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Subject: BHITA

I thought the meeting conveyed more than a fair share of disinformation which would be good to correct. Much of this relates to steps the NC Utility Commission would take in setting rates if they decide to regulate the entire system. Chad suggested at one point that rates could actually go up since, as he put it, the UC would calculate the system's "new" regulated rate base based on how much SharpVue pays for it (\$56M) vs its current/ "old" rate base (i.e., netbook value of its existing plant which is approx. \$20M). The difference - \$36M - would be booked for rate making purposes as goodwill. And since state regulators generally do not allow utilities to earn a rate of return on goodwill, user fees for parking, barge and ferry service would go down, not up. That, however, could be problematic for the Island. If SharpVue overpays for the system and is not allowed (by regulators) to earn a reasonable return on its actual investment, much needed capital spending on system improvements going forward would likely go south along with service quality. Again, this is why it is very important that the UC act favorably on the Village's petition before ownership of the system changes hands.

I fully expect Chad and Roberts both understand this and that if the UC did act favorably on the Village's petition, the price that SharpVue or another commercial operator would end up paying Limited would go down commensurate with the reduction in the system's overall earnings that would result from regulating all 3 piece parts. If it did, BHI property owners might be best served if the system remained commercially owned (whether by SharpVue or some other investor) since that would preclude any need for either the Village or the BHITA to incur a large amount of public debt needed to acquire the system outright.

I wouldn't worry too much about who will end up buying the system. The important thing is to get the sales price down to a reasonable level, recognizing that regulating the barge and parking is the best and only practical way of doing that. If the price were low enough, SharpVue or another investor could buy the system and lease operating rights to the ferry barge and parking back to either the Village or, heaven forbid, BHITA. Either of whom could arguably finance the system's operations (or most of it) out of its existing cashflow - thereby avoiding the need for an excessively large bond issue and all the default risk that would entail. In that scenario, SharpVue would end up owning the land and either the Village or BHITA would end up owning everything else, including all the operating risk. Similarly, under North Carolina law, I believe (but am not certain) that if either the Village or BHITA owned everything but the land on which the transportation system sits, they, not the UC, would set users fees and decide how the system operates. We don't get there, however, unless the UC determines first that if, and as long as the system remains commercially owned, the whole shebang will be rate-base, rate-of-return regulated.

This is not rocket science. But we do need to keep our eyes on the ball.

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