental local property tax revenue (annual):

- City: **\$800,000**
- County: **\$1 million**

Risk-adjusted returns that meet private investor hurdles (as shown in individual development scenarios)

PRIVATE INVESTMENT RISK PROFILE

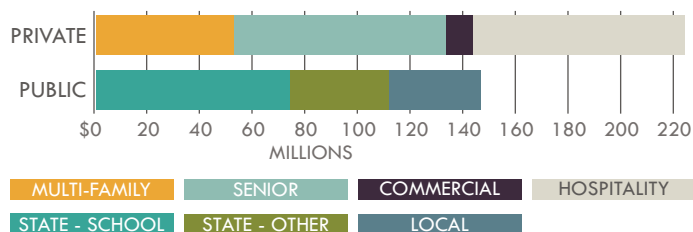


PUBLIC INTERESTS SERVED

- Facilitate private investment in a (re) development program
- Re-use historic structures within constraints of financial feasibility
- Protect and leverage State's long-range \$155+ million investment in new hospital
- Preserve and enhance public access to site amenities
- Create a regional destination and sense of place that complements the renaissance of downtown Morganton
- Tap into demographic segments that are strong and trending upward (e.g. students and/or seniors)
- Leverage existing industry specializations to support and grow Burke County as an education and employment hub
- Retain and recruit talent with modern, diverse housing options
- Honor the site's unique history and long term contributions to the community.

ALTERNATIVE PROGRAM | ANCHORED BY A HOTEL ON HISTORIC BROUGHTON CAMPUS

FINANCIAL INVESTMENTS & BENEFITS



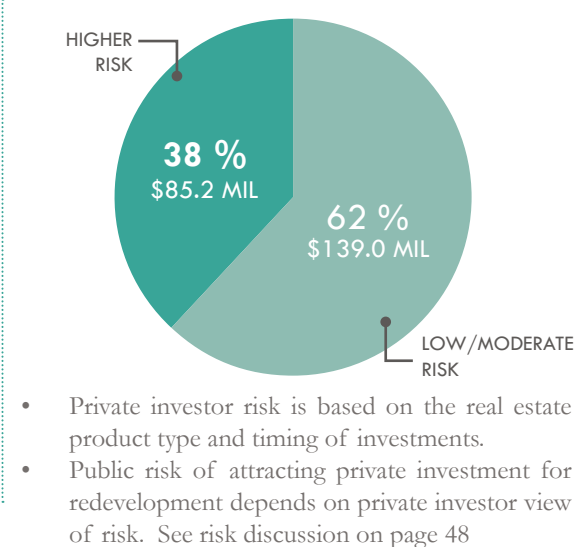
Land sale proceeds received by public: **\$12 million**

Incremental local property tax revenue (annual):

- City: **\$1 million**
- County: **\$1.3 million**

Risk-adjusted returns that meet private investor hurdles (as shown in individual development scenarios)

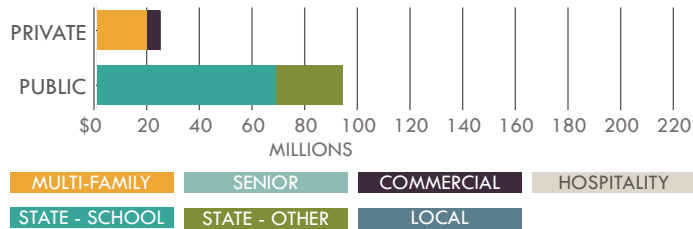
PRIVATE INVESTMENT RISK PROFILE



LIMITED APPROACHES

NARROW | RELIANT ON LOCATING STATE-FUNDED RESIDENTIAL SCHOOL

FINANCIAL INVESTMENTS & BENEFITS



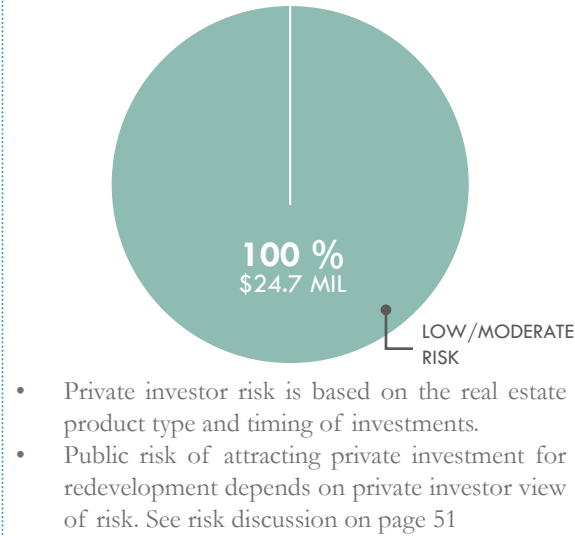
Land sale proceeds received by public: **\$2 million**

Incremental local property tax revenue (annual):

- City: **\$130,000**
- County: **\$170,000**

Questionable that risk-adjusted returns on residential or retail adjacent to school would meet investor hurdles due to absence of other site amenities and demand drivers (senior living and hospitality) that would connect with the Historic Broughton Campus and downtown.

PRIVATE INVESTMENT RISK PROFILE

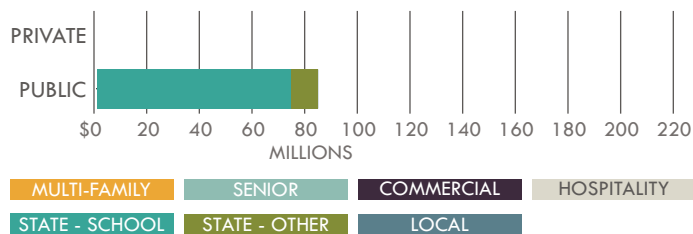


PUBLIC INTERESTS SERVED

- Facilitate private investment in a (re)development program (limited)
- Re-use historic structures within constraints of financial feasibility
- Retain and recruit talent with modern, diverse housing options (limited)

DEFERRAL | MOTHBALLING

FINANCIAL INVESTMENTS & BENEFITS

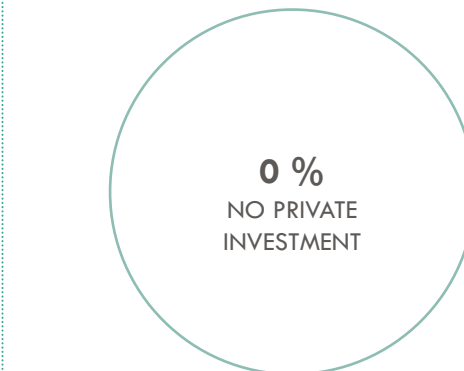


Land sale proceeds received by public: **None**

Incremental local property tax revenue: **None**

Private sector returns: **None**

PRIVATE INVESTMENT RISK PROFILE



- No private investment pursued.
- Public risk of missed opportunity; and indefinite carrying costs for Historic Broughton campus of approximately \$300,000 per year (utilities and repairs alone).

PUBLIC INTERESTS SERVED

- Preserve opportunity for future reuse

NEXT STEPS

Should the State and community choose to pursue a comprehensive approach to the redevelopment of Historic Broughton Campus and the wider district, the following next steps are recommended in order to minimize long-term costs to the public sector and mitigate risks for the State, local governments, and prospective private partners:

1) ENACT STATE LEGISLATION AND/OR ISSUE CLEAR EXECUTIVE DIRECTIVES TO FACILITATE THE COOPERATION OF STATE ENTITIES IN SUPPORT OF A COMPREHENSIVE APPROACH

Currently there is an informal nexus of redevelopment interests among the cooperating public agencies on the site that would be facilitated by clear legislation and/or directives in support of the approach. The State (and its various agencies), the county, and the community college are all property owners within the study area. A significant source of uncertainty—and thus, risk—for private investors is whether every public partner will support the comprehensive approach. A defection by one public partner puts the entire comprehensive approach at risk. The goal of the legislation would be to establish unity of purpose among all state and local actors, sending a clear signal to the private sector about the direction of the district in a way that reduces or eliminates any perceived risk.

2) EMPOWER A LEAD DEVELOPMENT ENTITY TO ACT AS “QUARTERBACK” FOR THE SITE CONTROL AND DISPOSITION STRATEGY

To coordinate the numerous state agencies involved with a comprehensive approach, a State agency must be empowered and funded as the lead development entity to effectuate the comprehensive approach and facilitate inter-agency cooperation. This lead development entity would be responsible for site control and disposition: In other words, defining the assemblage of publicly owned parcels for redevelopment and managing the process of conveying those properties to private development partners in a negotiated sale. The lead development entity would retain master development and asset management expertise on staff (or contract for such services) in order to continue to refine the

master plan for the comprehensive approach, including the nuances of relocation and replacement of functions that would be displaced; to develop budgets for expected public investments and site carrying costs; to define strategies for funding public amenities and infrastructure improvements that would precede private development; to establish an asset management framework for decision-making about current site and facilities issues related to property targeted for future redevelopment; and to pursue private development partners with the expertise and access to capital that would be required to engage the public sector effectively in executing the comprehensive approach. Once agreements have been executed with private developers, the lead entity for the public sector should stay engaged to ensure adherence to development agreement requirements.

3) ENGAGE A PRIME CONSULTANT TO ASSIST LEAD DEVELOPMENT ENTITY WITH PREDEVELOPMENT

The State is not likely to find a single private developer who will be willing to acquire site control of all developable district property at once and privately fund all necessary predevelopment functions, such as further site planning and identifying specialized developers for each component of the district. Accordingly, the State will likely need to play that coordinating role. Because this is not a function typically undertaken by a state agency, the State may find it necessary to retain consultants to assist with the predevelopment process, including master development and asset management functions.

The master development function would orchestrate the performance of additional design and engineering services to complete a district master plan, community engagement regarding the plans, as well as due diligence studies on the areas targeted for redevelopment and public amenities, such as surveys, appraisals, environmental assessments, and soil testing. In addition, a master development consultant would help the State track public interests while creating and executing a strategy to market the targeted development parcels to project-specific private investment partners in a phased approach that aligns with the district vision.

During the time that the State and local partners own the district property, the asset management function

would work across the multiple agency owners to advise on the timing and amount of investment in the stabilization, mothballing, and repairs and renovations to specific structures targeted for redevelopment. Asset management balances the need to minimize expenses while sustaining current operations, preserving the long-term value of the buildings, and protecting redevelopment options for the property. Furthermore, asset management could assist with coordinating shared facility uses, the timing of move-outs, and the provision of replacement space as the buildings are prepared to be conveyed for redevelopment.

While master development and asset management are two distinct functions, it is advantageous to the client for a single firm to perform both. Given the interplay between immediate, property-level decisions and long-term district planning, it is critical that both functions be in constant coordination in order to maximize the value of the public assets while helping drive the project toward a coherent vision. This is best achieved if master development and asset management are housed in the same firm (the prime consultant).

The most critical phase of pre-development work for the State and local partners to fund is the planning through the execution of the first phase of the district development (approximately 5 years). Additional phases beyond the first will bring new resources to help cover the costs of further design, planning and project management. The State and local partners could reasonably expect to spend approximately \$3.0M to \$3.5M over the next 5 years (or roughly \$600,000 to 700,000 per year) on the necessary master development, asset management and additional design, engineering, and legal professional services to carry the project through the first phase of the district vision. During pre-development, the private and public elements of the district would continue to be master-planned together by the prime consultant in order to ensure coherence of the vision as conceptual plans are refined. For the ultimate construction of the public and private elements, the lead entities (whether public or private) for each element would have leadership over those final design activities in alignment with the district master plan. Additional detail about the pre-development fees is provided in the appendices.

4) EXECUTE AN INTER-LOCAL AGREEMENT BETWEEN CITY OF MORGANTON AND BURKE COUNTY

The City and County leaders should define each government's responsibilities for the costs of capital improvements and maintenance of the public infrastructure and public amenities identified in the master plan. These responsibilities should be memorialized with an inter-local agreement between the City and County, before the State pursues disposition of surplus property, for two reasons. First, the State should not make significant expenditures in pursuit of the comprehensive approach until the City and County have agreed to invest in the supporting infrastructure and related improvements. Second, the City and County contributions are crucial to attracting private investment. So, a binding, written agreement is necessary to demonstrate to the private sector that all key public stakeholders will deliver on their share of the master plan.

5) MOTHBALL ABANDONED HISTORIC STRUCTURES TARGETED FOR REDEVELOPMENT

Several contributing historic structures in the study area have already been vacated and should be stabilized and mothballed to prevent deterioration of these public assets. Key structures include the South Building on Broughton's main campus, the Colony Building and silo barns on the southeastern site, and Goodwin Hall and Joiner Hall at NCSD. The study assessment has identified these properties as salvageable and attractive for private investment. An estimate for the cost of mothballing these currently vacant structures is approximately \$1.05M (\$10/SF). In addition, the historic Broughton buildings that the State will vacate when it transitions to the new hospital should be mothballed after the vacancy to preserve their redevelopment value while a redevelopment plan and subsequent deal negotiations are completed. Once mothballed, the historic buildings should be kept up, which involves some carrying costs (approximately \$0.45/SF for utilities and repairs, or \$300,000 per year for Historic Broughton Campus). The magnitude of this upfront mothballing and carrying cost can be minimized by shortening the vacancy period through the punctual execution of a redevelopment strategy. For instance, if development

partners are identified for the Historic Broughton Campus prior to the hospital's relocation—such as the residential school in the recommended program—then mothballing of the currently occupied buildings may be unnecessary because a new use will quickly follow.

6) ESTABLISH A MUNICIPAL SERVICE DISTRICT OVER THE PROJECT AREA

A municipal service district (MSD) for urban area revitalization could be created pursuant to N.C.G.S. § 160A-536(c) for the district. Creating an MSD—also commonly referred to as a business improvement district—would enable the City of Morganton to provide dedicated services to the area identified as the MSD for the construction and maintenance of capital improvements, such as parks, trails, infrastructure, and parking. The MSD allows the City to levy a property tax on the district, as needed, to help pay for these services. A district management entity representing the taxpayers within the MSD would be created to manage common amenities and engage in marketing and promotional events for the district in a way that will maximize the value of the entire district in accordance with the vision.

7) CREATE A BRAND TO EXTRACT THE FULL VALUE OF THE DISTRICT

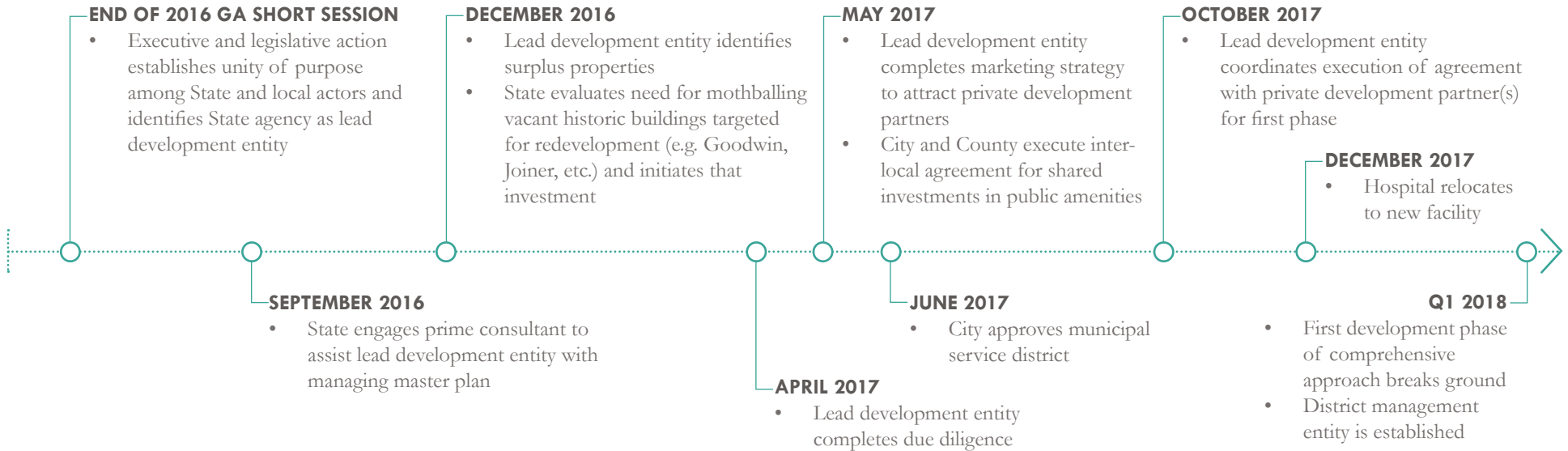
One of the strengths of the Historic Broughton Campus and wider district is the potential to promote complementary development in different corners of the site that connect thematically and physically and create an extension of downtown Morganton. To capture that potential requires giving the area a distinct identity—a brand—that can support marketing, design standards, and event programming to help residents, visitors, shoppers, and commercial tenants recognize the district that they are enjoying and to which they are contributing. Identifying the brand that will be most successful for this area would require deeper market research and testing, which should be pursued as part of the process of identifying private development partners—the first audience that needs to recognize the value of the district brand.

A GAME PLAN

The recommended next steps should be pursued deliberately but with due haste to minimize the exposure to the State of carrying a vacant Historic Broughton Campus for years following the move to the new hospital facility. The following

is a proposed “game plan” for what actions should be pursued in the near term and set of roles and authorities for the lead development entity and other actors in the process to efficiently execute on the timeline.

TIMELINE



AGENCY ROLES & AUTHORITIES

The designated lead development entity for the State should be assigned responsibility for executing the recommendations for development contained in this report on the proposed timeline above. The lead development entity should coordinate and direct the activities of State and local agencies (the public agencies). The key public agencies include the Department of Commerce, the Department of Administration, the Department of Health and Human Services, the Department of Public Instruction, the Department of Public Safety, the Department of Natural and Cultural Resources, the North Carolina Community College System, the UNC Board of Governors, the City of Morganton, and Burke County.

The lead development entity should be authorized to direct or perform the following functions related to executing the chosen development approach, with the assistance of a prime consultant with expertise in performing these functions:

- Define the assemblage of publicly owned parcels designated as surplus for development of private projects, public amenities, and new public facilities (the Sites);
- Conduct master planning of new uses for the Sites, involving schematic designs of buildings and other on-site improvements, as well as roadway and off-site improvements required by the on-site uses;
- Conduct land and building assessments, potentially involving destructive testing of building materials, soil sampling, borings, and other intrusive investigations of the Sites;
- Coordinate, negotiate and enter into development agreements between State entities and local governments and/or other public or private entities regarding development of the Sites;
- Establish an asset management framework for decision-making about State-owned assets on the Sites, including

land and facilities, in coordination with supporting public agencies that exercise control over said land and facilities;

- Direct and assist with the execution of asset management decisions and related activities, such as (but not limited to) performing or deferring maintenance, relocating uses, and stabilizing or mothballing vacant buildings, to include estimating costs and submitting detailed budget requests to appropriate legislative and executive authorities for timely and efficient completion of said activities;
- Negotiate directly and enter into agreements with federal, state, and local government regulatory authorities with jurisdiction over aspects of the master planning process and development of the Sites;
- Engage in other activities as necessary to carry out the comprehensive district development approach.



For a digital copy of the report and appendices, go to sog.unc.edu/dfi/broughton