Carin Faulkner

From: Paul Carey <paul.carey@icloud.com>
Sent: Monday, February 15, 2021 10:19 AM
To: BHITA
Cc: Dale.folwell@nctreasurer.com; Sharon.edmundson@nctreasurer.com; Tim.romocki@nctreasurer.com; susanrabon@gmail.com; Andy Sayre; Michael Brown; Scott Gardner; Emily Hill; Peter Quinn; Chris McCall; Joe Brawner
Subject: Questions for the BHITA Public Meeting on February 17
Attachments: BHITA Questions Final .pdf

Attached please find questions for the public meeting of the BHITA on February 17. I solicited and received these questions after the previous meeting and the letter from over 250 Ferry stakeholders. There are quite a few questions. I think this reflects the intense interest in a transaction that will continue reliable ferry service for Bald Head Island. If you have any questions feel free to ask prior to the meeting.

Thank you

Paul

Paul Carey
paul.carey@icloud.com
202-669-0674

Bald Head Island Transportation Authority Public Meeting
February 17, 2021

Bald Head Island Stakeholder Questions

- The valuation of Deep Point seems inflated and this value makes up over 70 percent of the purchase price. What is the basis for the land appraisal – current use or best use? Did the Authority get multiple independent appraisals? How did the BHITA decide to hire Worsley as the appraiser? Will the Worsley report be published? The valuation of Deep Point $36 million is more than double Brunswick County tax records which show a 2019 tax valuation at $16 million. Can you explain that discrepancy?

- Your model assumes that 20-25 houses will be built on the island per year and there will be approximately 580 houses built over the term of the model. That seems to be based on a maximum number of recent houses in the last 13 years. Additionally, there are 104 lots for sale on the island. The Village assumes 15 new homes per year in its models for future capacity needs of the Waste-Water Treatment Plant, so 20-25 per year is extremely aggressive. Other limiting factors are the club has only 350 memberships available, a short supply of contractors and 18 to 24 month build cycle and slow architectural review. What is the impact if the real number of usable lots is a reasonable number of 200? 300?

- Is there any analysis of the capital needs at the island? Baggage handling, parking and waiting areas are all inadequate for current volumes. How will they accommodate future volumes?

- Why is the BHITA using a four-year old study from Mercator? Why is the study based on "visual inspection" of engine rooms, steering gear compartments etc. rather than a true inspection? A current look at the equipment would seem to be prudent?

- The analysis of tram demand and supply is flawed and extremely misleading. In peak times a major bottleneck of passenger travel is solely caused by the limited number of trams. For example, on Good Friday (one of the busiest days of the year) the total tram availability is 60 per boat when the ferry capacity is 150. The Mercator data showing 55 percent of riders us the tram does not reflect true demand. On Saturdays and Sundays in peak season that percentage is limited by supply of tram spots and not demand for trams. With 150 riders and a supply of 60 tram spots the availability is 40 percent. The system sells tickets that include tram service but does not proved the promised service. There is not enough equipment to provide tram service to all who request a ride. Will the BHITA commit to provide enough trams to meet demand?

- The four-year old equipment review of tram trucks and passenger trams can't be correct. The trams themselves are in poor condition and it seems that the trucks are in a similar condition. What is the view of the equipment from the BHITA members when they rode the trams?

- There seems to be significant revenue risk with the starting assumption of 347,800 riders, versus recent history 330,000 riders, or less, and then compounding that at too high a rate in subsequent years. At a starting point of the overestimate of 20,000 riders at $23 per ticket, that's $460 thousand revenue shortfall starting in year one and compounded every year, thereafter. Why would the authority be so aggressive in its base case projections with little downside protection?

- Can you describe the other alternatives which were considered and why they were considered inferior to the deal chosen?

- Mercator's study concludes the current parking is insufficient and speculates on possible solutions including adding offsite parking or "change inland travelling modes". Wouldn't it be prudent to have a plan to park the additional parking associated with the increase revenues in the financial model or acquire the needed land now? The concept of non-car travel ("change inland travelling modes") to Southport is absolutely ridiculous.

- The current B dock is unusable at the highest tides of the month. Are the costs built in to accommodate the necessary changes? When?

- Underlying the efficiencies are a number of mentions of adjusting schedules. Also, the bonds require that the authority hire a consultant if cash flows are below the required coverage ratios and the authority must comply with the recommendations to raise fares or adjust schedules. The simplest way to create short term cash flow would be to limit service. Limiting service could have significant negative implications for Bald Head Island businesses and home values. How would you balance service cuts versus higher fares? Today we rely on the NCUC to assess service levels with public input. This transaction eliminates this protection. Who protects the island and the riders versus the bondholders?

- Mr. Jim Powell, Southport's representative on the Authority was quoted in the local newspaper as confirming to the Southport Board of Alderman that Southport would "be made whole" for lost property taxes because of the Deep Point property moving to state ownership. What does "being made whole mean"? Are there any other entities receiving special considerations?

- How can the appraised value of information technology be $1.2 million when only $670 thousand has been spent in the last ten years? What does this technology operate in the system to be more valuable than its parts?

- A purchase price of $48 million is a multiple of 12 times on $4 million EBITDA. This isn't a high growth, high margin, business that supports that high a multiple. Most businesses like this have multiples of 5–7 times. Therefore, isn't the real value of the transportation business more like $20 to $28 million? Shouldn't there be another independent business valuation performed since that's a $20M difference?

- Where is the BHITA commissioned Enterprise Value Report? Can we see and review the seller's Enterprise Value Report.

- Has there been any analysis of the ferry handing system at Deep Point? Specifically, how much would it take to make the abandoned baggage handling system usable. This would alleviate the long lines of cars and people at peak times and lost luggage. Are these costs in the projections?

- Has the Authority hired a new CEO and team to run the operations? If not, when? Is there an operating plan that the BHITA and new management understands that supports the financial plan? Does the operating plan outline when ferries, etc., will be upgraded, needed maintenance performed, capital improvements made, etc.? What is the plan and cost to implement new IT systems, such as a new ferry ticketing systems, HR platform, an enterprise-wide platform for accounting, etc.? Have all these costs been included? Transactions that normally provide a financial plan are based on an operating plan to support the financial plan with proposed new management and their biographies to give stakeholders more confidence with the deal.

- Since the BHITA has existed for three years why has a management team not been put in place?

- What is the governance model to help ensure the public/consumer is protected from undue price increases resulting from poor management since the Authority will operate as an unregulated transportation monopoly? Today, the North Carolina Utilities Commission helps to provide oversight for ferry ticket pricing. The BHITA is already planning a $4 ticket increase (+17%) that is only needed to help pay the new debt burden, not improving operations.

- The Village outlines a number of improvements needed with the current operations, such as baggage handling, logistics, land improvements, deferred maintenance and capital improvements. Have those been addressed from a cost and timeline to implement?

- Are there plans to decouple transportation fees, to charge separately for ferry transportation, luggage transportation, and trams?

- Has the "Operating and Transition Services Agreement" between BHITA and Bald Head Island Ltd. been published? References to it indicate that the operator will not charge a fee for the management services but all costs shall be reimbursed by the BHITA. Does the BHITA approve the budget of operating the system? If not, what controls are on the management not to waste money? Could they pay themselves $1.0 million per year and get reimbursed? In addition to a budget who will have responsibility for day-to-day spending by the BHITA?

- Could the members of the BHITA describe their personal observations when they used the system. Specifically their vies from experience of the reservation system, the waiting areas, the tram service , etc. What did they find outstanding and what did they find needed improvement?

- What changes are going to be made for Covid-19 as 2000 was a disaster. Long lines of up to 3 hours, no social distancing in line and no reservation system. A number of positive suggestions to ease the crowding were sent to the NCUC but ignored by the operator. What changes does the BHITA plan on implementing to alleviate the issues? A simple solution would have been to run more boats. That suggestion was never implemented which is interesting since running more boats is in the BHITA plans. Can we expect more boats and trams if the BHITA is running the system?

- Was the transaction presented to any other rating agencies of just to Standard & Poors? If so, what were the other agencies view of the transaction? Did they provide a preliminary rating?

- If operations do not meet expectations and the bonds are downgraded will the authority have access to capital for new equipment, improve facilities and other needed spending? Who would be willing to lend money to an entity with no net assets and is the outstanding debt are junk bonds?

- Since BBB- is the lowest rating considered investment grade and "adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its' financial commitments" was it ever considered by the authority to seek a more stable ratings for the bonds? How much would the debt service coverage have to increase to have a higher rating?

- How much does buying fuel forward save the authority?

- What is the maturity of the agreements to cost share the dredging operations? Are they transferable?

- Without more legislation is there a way to give property owners on the island more of a voice in the governance of the Ferry? Currently the BHITA has three members from the Village out of a total of eleven. Village Council is elected by a small minority of island property owners.

- The governance structure does not allow for of any long-term representation by the members of the Authority. For example, Chair Rabon who has negotiated the initial transaction has a term ending in June 2021. Two of the three Bald Head Village appointments have turned over in the three years since inception. Mayor Sayre's term expires in 2021 as well. This is a critical enterprise and a revolving door of appointments does not bode well for long term success. Is there any way to address this concern?

- Final Question: What is the process and timing for these questions, comments and concerns to be fully addressed by the Authority?

Carin Faulkner

From: Spence Hamrick <spence.hamrick@gmail.com>
Sent: Monday, February 15, 2021 1:12 PM
To: BHITA
Subject: question for mtg this Wednesday

My wife and I own a home on BHI. My question is:

- To help ensure full transparency of the process and to make sure the facts presented are without bias to either the Seller or Buyer it would be good to receive written affirmation from those in the process representing, or having an affiliation with, the Seller that they are not entitled to receive any economic benefit as a result of a higher purchase price.

Thank you,

Spence Hamrick

Carin Faulkner

From: Gene Ramm <generamm@gmail.com>
Sent: Tuesday, February 16, 2021 10:32 AM
To: BHITA
Subject: Questions for BHITA February 17, 2021 meeting
Attachments: BHITA Meeting questions 02.17.21.docx

Please see attached list of 12 questions to be submitted to the BHITA for their meeting tomorrow.

Thank you,

Gene Ramm

Bald Head Island Transportation Authority

February 17, 2021

BHITA Meeting Questions

Intellectual property

What provisions have been made to transfer intellectual property assets to the Authority when the agreements have been finalized. Such assets include, but are not limited to:

- Application software for all business operation system applications
- Photos of ferries, trams, barge docks and marinas
- Marketing collateral
- Branding

Assumptions

We need a better understanding of the growth assumptions in the underlying business case. The projections for ferry growth (driven by housing and ferry traffic) appear to be high based on historical growth experienced on the island. The projections of ferry, parking, and other revenues in the out years of the projections would drive a high valuation for the business which may not be warranted. The business case should be driven by sound business rationale and consensus among the parties.

Deep Point Marina

Are riparian rights of the Deep Point Marina being transferred to the Authority as part of this transaction?

Governance of Authority

The Bald Head Island Transportation Authority was established with 11 members, although only three members who reside on Bald Head Island. More input from Bald Head Island is needed to make sure that plans and improvements truly meet the need of the island. The Authority may want to consider increasing the involvement from island residents.

Authority Oversight

The structure and involvement of Authority members will aid in the successful launch of the new ownership. In the past, the North Carolina Utilities Commission (NCUC) has played an essential role in the operations of the ferry system. The NCUC oversees and approves the rate setting process, approves the tariffs and reviews and comments on financial results. The NCUC has a staff of professionals who are accountants, lawyers, and analysts to name a few. A select group of these people are thoroughly involved whenever a hearing is held. Who will perform these essential functions for the authority?

Electronic ticketing

The Credit Presentation from December 2021 discussed the development and deployment of "advancing electronic ticketing systems". Is the cost of this development project and migration to routine operational status included in the budgeted costs in business case?

Income taxes

Is there a provision to indemnify the Authority for taxes that may be assessed on Bald Island Transportation and Bald Head Island Ltd. for the results of operations before the acquisition of the ferry operations?

Financial audit

The acquisition of the ferry operations and associated entities is a substantial transaction for the island and has a number of complex financial issues. Are there provisions for a complete financial audit performed prior to transfer of the assets to the Authority? Such a step is reasonable and customary for the nature of this transaction.

Impact analysis

From a high level, the number of ferry passengers drives a great deal of the operational and financial conclusions. But it is not clear how this increase in passenger counts really affect the ancillary operations. Examples include: no. of parking spaces, number of dollies, number of trams, etc. A worthwhile analysis would be to understand the inter-relationships of these key metrics to make sure future growth in business volume can be accommodated and is reflected in the financial model.

Revenue accounting

It is our understanding that the source of booked revenue for the ferries is surrender of a paper ticket at the time of boarding a ferry. A $23 ticket would result in booked revenue of $23. At the same time, there are people buying tickets for future trips. Some of these tickets are purchased in bulk (40 tickets). In this case there is a timing difference between cash paid for a ticket and revenue recorded based on ridership. Presumably, this results in a deferred revenue account. How large is the account and how will the deferred revenue be handled at closing?

Cash flow projections

The projected financial results show current and projected results for the Authority. Do these financial projections form the basis for discounted cash flow (DCF) model. In that case what discount rate is used to discount the projected cash flows.

Sensitivity analysis

Some of the model projections are based on some fairly optimistic growth projections. One way to look at this would be a sort of low, medium, high analysis which is included in the presentation deck. Another way would be to determine the sensitivity of the financial projections due to changes in key assumptions. For example, a 1% change in passenger tickets would have what change in purchase price. This way, some consensus could be built around a reasonably conservative assumption for passenger tickets. The same analysis could be done for growth in housing on the island and others.

Carin Faulkner

From: ROBERT BLAU <blaur@bellsouth.net>
Sent: Tuesday, February 16, 2021 9:35 PM
To: BHITA
Cc: dale@nctreasurer.com
Subject: Written Comments In Response To The BHI Ferry Transportation Authority's February 17 Public Hearing Inviting Comment on the Authority's Proposed $47.75M Acquisition of Bald Head Limited's Transportation System Assets

February 16, 2021

Dale R. Folwell, CPA
State Treasurer and Chairman, Local Government Commission
North Carolina Department of State Treasurer
3200 Atlantic Ave, Raleigh NC 27604

Dear Treasurer Folwell:

I am writing to express concerns about the Bald Head Island Ferry Transportation Authority (Authority) proposal to acquire assets of Bald Head Limited's transportation system for $47.75M, and to finance that acquisition through the issuance of $56.14M in revenue bonds. As a home owner and part-time resident of Bald Head Island (BHI), I am concerned about: 1) the process by which the acquisition price was developed, 2) whether the proposed price is fair or unreasonably excessive, and 3) whether the Authority's proposed sale of revenue bonds could limit, or raise the cost of municipal debt the Village of Bald Head Island (Village) may need to issue in the future.

1. **The process used to develop the $47.75M purchase price was not transparent and reflects circular reasoning.**

My concern about how the Authority arrived at the $47.75M proposed purchase price stems largely from its circular nature, as is clearly reflected in the 66-page Credit Presentation that the Authority developed for UBS, its lead underwriter, and potential bondholders. This presentation, along with a 65-page Bond Feasibility Study prepared Mercator International, a small consulting firm, provide the analytical underpinnings for the $47.75M purchase price and, subsequently, the $56.14M revenue bond issue which the Local Government Commission (LGC) must approve. Both documents along with a financial presentation that the Authority prepared for the LCG were only recently made available to the public and posted on the Village website, as the Authority apparently does not have a website of its own.

How was the $47.75M proposed sales price determined? Page 42 of the Credit Presentation indicates that the Authority's statutorily required appraisal of Bald Head Limited's transportation system assets came to $50,940,923, of which $42,395,000 was attributed to the value of land at the Deep Point ferry terminal in Southport ($36,225,000) and the ferry terminal on BHI ($6,070,000). Unfortunately, since the Authority's real estate appraisal has not been released, it is impossible to know exactly how those values

were derived. We do know, however, from Brunswick County property tax records that the appraised market value – for tax purposes -- of the same land parcels at the Deep Point (73.53 acres) and Bald Head Island ferry terminals (5.59 acres) are currently $9.043M and $3.5M, respectively. As you know, under North Carolina law, the appraised value of land used to assess local property taxes is supposed to reflect actual market values as of the date the assessed values became effective; in this case, January 1, 2019.

Why might the Authority's appraiser have placed such higher values on Bald Head Limited's parcels at the Deep Point and BHI ferry terminals than the Brunswick County tax assessor (i.e., $42.392M vs. $12.543M)? Again, this is unclear since the Authority's land appraisal conducted by the Wosley Real Estate Co. in Wilmington is being kept confidential. But one plausible and practical explanation may have to do with the fact that the Ferry Transportation Authority Act (Act) deregulates the BHI ferry and gives the Authority the ability to unilaterally set rates for ferry/tram, parking, and barge services at whatever levels it deems appropriate. Further, the Act gives the Village and BHI property owners no effective recourse in the event that the Authority's decisions have an unreasonably harmful impact on BHI.

Even a cursory review of the posted financial documents indicates that the Authority plans to use its ratemaking discretion to hike rates enough to produce the annual cashflows needed to service the $56.14M revenue bond issue that the Mercator study estimates will be required to finance the proposed acquisition price. From an appraiser's standpoint, any planned increases in rates and subsequent cashflows could raise the market value of real estate upon which the ferry terminals sit -- by very significant amounts.
This, however, is obviously a classic case of circular reasoning. The appraised value of Bald Head Limited's real estate goes up because deregulated ferry rates may increase by 20 percent or so in 2022. The Authority, in turn, uses the increased land appraisal to work out the $47.75M acquisition price with Bald Head Limited. The Mercator Bond Feasibility Study then concludes that rates must increase by 20 percent or so for ferry, parking and barge use to achieve the annual cash flow needed to service the $56.14M bond issue necessary to finance the proposed $47.75M asset acquisition. Needless to say, this circular reasoning works to the benefit of Bald Head Limited, but at a significant cost to BHI property owners, workers and visitors.

Is Bald Head Limited's land at the Deep Point and BHI ferry terminals actually worth the Authority's $42.4M appraised value, as opposed to the $12.543M that the Brunswick County tax assessor believes it is worth? The short answer is possibly – but *only if* the Authority raises rates and future cash flows sharply enough to warrant the much higher land valuations. It is noteworthy in this regard, that the Mercator Bond Feasibility Study on which the Authority's proposed $47.75M acquisition price and it's $56.15M revenue bond issue are based is labeled DRAFT4. It would be interesting to know if changes to the previous three drafts were made to reflect changes in user rates and system cashflows needed to accommodate changes in the negotiated purchase price of Bald Head Limited's transportation assets and corresponding debt levels. My guess is that they were. It is well within your authority, as Chairman of the LGC's, to evaluate these changes and their underlying merit. I hope you will.

At the end of the day, however, the Authority, not the LGC, will have to decide how much of the additional market value that results from deregulating the BHI ferry transportation system it is willing to give to Bald Head Limited by agreeing to pay a higher acquisition price. Based on the current factual record underlying the $47.75M proposed price, it appears that the Authority is willing to give Bald Head

Limited a very large portion of the total increase in market value that will result from the planned rate hikes, rather than retain that value for future improvements to the existing BHI ferry system. In my opinion, it would be better for the Authority to agree to pay Bald Head Limited less, borrow less capital, and retain greater ability to use future rate hikes for system improvements. Nonetheless, under the terms of the Act and because it is acquiring an unregulated local monopoly, the Authority can pay Bald Head Limited whatever amount it deems "fair." But fairness should recognize the impact of higher rates on users who will have no practical choice but to accept.

2. **The Authority's plan to issue $56.14M in revenue bonds used to acquire Bald Head Limited's transportation assets for $47.75M could limit or raise the cost of municipal debt that the Village of Bald Head Island may need to issue in the future.**

My second major concern with this entire process – and its lack of any reasonable level of transparency – has to do with its potential adverse effects on the Village of Bald Head Island's ability to issue municipal bonds for projects unrelated to transportation but essential to preserving the island's economic viability. One such project critically important to the island involves the periodic need to renourish beaches made necessary due to erosion caused by periodic dredging of the Wilmington Harbor navigation channel by the US Army Corps of Engineers. The channel is located just a few hundred yards west of the BHI's south and west beaches.
The Village has no choice but to renourish these beaches when erosion dictates – once every three or four years at a cost of roughly $20M. Failure to do so would result in the condemnation of a sizable portion of BHI's property tax base (i.e., homes located on south and west beach). The same is true of the Bald Head Island Club and its golf course which also is located just off south beach. The island depends on the club to attract vacationers as well as new home owners who will contribute a significant portion of revenues needed to sustain the BHI community, including its workers, small businesses, municipal services and, of course, the BHI ferry transportation system. Thus, while the Village's and the Authority's debt capacity are technically separate issues, they are clearly related because the same people, namely BHI property owners, will ultimately bear most of the cost of servicing both types of debt. In time, bond investors will very likely come to understand this and insist on higher interest rates for capital lent, if and to the degree that overall levels of debt begin to exceed levels that BHI's economy can comfortably handle.

As page 12 of the Authority's Credit Presentation indicates, BHI is a relatively wealthier community than Brunswick County or the state of North Carolina generally. BHI also is the most heavily taxed municipality in the entire state. This is largely because roughly 40 percent of the property tax assessed to BHI property owners revert to Brunswick county with very little coming back to the Village government in the form of in-kind services or grants provided or funded by the county. As a result, BHI property owners pay their share of the cost of municipal services provided by the county, but also for the cost of replicating many of those same municipal services on BHI. This replication is necessitated by the fact that BHI is not connected with the rest of Brunswick County by road.

3. **The LGC needs to compel the Authority to explain and document how it derived its proposal to pay Bald Head Limited $47.75M for its transportation assets.**

In closing, I would encourage you to instruct the LGC to insist that the Authority provide a more thorough and better documented explanation of how the proposed $47.75M purchase price for Bald Head Limited's transportation assets was developed. At an absolute minimum, this should include the

release of land appraisals done by the Worsley Real Estate company in Wilmington. It also should include Bald Head Limited's pro forma annual cash flow statements for its transportation system for each of the last ten years. In the absence of these data, it is simply not possible to judge whether the $47.75M proposed purchase price is reasonable or excessively high as the BHI Village Council suggested that it is in its December 15, 2020 letter to you.

Respectfully yours,

Robert T Blau, CFA
5 Starrush Trail
Bald Head Island, NC

cc: Susan Rabon, Chair, Bald Head Island Ferry Transportation Authority
J. Andrew Sayer, Mayor, Village of Bald Head Island, NC

Sent from Mail for Windows 10

Carin Faulkner

From: Scott Thomas <Scott.Thomas@BEMC.ORG>
Sent: Wednesday, February 17, 2021 9:16 AM
To: BHITA
Subject: BHITA Questions

1. Will the BHITA publish and commit to enforcing a Code of Ethical Business Conduct applicable to the Trustees, Management and Employees of "the ferry system"? If not, why not?

   Specifically, would the BHITA take measures to ensure the following:

   1. All trustees, management and employees are prohibited from accepting gifts, travel, entertainment or cash originating from their participation with the Authority.
   2. All trustees, management and employees are prohibited from selecting vendors, consultants or service providers based on family, friend or personal relationship(s).
   3. All trustees, management and employees are prohibited from utilizing assets of "the ferry system" in any manner not available or advertised to the general public.
   4. All trustees, management and employees are prohibited from utilizing assets of "the ferry system" with priority access over any members of the general public.
   5. All trustees, management and employees are prohibited from utilizing assets of "the ferry system" without fair compensation for the "ferry system".

2. Will the BHITA publish the nomination and selection criteria for new members to join the BHITA? Are there currently vacancies on the BHITA? When will the terms of current BHITA Trustees expire? Will the BHITA commit to recruiting, nominating and selecting only qualified board members with relevant professional, educational or practical experience?

Scott A. Thomas
VICE PRESIDENT, CORPORATE SERVICES
(O) 910.754.4391 (C) 910.712.4035

BRUNSWICK ELECTRIC MEMBERSHIP CORPORATION

Carin Faulkner

From: Betty Robinson <brobins1@gmail.com>
Sent: Wednesday, February 17, 2021 11:06 AM
To: BHITA
Cc: Elizabeth (Betty) Robinson
Subject: Additional Question for BHITA DISCUSSION

The following statement was a part of today's presentation. How is the balance of the associated costs to be covered? What is the revenue source to cover the costs?

Thank you. Great presentation.
Elizabeth Robinson

Authority will share in a pro-rata portion of costs relating to the Deep Point marina bulkhead (42%) and will also become a member of the Bald Head Island Marina Association and will be responsible for a pro-rata share of costs relating to the Bald Head Island marina bulkhead (23%

Sent from my iPad

Carin Faulkner

From: Betty Robinson <brobins1@gmail.com>
Sent: Wednesday, February 17, 2021 11:29 AM
To: BHITA
Subject: Question for BHITA Discussion

As a result of participating in today's meeting, I have an additional question.

Comments related to the "bottleneck experience" which occurs during peak season often involve an overwhelming amount of luggage that needs to be transferred between the island and the mainland. There used to be a luggage allowance published for folks traveling to the island. I no longer see that information on the web site although it refers to packing as if you were boarding a flight.
Has any consideration been given to the actual process of using the ferry and enforcing some type of luggage allowance. No one follows the current rules of only closed containers so the baggage handlers are overwhelmed. Is there any consideration for charging for more than 2 pieces per person?

Elizabeth Robinson

Sent from my iPad

Carin Faulkner

From: Anne Gardner <annesgardner@gmail.com>
Sent: Wednesday, February 17, 2021 1:08 PM
To: BHITA
Subject: Additional BHITA Question

Authority Members,

Thanks for the meeting today. After listening to the discussion, I have one question.

There are many basic operational problems with the current ferry system that need to be addressed immediately, independent of who owns it. These issues are fundamental to the operation of the ferry and should be addressed before closing. These problems include parking, luggage handling at both Deep Point and the BHI Marina, elevation of marina dock to eliminate flooding, tram and trailer replacement, public restrooms at the BHI Marina, etc…

These should be addressed and paid for now in the original settlement. If all of these issues were to be included in the settlement, then many of us could more easily support the current real estate valuation. The $42M would seem much more reasonable with these improvements, but without them it just seems excessive. Also, why is the Authority okay with deferring this many basic problems for somebody else to solve later?

Would the Authority consider renegotiating with Limited to make these improvements before closing? If so, when can we expect to hear the outcome of that negotiation? If not, why not?

Thanks for your consideration

Anne Gardner

Carin Faulkner

From: Slaughter Fitz-Hugh <gsfitz-hugh@captechconsulting.com>
Sent: Wednesday, February 17, 2021 1:08 PM
To: BHITA
Subject: Written comments to the BHITA following the Feb. 17th Public Hearing

Following the public hearing on Feb. 17, I have the following comments and questions regarding the purchase of the transportation system from Bald Head Island Limited.

1) Can the BHITA provide the appraisals for the Deep Point property and the Bald Head Island Ferry Terminal property to support the valuations for these properties listed in the presentation? Since this seems to be a major point of concern to many constituents, would the BHITA consider seeking another independent appraisal?

2) How is the total valuation of the components of the purchase determined? Is it based on the valuation of the assets, the value of the future cash flows, or some other method?

3) As clearly presented by various speakers at the public hearing, there are some current deficiencies with the transportation system that need to be corrected in a timely manner. Parking at Deep Point is inadequate. Baggage handling on both side is inadequate. Tram capacity is deficient during peak times. The ticket system is not adequate. The dock at Bald Head Marina is under water during high tide on a near monthly basis. The condition of the ferries and trams is deteriorating and not welcoming to visitors and residents. These are just some of the deficiencies that need to be corrected. The purchase price for the transportation system should reflect the cash flow able to be attained by the system "as is" rather than a cash flow model reflecting a system after these corrections are made. At the very least, the cost of these corrections should be removed from the purchase price.

4) Does the BHITA have written evaluation from experts regarding the feasibility of obtaining additional debt to make large capital expenditures as is anticipated in the presentation. Can the BHITA provide this documentation? How much additional debt do these experts believe is available to the BHITA in the future?

5) I strongly suggest that the inputs to the growth model in the feasibility analysis be reviewed with Bald Head Island experts rather than just using the input of consultants and BHIT. There are several assumptions regarding the number of buildable lots, number of available club memberships, the home builder capacity, the ability to staff additional ferries, the ability to provide adequate service at the existing facilities, the current tram capacity, etc. that need to be factored into the model. I would advice reviewing the inputs with the Village Council and perhaps holding a meeting to vet these assumptions with a group of islanders before moving forward with LGC approval.

6) Has the operating model been stress tested? It appears that the operating model assumes basically linear growth from 2021-2050. Bald Head is subject to weather interruptions that can be severe and the island is also subject to more national economic conditions related to property transactions and

property values. Would the operating model continue to fund the debt service if an event like the 2008-2009 real estate crash occur in 2022 or 2023?

7) As requested in the public hearing, I think the BHITA should communicate its plans for proceeding with additional public education and public input prior to requesting approval from the LGC. Without additional public input, or at least an explanation of how the public input has been factored into the BHITA plans, the same constituents who petitioned the LGC to hold off on considering the project will likely push for additional delays.

Slaughter Fitz-Hugh
C / 804.647.3193
E / gsfitz-hugh@captechconsulting.com

Carin Faulkner

From: James Hanes <jamesghanes@icloud.com>
Sent: Wednesday, February 17, 2021 1:31 PM
To: BHITA
Subject: Response to meeting

America's resent experience with the housing debacle is,I think, revalent. The projections seem to be done by people from their offices without checking with the people involved. We remember that the housing loan documents were not checked for the house owners ability to pay and we know how that worked out. How is that relevant? We have had ferry breakdowns over the last two years at least. I think we have been able to bring on another ferry when that happened. What if that happens on a holiday? Shouldn't that affect people's rental for holiday planning, the resale house market, the lot and new house sales estimates? Should we buy a ferry boat at all, or at full price if it's reliability is already suspect? When the lots were platted we were in a very different weather event scenario. Probabilities of strong storms or hurricanes have gone up substantially, flood plain lines have recently been redrawn. The Island has bought a new pump and done additional ditching to take water away from existing houses. Are all of the old house lots salable? In summation I am not convinced of the validity of the projections or valuations or even that the people making the go no go determinations are really open to constructive criticism. Thanks for listening to this rant Jim Hanes house owner.

Sent from my iPad

Carin Faulkner

From: Raymond Kurlak <rkurlak@cs.com>
Sent: Wednesday, February 17, 2021 1:57 PM
To: BHITA
Cc: Raymond Kurlak; claudepope@yahoo.com
Subject: Comments Regarding 2/17 Public Hearing

BHITA:

I am a BHI property owner and I watched & listened to the Zoom meeting today.

From what I heard and understand I have these comments & questions:

1. What are the **historical revenues** for the three categories of ferry tickets, barge traffic and parking?

On pages 11 and 14 it seems clear that BHITA consultants must have had access to historical ticket sales data from 1998 to 2019. Yet even 5 years of past historical revenues are not included for comparison purposes along with the financial forecast from 2021 onward. Has the Seller shared past revenue information with BHITA? On page 7 the asset valuation summary indicates that "Audited Financial Statements" are the source of some valuations. Were these statements for prior years made available to BHITA and/or its consultants? Has the Seller restricted access to that information on the basis that it is the Seller's private business? Parking and barge traffic account for 50% to 60% of projected future revenues yet the forecast is based upon a regression model analysis of just barge traffic. Is there a similar "backtested" parking revenue model?

2. What **recent evidence** is there **that $3M+ of bond debt service can be supported** by actual revenues versus costs -- for the last 5 years in particular?

3. The factors that went into the asset value appraisal were not presented, why not? The valuations of the land and terminals totaling $42M+ represent 83% of the total asset value. How are those values supported?

It seems to me that answers to the questions raised above are essential to any evaluation of the proposed sale and bond issuance.

Ray Kurlak

15 Indian Blanket Court, BHI

Cell 910-515-0038

Carin Faulkner

From: Elizabeth Bellucci <retailaccts@att.net>
Sent: Wednesday, February 17, 2021 2:06 PM
To: BHITA
Subject: Questions Related to Public Meeting Feb 17

Thank you for your time this morning. The presentations were informative and appreciated, however, nothing about the appraisal process was addressed at today's meeting. I would like to understand in detail how the authority determined $47 mil to be a fair price. I would appreciate answers to the following questions:

1)How many full appraisals justifying the $47 mil price tag were obtained?

2) By what process was the appraisal firm(s) chosen?

3) Was the formulation of the appraisal(s) under the guidance of the seller at any time?

4) I am requesting that the detailed appraisal report(s) be made accessible online to all interested stakeholders of Bald Head Island.

Thank you,
Beth & Bob Iseman
Full Time Residents (property owner since 1995)

Sent from my iPad

Carin Faulkner

From: JOE BRAWNER <BRAWNERPLANO@msn.com>
Sent: Thursday, February 18, 2021 12:22 PM
To: BHITA
Cc: Andy Sayre
Subject: Sea Level Rise and Its Impact on BHITA Purchase Price for Ferry Assets

Sea Level Rise along the coast is reasonably well understood but **the interaction of sea level rise with tidal conditions, wind conditions, storms, etc., has not been well-studied** or well documented.

The BHI Marina, which sits at the peak tidal flow area of the Cape Fear River Inlet, is perhaps subject to the harshest impacts of sea level rise and increased tidal flows of any North Carolina tidal river inlet; these impacts have been magnified by the deepening of the Cape Fear River Channel from about 12 to 15 feet in the Civil War era (circa 1865) to about 46 feet currently in the navigation channel. Plans are under way to straighten the channel near BHI to accommodate post PanaMax ships and further channel deepening and realignment has been proposed by the Port of Wilmington.

These **navigation channel deepening and reconfiguration changes have resulted in significantly greater tidal water flow volumes and velocities** within the same river bed areas from the ocean bar to beyond the Port of Wilmington. These higher flows have pushed salt water further inland and has killed salt-intolerant cypress trees along the Cape Fear River as far as Castle Hayne, NC. A few organizations have flagged these harmful impacts on the local flora and fauns but, to date, there has been no meaningful acknowledgement by the State of North Carolina of the adverse change caused by deepening the navigation channel.

BHI and its tax-paying property owners have been adversely impacted by these changes as well and have paid dearly to attempt to minimize the adverse impacts resultant from the combined impacts of channel deepening and straightening, rising sea level, significantly increased tidal flows into and out of the mouth of the Cape Fear River, and by greater impact of storms as sea level rises. The BHI taxpayers, for example, have been assessed millions of dollars to re-nourish beaches and protective dunes (over and above receiving partial dredging spoils from the few sections of the navigation channel where "beach quality sand" can be found). A large portion of the BHI fresh water aquifer has drained into the deeper shipping channel and potable water wells have been lost on the end of the Island closest to the deepened navigation channel. A stone "retaining wall" was placed at BHI expense in the beach sands near the navigation channel to slow the speeded erosion of beach sand into the shipping channel. The continued deepening of the navigation channel has cost BHI taxpayers tens of millions of dollars and, in combination with sea level rise, continues to threaten the continuing existence of the BHI community.

In addition to the issues mentioned, **the BHI ferry docks are under increasing pressure from rising waters and the main passenger dock is often under water during king tides; this will worsen as sea level rise is increasing** and is projected to increase at a rate of one inch every two years. The plans call for addressing the re-build of the BHI ferry docks in 2027 so, in this 7-year period, we can expect peak king tides, unassisted by winds and storms, to increase a further 3 inches even though the dock deck boards are fully awash now on king tides; with storm conditions water levels will be even higher.

Further, the travelers to BHI will be paying added ferry fees to pay the debt incurred in acquiring the ferry, etc. This debt, plus interest, will be repaid over 30 years and will be satisfied in the year 2050. In this period sea level rise could be as much as an additional 15 inches, not including storms, winds, and any other extraneous factors. This level would appear to be higher than the existing BHI marina bulkhead surrounding the BHI Marina. The higher

velocity water flows in the shipping channel appear to be displacing and transporting more sand and depositing some of it in the mouth if the BHI Maring thereby necessitating added "clean-out" dredging costs. The Village of BHI taxpayers have paid to armor the beach just north of the BHI marina entrance to slow erosion there.

The evaluation work done by the Commission does not adequately address the dynamically rising water level nor does it consider the added costs that will be incurred by the ferry owner going forward. By not adequately considering the potential impact of rising sea level and, especially, the resultant increase in relative storm severity as a result of rising water levels, the BHITA is understating the likely future costs of maintaining and operating the ferries and the BHI ferry terminal. Should flooding become worse, as is likely, the new home construction rate will decline, and a downward spiral in the fortunes of the BHI community could result.

The **BHITA should take immediate action to obtain better understanding of BHI high tide conditions,** given the proximity of the shipping channel and its increasing tidal flows, and **assure stakeholders that future capital and maintenance timing and expenditures are fully adequate to cover both routine "good weather" operation and occasional hurricanes**. The BHITA should also put the Port of Wilmington on notice that its past actions with the Wilmington Harbor Channel, in concert with rising sea level, have had a significant deleterious impact on BHI and on the Cape Fear River as far inland as Castle Hayne.

Thank you for allowing BHI stakeholders to, after three years, become more aware of the BHITA's plans and actions.

Joe Brawner
6 Pintail Court
Bald Head Island NC 28461

Carin Faulkner

From: Jim Roese <jimroese@aol.com>
Sent: Thursday, February 18, 2021 1:58 PM
To: BHITA
Cc: Jim Roese
Subject: February 17, public information meeting

Good morning,

Thank you for the informative meeting yesterday. I have a few comments to share.

In several of the written and verbal communications I have heard the comment that moving the transportation system from a for profit entity into the care of a public entity will be much better for all concerned. What I heard from the public comments yesterday was a genuine concern that this entity, with noble intentions, may not have the same initiative to provide an outstanding product at the best cost possible that a for profit entity would. I implore you to spend each of our dollars as if it was your own and work toward an exceptional ferry experience now. Simply maintaining the current status until the increase in funding may possibly allow us to afford the necessary changes is unacceptable. Work needs to be done to pay the appropriate price for this system so that change can be implemented immediately.

No available parking, waiting hours for an available seat on a ferry, ripped seats and flapping weather covers on trams, luggage piled in a heap like arriving in a third world country.....UNACCEPTABLE. We expect more. If the authority was purchasing this enterprise as a for profit business I cannot imagine the purchase price not being substantially lower than the current agreed upon price and substantial upgrades being implemented immediately.

I also believe I heard a comment from someone on the authority regarding giving voice to all users of the ferry system. While noble, the people with a vested interest in the community, business owners and homeowners specifically should certainly have the loudest voice. Renters and day trippers etc. are given voice by choosing where they spend their entertainment dollars. Workers are given voice by choosing to work elsewhere if there experience warrants it.

Thank you,

Jim and Sherry Roese
905 Bramble Reach
18 year owners and 3 year full time residents.

Thanks,

Jim
Sent from my iPad

Carin Faulkner

From: Kit Adcock <kit.adcock@gmail.com>
Sent: Thursday, February 18, 2021 2:22 PM
To: BHITA
Subject: Additional Costs of Delays

Bald Head Island Ferry Authority Members:

It is my pleasure to commend you for a well considered, more than three-year effort to devise a fair and economical transfer of transportation assets from a private, family-owned business to a novel quasi-governmental entity. My service on the authority until my resignation from BHI's Village Council for medical reasons in December 2019, provided me a literal seat at the table. Every single issue brought by those who would delay this transaction were known in December 2019.

To paraphrase Donald Rumsfeld, there are known knowns, known unknowns, unknown knowns, and unknown unknowns associated with any transaction. The ferry authority is a brand new enterprise. Clearly all four knowns and unknowns fall into play. Without breaking the confidentiality I swore to uphold, I think I can say that appraisals of ALL properties and ALL equipment were done independently of those previously performed by Bald Head Island Limited. It was clear to Authority members that nothing else would satisfy the Bald Head Island constituency. Furthermore, each representative had the opportunity to identify existing and future needs of the system. Each member of the authority was given ample time and opportunity to review, question, and discuss every budget line item under a host of factors, as well as to anticipate real future costs.

My questions relate to the delay currently in play with regard to completing this transaction. What are the direct and indirect costs of this delay?

- Legal fees
- Accounting fees
- Updating appraisals (each of which has a shelf life)
- Permit changes, extensions, etc.
- Consultants' fees
- Financing fees/Costs of financing the transaction itself
- Costs associated with bond ratings vis-a-vis final rates
- BHITA costs to manage the delay and associated requirements imposed
- "Good Will" with BHI Limited, local governments, state government, and the Local Government Commission, and with Authority members whose terms have been extended repeatedly until a final resolution is achieved

How will these added costs lower the overall costs of this transaction? How does the delay facilitate the improvements, the "known knowns", to the transportation system that are included in the budget projections?

I urge all entities to move forward rapidly with this acquisition.

Thank you.

Kit Adcock
Former Mayor Pro Tempore, Village of Bald Head Island and
Member of the Bald Head Island Transportation Authority (December 2017- December 2019)