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April 30, 2010

Mr. Bruce MacLeod, City Manager
Members of the City Council
City of Cape May
643 Washington Street
Cape May, NJ 08204

Re: Beach Theatre Foundation Loan

Ladies and Gentlemen:

We, the undersigned members of the Board of Directors of the Beach Theatre Foundation, Inc. (the "BTF") are responding to a letter dated April 20, 2010 received from your counsel demanding payment in 60 days of the \$100,000 promissory note (the "2007 Note") evidencing a loan made to the BTF by the City of Cape May on October 1, 2007.

After reviewing that letter, the BTF is hereby requesting, as soon as practicable, a meeting with the City Manager and any or all of you, to discuss the letter and a range of responses we are prepared to make to it. We request that the meeting agenda include a discussion of the specific items outlined in our letter to you dated September 24, 2009 (the "BTF 2009 Request Letter"), a copy of which is attached. In addition, we would like to discuss the Beach Theatre's future based on our current efforts and determine the best way the BTF and the City can move forward together.

As you recall, last summer, acting in good faith, the BTF brought to your attention that an unanticipated failure of condition leading to potential acceleration of the 2007 Note had occurred—specifically, that the landlord of the Beach Theatre property, Frank Investments, Inc., had refused the BTF's request to renew the lease on the premises beyond March 31, 2009. The refusal stemmed from the landlord's belief that it would succeed in obtaining a permit to demolish the premises, an action the BTF, which is dedicated to saving and redeveloping the Theatre, later frustrated. As a result, we asked for a meeting with the City officials to cure this problem and to outline our progress in re-developing the site.

On September 18, 2009, our President and our Treasurer met with the City Manager and the Mayor. At that meeting, our officers were advised to submit a letter detailing the requested changes to the terms of the 2007 Note so that the City could respond. That letter was prepared, reviewed by the BTF Board and delivered promptly to the City on September 24, 2009. At no time during or after the meeting, did City officials give the impression that the terms requested by the BTF, in light of the purposes of the loan, the efforts being made, or other factors, made the BTF's request in any way commercially unreasonable or impracticable.

Nearly seven months passed with no response to the BTF 2009 Request Letter. Finally, without explanation, we received a demand letter on your behalf on April 21, 2010 requiring "full payment within sixty (60) days from the date of this letter." In effect, all the points we made in our request letter that we thought were fair, commercially reasonable and worthy of your good faith consideration, seem to have been ignored. Frankly, we were incredulous and some of us wondered if you had ever received the BTF 2009 Request Letter.

The April 20, 2010 letter sent on your behalf specifically mentions the termination of the lease as the underlying acceleration event for the 2007 Note. We wondered if you understood that the BTF spent thousands of dollars to refurbish the premises in

2007 and then operated the Beach Theatre in 2008. Total revenues for 2008 were \$311,548; Total expenses (including payroll) were \$369,801, which included \$50,000 advance rent to exercise the single six month extension on our lease. We attempted to extend the lease further, beyond April 1, 2009, but Frank Investments refused to discuss an extension. It was not the action or inaction by the BTF that resulted in the loss of the lease. It was terminated solely by Frank Investments. Also, during the last five months of the lease starting in November 2008, the building's heating and electrical systems failed to such a degree as to render the building unusable, cutting off the BTF's main source of revenue which could have been deployed for further operations, preservation efforts, or to make payments on the 2007 Note.

Since our founding in March of 2007, every effort that the BTF has made has been done in good faith to "save the Beach Theatre" for the sake of the community at large and to support local tourism. Similarly we have met the performance intent of the funding sources from which the 2007 loan was secured (namely, to support employment at the Beach Theatre).

It is our understanding there have been no subsequent requests from any party to participate in the grant pool received by the City from the New Jersey Department of Community Affairs for a Small Cities Community Block Grant (the "Economic Development Fund") since the loan was granted to the BTF in 2007 under Resolution 187-09-2007. Further, we understand there is a balance today in the account of approximately \$600,000, about the same total amount that was available in 2007. It would not appear that an extension of our loan to its original term through September 2012 would have any detrimental impact on the remaining fund balance or on any pending application.

Because the desire to have a revitalized Beach Theatre still remains extremely strong, we are convinced that opportunities for revitalization will exist as long as the Beach Theatre escapes the wrecking ball. We were very encouraged by the recent action of the HPC which clearly identified the Beach Theatre as an historically significant building, echoing the Council's view in 2007 when they approved the resolution granting the BTF loan with this preamble to their decision: "WHEREAS, the City Council reaffirms its believe (sic) that the Beach Theatre is a valuable historic resource which should be preserved and to further preserve numerous low and moderate income jobs, which may be lost in the event that the owner of the Beach Theatre proceeds with plans for demolition."

Today, we, the BTF, as a 501(c)(3) non-profit corporation, continue our efforts through the limited generosity of donors and on a credit line secured by personal guarantees by certain Board members, making for a precarious situation.

While the state of the national economy is recovering from the devastation of 2008 and 2009, it is still not what it was in early 2007. Nevertheless, we see signs of improvement that will have a bearing on development of the property in the long term. The City's demand for full payment of the loan now, after the HPC declaration and while we continue our efforts to find a developer, unnecessarily jeopardizes the future of the Beach Theatre at a very sensitive time.

One of the conditions of the loan included securing personal guarantees for repayment of shortfalls in collection of the 2007 Note, should the BTF not be able to make the repayment. Earnest pledges were made by 35 courageous residents who believed that saving an historic community entertainment venue was essential to retain our small town character while providing year round entertainment opportunities for residents and visitors alike. We hope that you would respect the community dedication shown by those citizens who pledged support of the loan in 2007 when they went beyond "sitting on the sidelines" while others criticized the revitalization objectives and goals.

For the City to exercise a demand for full payment of the loan, while the BTF has been damaged financially and while the battle still is being waged, will be the death knell for the Beach Theatre. An enforced and premature collection will likely mean that we all will watch as the Beach Theatre, a part of our collective heritage, becomes simply a memory of what Cape May was.

And what does the City of Cape May actually gain? If it succeeds in collecting the loan principal, it will be returned into a fund for which there is no demand. The money will sit with the rest of the state granted funds in the Economic Development Fund collecting negligible interest until someone or some entity “demands” its return to the State due to lack of any use of it by the City, which was instructed to use the money to encourage economic revitalization.

We hope that you will consider the bright side and not the dark one. The Beach Theatre Foundation’s vision remains to provide a facility that meets the needs of the community and its thousands of guests while providing job opportunities and increasing city revenues. The Foundation’s vision includes programming in total support of its newest cross-street neighbor, the new Convention Hall.

June 25th, of this year marks the 60th Anniversary of the Beach Theatre. It is a special date that we could use to spur greater interest from the developers and the general public at large in revitalizing that whole stretch of Beach Avenue.

Finally, we ask that all City Council members consider the following: Will the City be better off without the Beach Theatre? Will the City be better off by demanding repayment from those who have shown by their good faith actions their deep interest in the cause simply because Frank Investments refused to extend a lease? Should the Beach Theatre dream remain alive or should it be snuffed out by actions of the City government that in no discernible way will benefit the City or its residents?

The Beach Theatre Foundation believes that the restructuring of the 2007 Note terms is in the best interest of all parties. Staying with the demand for early repayment will drain all remaining life out of the “Save the Beach Theatre” movement. As those closest to that movement, we don’t really believe that the City Council of Cape May earnestly wants to point to that as a proud achievement.

We look forward to a positive response to our request and we hope it will result in your reconsidering our request to revise the terms of the existing agreement simply to revert to its original fixed term.

We are prepared to meet with you as soon as possible.

Sincerely,

Stevens P. Jackson
Raymond Roberts
Bernard G. Haas
Susan Tischler
James A. Testa
Harley Shuler

Board of Directors
Beach Theatre Foundation, Inc.