

February 17, 2021 Public Hearing

Bald Head Island Transportation Authority



February 17, 2021

Introductions and Overview

Speakers



Susan Rabon

BHITA
Board Chair



Mary Nash Rusher

McGuireWoods LLP
Authority Counsel / Bond Counsel



Jim Leonard

Mercator International
Authority Feasibility Consultant



Derik Andreoli

Mercator International
Authority Feasibility Consultant



Ted Cole

Davenport & Company LLC
Authority Financial Advisor



Eric Golynsky

UBS Financial Services Inc.
Authority Bond Underwriter

Meeting Format

1. Opening Remarks - Susan Rabon
2. Prepared Presentation - Authority Consultants
3. Public Comment

Presentation Topics for Discussion

LHR / CAP REBUTTAL EXHIBIT 3
A-41 SUB 22

McGuireWoods LLP

- Authority Governance
- Enabling Legislation
- Timeline of Key Events
- Existing and Proposed Operating Structure
- Due Diligence Initiatives and Process
- Financial Feasibility Overview
- Asset Purchase Agreement and Purchase Price
- Operating and Transition Services Agreement
- Revenue Bond Overview
- Financial Modeling and Projections
- Historical and Projected Rate Increases
- Bond Rating Process and Outcome
- Next Steps

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- The composition of the Authority Board is modeled after other similar North Carolina Transportation Authorities and includes State and Local Representation.
- The Ferry Transportation Authority Act established an 11 member Board of Trustees consisting of the Mayor and Mayor Pro Tempore of the municipality only accessible by vessel (Village of Bald Head Island), as well as 9 appointed members. The Trustees serve three-year staggered terms.

Board of Trustees as of 2/17/2021

Trustee	Appointed By:
Ms. Susan Rabon (Chair)*	Governor
Mr. Robert Howard (Vice Chair)	Brunswick County
Mr. Landon Zimmer (Secretary)	NCDOT
Mr. David Jessen (Treasurer)	General Assembly
Dr. Rex Cowdry**	NCDOT
Mr. Jed Dixon	NCDOT

*Bald Head Island Property Owner

**Bald Head Island Resident

Trustee	Appointed By:
Mr. Paul Cozza	General Assembly
Mr. Jim Powell	City of Southport
Mayor Andy Sayre**	Village of Bald Head Island
Mayor Pro Tem Michael Brown**	Village of Bald Head Island
Mr. Claude Pope**	Village of Bald Head Island

- The Authority Board has relied on independent consultants to support all of its activities. No full-time staff has been hired, although the Authority does have a part-time Interim Finance Director and a part-time Interim Clerk.

Enabling Legislation – Authority Mandate

On July 18, 2017 Senate Bill 391, Session Law 2017-120, known as the Ferry Transportation Authority Act, was enacted into law and became Article 29 of Chapter 160A of the North Carolina General Statutes.

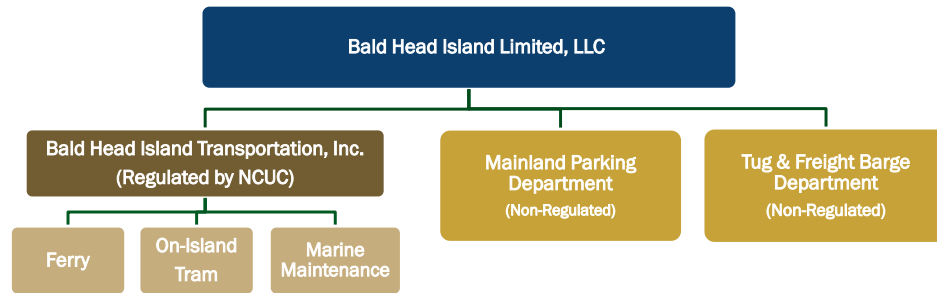
- The purpose of the Ferry Transportation Authority Act is to authorize the creation of an Authority to provide reliable and safe public ferry transportation services in its service area.
- Under Section 6.(a) of the Ferry Transportation Authority Act, the newly-created Authority was charged to purchase “the assets used and useful for the ferry transportation service... and owned by the private ferry transportation service or its affiliates... at or below their appraised value.”
- The Ferry Transportation Authority Act establishes the authority and powers of the Authority, including its financial accountability, its operation as a public body fulfilling a public purpose, its general powers, and the independent rate-setting authority of the Board of Trustees to establish rates, fees, charges, routes and schedules.
- The Bald Head Island Transportation Authority (“BHITA” or the “Authority”) filed its Articles of Incorporation with the Office of the Secretary of State on August 23, 2017 following public hearings held by, and approvals from, each of the Village Council of the Village of Bald Head Island, the Board of Alderman of the City of Southport, and the County Commissioners of the County of Brunswick.

Authority Timeline of Key Events

February 2017-March 2017:	Conceptual meetings with the Village of Bald Head Island Council, City of Southport Board of Alderman, Brunswick County Board of Commissioners, North Carolina Utilities Commission, North Carolina Department of Transportation and Bald Head Island constituents (Club, Bald Head Association, Bald Head Island Conservancy).
April 2017-June 2017:	Additional input meetings with stakeholders, media statements and five open public information sessions at the Bald Head Association Center, Raleigh and Greensboro. The Village of Bald Head Island Council, City of Southport and Brunswick County Boards all held public hearings and <u>unanimously</u> adopted resolutions in support of the Ferry Transportation Authority Act.
July 18, 2017:	Governor Cooper signs the Ferry Transportation Authority Act into law after <u>unanimous</u> passage in the State House and Senate, including 11 committee and floor votes.
August 2017:	Village of Bald Head Island Council, City of Southport and Brunswick County Boards all <u>unanimously</u> approve Articles of Incorporation.
Nov. 2017 - Dec. 2020:	Over 40 Authority meetings resulting in the hiring of required consultants; asset, infrastructure, financial and legal due diligence; and negotiation of purchase price with the Seller. Information required for negotiations disclosed under a Confidentiality and Non- Disclosure Agreement with the Seller.
March 2018 - June 2020:	The Village of Bald Head Island Council <u>unanimously</u> approves grants under six interlocal agreements, fully funded by the Seller.
May 24, 2018:	Authority Briefing with LGC Staff
March 12, 2019:	Authority Briefing with LGC Staff
Fall 2020:	Multiple Discussions with LGC Staff to review Authority Due Diligence and proposed Revenue Bond Transaction.
December 1, 2020:	LGC Public Information Session
December 8, 2020:	Authority Board adopts a resolution approving the Asset Purchase Agreement (<u>7-4 vote</u>) and the Findings Resolution (<u>8-3 vote</u>), authorizing the application to the LGC for the bond sale.
December 16, 2020:	Authority Board adopts revised Findings Resolution stating a not-to-exceed amount for the financing (<u>9-2 vote</u>).

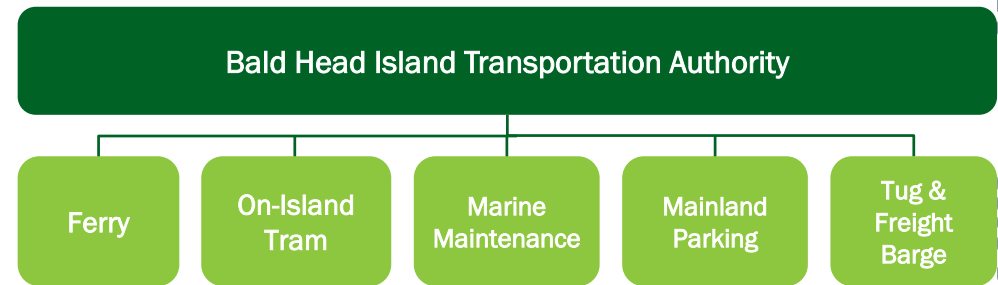
Existing and Proposed Operating Structure

Current Operating Structure



- The current transportation system is operated under the umbrella of Bald Head Island Limited, LLC and divided into three separate operating companies / departments:
 - Bald Head Island Transportation, Inc. (a regulated company) which is responsible for three components: Ferry, On-Island Tram and Marine Maintenance
 - Mainland Parking Department (unregulated)
 - Tug & Freight Barge Department (unregulated)
- The Seller has indicated that it intends to divest of these assets through one or more transactions. As such, one potential alternative outcome to the Authority structure shown to the right would be for these assets to be owned and operated by one or more private, for-profit entities.

New Authority Operating Structure



- Under the new operating structure, the Authority will operate the Ferry, On-Island Tram, Marine Maintenance, Parking and Tug and Freight Barge (the “System”) as a combined, locally-governed, non-profit system with a low cost of capital.
 - Answers the need for a platform of long-term governance, stewardship and operation
 - Creates a decision-making body addressing comprehensive interests
 - Enhances the viability and sustainment of Bald Head Island
 - Simplifies existing operations into an integrated transportation and logistics system
 - Creates potential for operational efficiency gains to mitigate the level of future fare increases

Authority Due Diligence

Due Diligence

- Asset / Infrastructure Due Diligence
 - Vessel Survey Reports – KOPCO
 - Marina Infrastructure Due Diligence Report (Deep Point Terminal and Bald Head Island Terminal) – Moffatt & Nichol
 - Real Estate Appraisals (Deep Point Terminal and Bald Head Island Terminal) – Earl Worsley
 - Environmental Reports (Deep Point Terminal and Bald Head Island Terminal) – S&ME
 - Title and Surveys on Real Estate (Deep Point Terminal and Bald Head Island Terminal)
 - System Valuations and Financial Projections – HMS Global
- Financial Due Diligence
 - Historical Financial Review (Monthly, Calendar Year, and Fiscal Year)
 - Independent Audited Financial Statements of Seller (2014-2019) for Ferry, Parking and Tug & Freight Barge – RSM US LLP
 - Pro Forma Financial Models (Monthly and Fiscal Year)
 - Bond Feasibility Study – Mercator International LLC
 - Operational Plan Option Analysis
 - Credit Rating Agency Evaluation
 - Bond Underwriter Due Diligence
 - Independent Financial Advisor engaged
- Legal Due Diligence / Documentation
 - Asset Purchase Agreement
 - Operating and Transition Services Agreement
 - Bond Documents

Asset Valuation

Assets	Valuation Source	Value
Land and Improvements		
Deep Point Terminal (mainland)	Worsley	36,325,000
Bald Head Island Terminal	Worsley	6,070,000
Total Land and Improvements		42,395,000
Marine Vessels		
Ranger	KOPCO/HMS	1,200,000
Patriot	KOPCO/HMS	975,000
Sans Souci	KOPCO/HMS	410,000
Adventure	KOPCO/HMS	592,500
Capt Cooper	KOPCO/HMS	2,100,000
USS Brandon Randall	KOPCO/HMS	245,000
Total Marine Vessels		5,522,500
Vehicles		
DPA 001 - 2014 Dodge Ram 1500	KBB	15,000
T 028 - 2003 GMC Sonoma	KBB	4,000
MM001 - 2006 Ford F250	KBB	5,500
MM002 - 2006 Ford F250	KBB	5,500
MM005 - 2004 Ford F250	KBB	5,000
Island Tram Trucks (19)	Mercator/Web	142,500
Passenger Trams (20)	Mercator/Web	140,000
Luggage Dollies (82)	Mercator/Web	61,500
Forklift (estimated)		30,000
Total Vehicles		409,000
Furniture & Equipment	Audited Financial Statements	1,400,324
Information Technology	Audited Financial Statements	1,214,099
Grand Total		50,940,923

Financial Feasibility Study Approach

- Operational Continuity:
 - Management Services Agreement maintains continuity and gives the Authority time to hire its own management team and transition operations
 - Status Quo Continues: Assumes no change to operations, schedules, services, staff, management
- Volume and Revenue Forecasts:
 - Drivers of ferry and barge demand are the number of existing housing units and the number of housing units being added
 - In median scenario, expect housing additions at rate of 1.7% per year (about 20 units per year) resulting in ferry traffic growth of 2.3% per year over the first 10 years of the forecast
 - In low scenario, housing additions are reduced to 0.8% (about 10-11 per year), with ferry traffic growing at 1.3% per year over the first 10 years of the forecast
 - Rates track inflation. Assumes a FY 2022 “catch up” for past inflation, with next increases not coming until FY 2027
 - Volume is capped when system capacity is reached / island is fully built (not relevant for low case)
- Cost Forecasts:
 - Operating costs are based on historical actual spending, adjusted to reflect new management structure, inflation, and rising volume
 - Authority will own the Deep Point Terminal campus and the Bald Head Island Terminal campus, so lease payments cease
- Capital Spending to Maintain the Operation:
 - Regular spending, including scheduled maintenance and overhaul of ferries and barge equipment
 - New parking spaces added in the first year, with ongoing investments to keep up with volume growth
 - All maintenance capital as identified by engineering consultants, including rebuild of passenger dock at BHI
 - Ferry replacements
 - Dredging at Deep Point and Bald Head Island

BHITA – Real Estate Fundamentals

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- Ferry ticket sales grew at a compound annual growth rate (CAGR) of 5.1% between 2000 and 2007, which coincides with the ramp up of the US housing bubble and growth in the US home price index of 8.7% per year on a compound annual basis.
- Ticket sales contracted from 354,000 in 2007 to 263,000 in 2012, and this coincides with the US home price index, which peaked in March 2007, and continued to decline until reaching a trough in 2012.
- Between February 2012 and February 2020, home prices grew at a CAGR of 5.9%, while ticket sales grew at a CAGR of 4.5%.

Figure 2: BHI ferry ticket sales by major category, 2000 to 2019



BHITA – Ticket Sales and Residential Construction/Housing Stock

Mercator International

- Ferry ticket sales have been volatile, with a prolonged contraction between 2007 and 2012 explained by the local housing market which mirrored the national market.
- Construction on the island grew rapidly prior to housing market collapse, which preceded the 2008/9 recession.
- Ferry ticket sales can be accurately predicted by multivariate econometric model that is driven by housing stock and annual additions to housing stock.

Figure 12: Residential units built per year and accumulated housing stock, 2000 to 2019

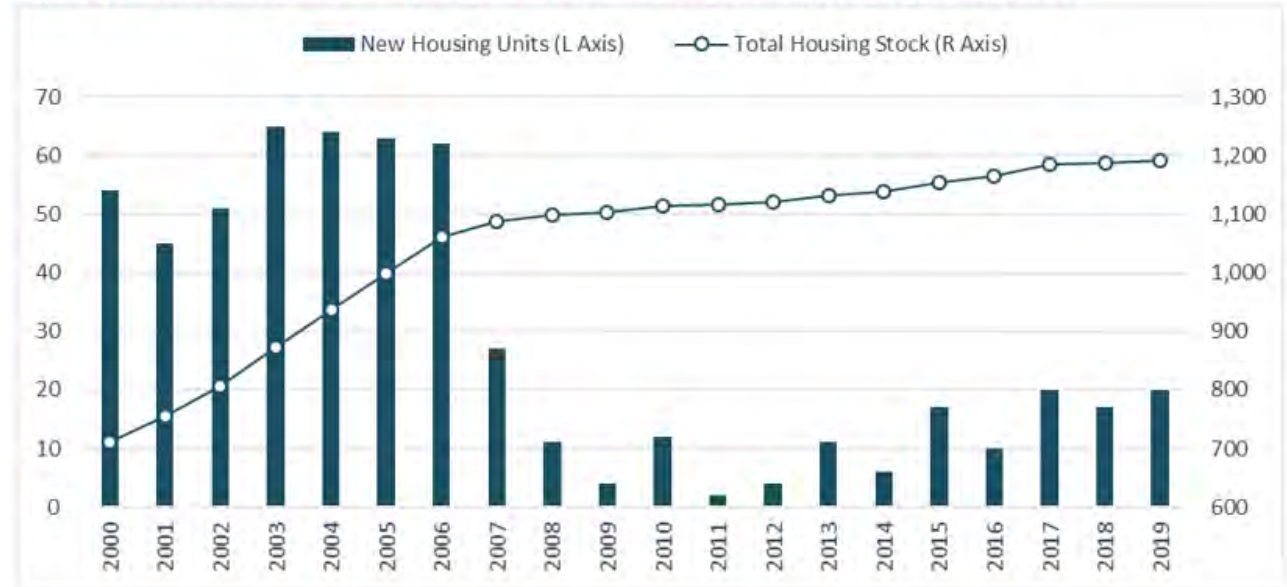
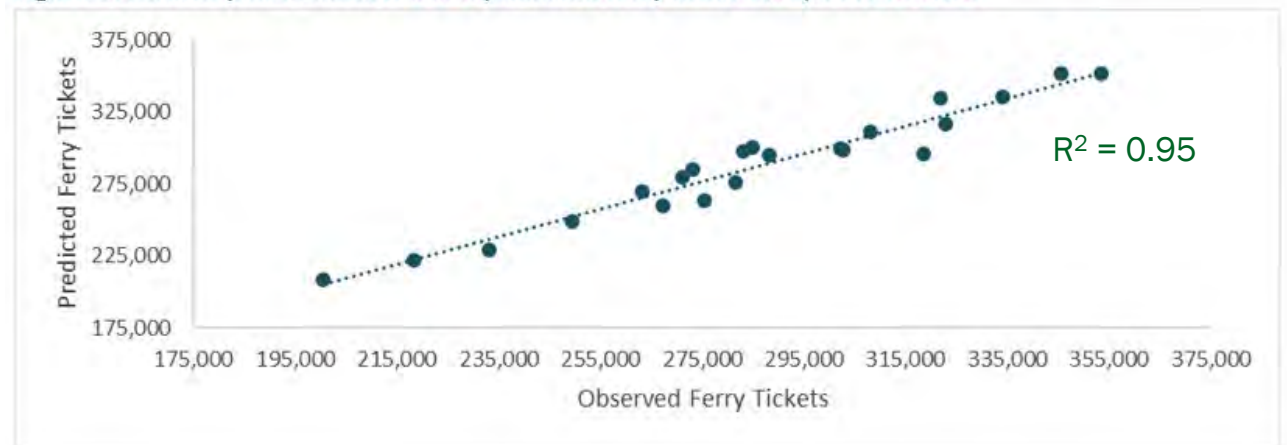


Figure 17: Scatterplot of observed and predicted ferry ticket sales, 1997 to 2018²¹

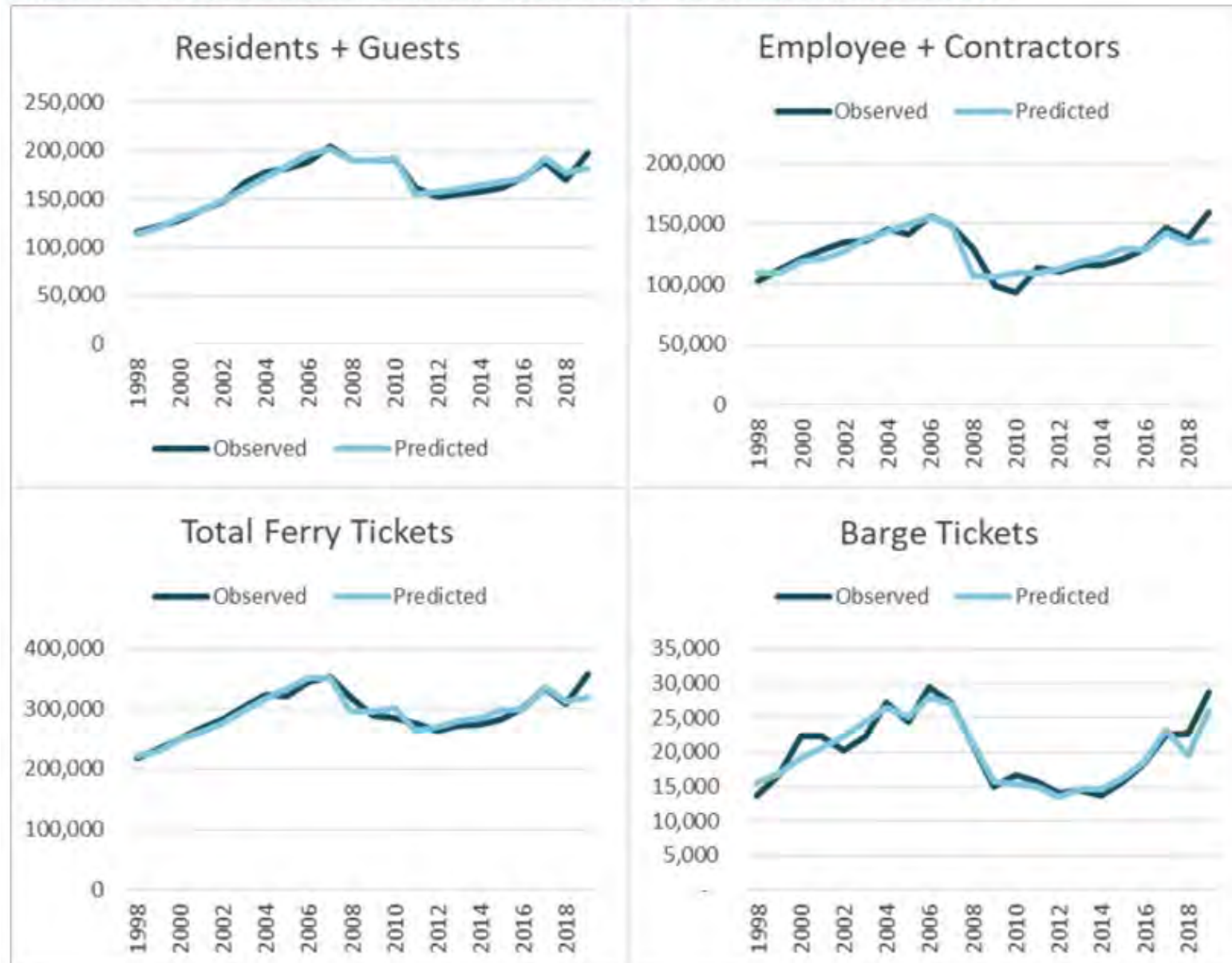


BHITA – Ticket Sales Model ‘Backcast’

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Figure 16: Observed and predicted BHI ferry and barge ticket volumes, 1997 to 2019

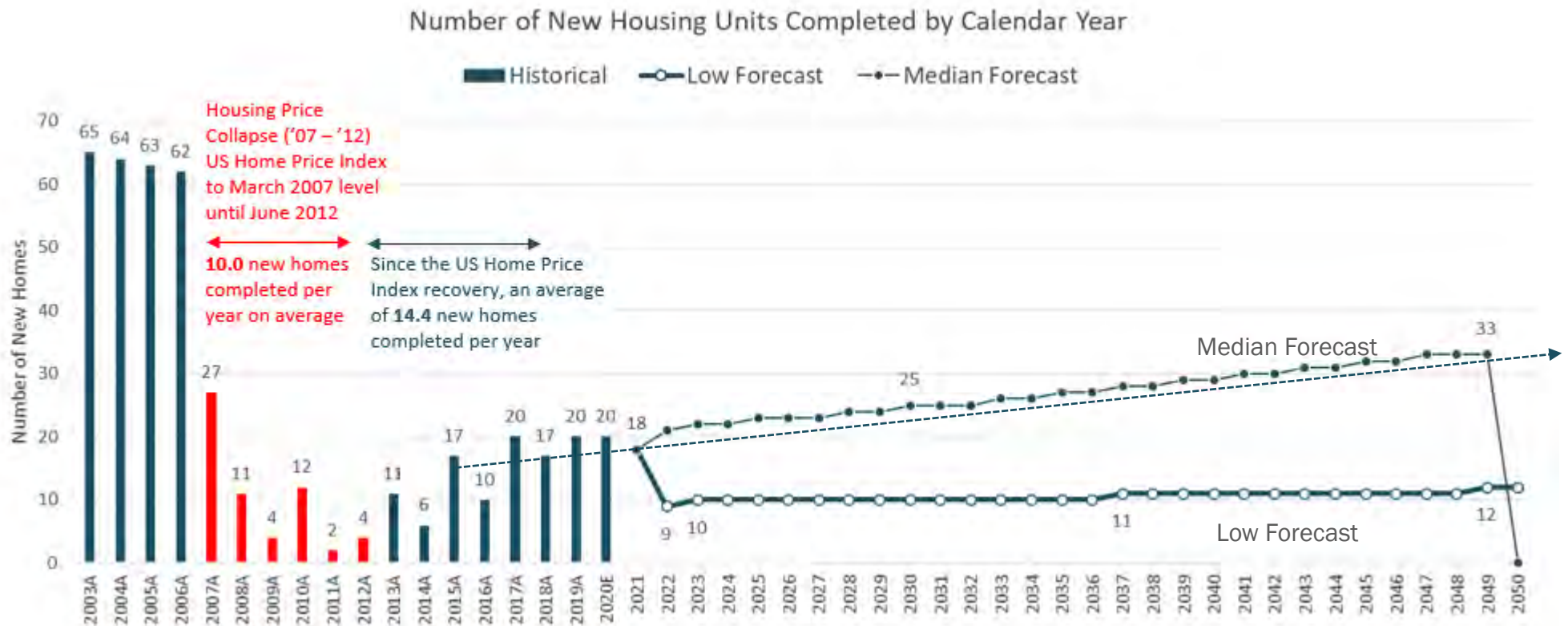


BHITA – Conservative Outlook for New Home Construction/Housing Stock Growth Rates

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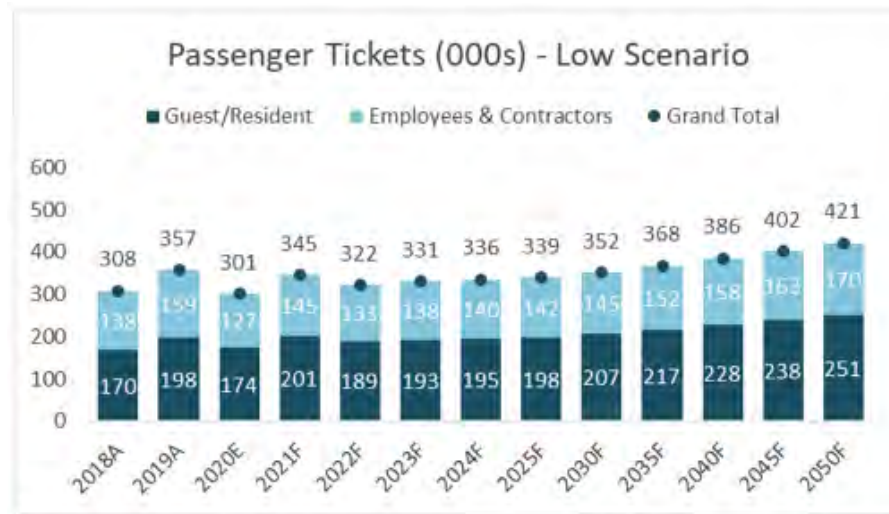
- During the housing bubble, more than 60 new homes were completed per year, but between 2007 and 2012, the average per year dropped to 10.
- In the fourteen years since 2007, fewer than 10 homes were completed in only 4 years.
- Since 2012, there has been only one year when new home completions fell below 10.
- Under the **low scenario**, new home construction is held at 10/year through 2036, while under the **median scenario** this number continues along the recent trajectory (dashed line), slowly rising to 25/year by 2030.
- Under the median scenario, the island is completely built out by 2050 – property records indicate that an additional 800 residential units can be built. Ferry traffic is curtailed as of 2045 when the R-T ferry passenger limit of 535,000 is reached.



BHITA – Forecast of Passenger and Barge Ticket Sales through 2050

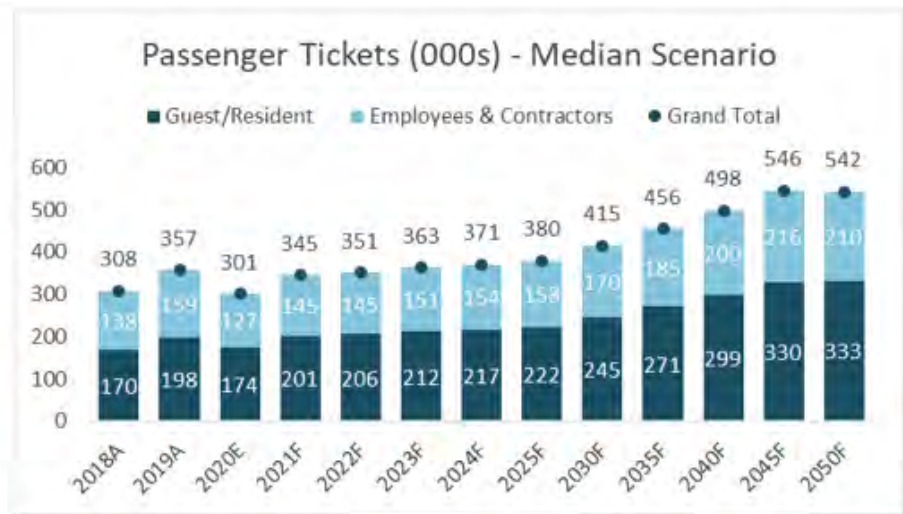
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- **LOW Scenario (used for bond rating):** Passenger ferry ticket sales are forecasted to grow at a CAGR of about 1.1% in the near term declining to 0.9% over the long term, while barge tickets are forecasted to grow at slightly higher rates of 1.8% and 1.4% over the near- and long-term.
- **MEDIAN Scenario:** Passenger tickets grow at CAGRs of 2.1% and 1.5% over the near term and long term, respectively, while barge tickets grow at rates of 3.0% and 1.7%, respectively.



CAGRs

	10-Year (2022-2032)	Full Term (2022-2050)
Low Growth Rates		
Newbuilds	0.8%	0.8%
Passenger Tickets		
Guest/Resident	1.1%	1.0%
Emp's & Contractors	1.1%	0.8%
Grand Total	1.1%	0.9%
Barge Tickets	1.8%	1.4%



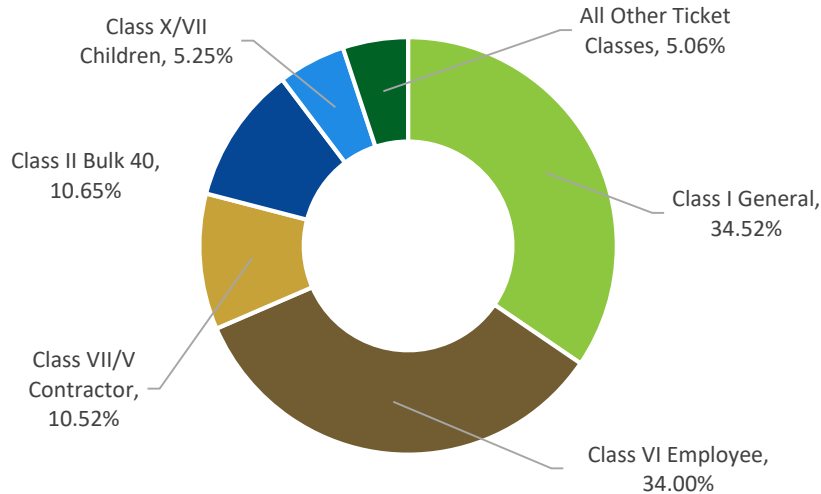
CAGRs

	10-Year (2022-2032)	Full Term (2022-2050)
Median Growth Rates		
Newbuilds	1.7%	1.6%
Passenger Tickets		
Guest/Resident	2.2%	1.7%
Emp's & Contractors	1.9%	1.3%
Grand Total	2.1%	1.5%
Barge Tickets	3.0%	1.7%

NOTE: All volumes discussed on this slide are expressed in calendar years. These volumes were adjusted to fiscal years for the financial modeling. As a result, the figures on this slide will not exactly match volumes in the financial model.

Ferry Ridership Classes

Ferry Ridership by Ticket Class
2020



Annual Ferry Ridership 2020	% of Total Ridership	Fare
Class I General	34.52%	\$23.00
Class VI Employee	34.00%	\$14.00
Class VII/V Contractor	10.52%	\$14.00
Class II Bulk 40	10.65%	\$17.50
Class X/VII Children	5.25%	\$12.00
All Other Ticket Classes	5.06%	\$9.00 - \$15.00
Total Ridership	100.00%	

Bald Head Island Transportation, Inc.

Annual Ferry Ridership % of Total by Class	2009 (a)	2010	2011 (b)	2012	2013	2014	2015	2016	2017	2018 (c)	2019 (c)	2020 (d)	Average (2009-2020)
Class I General	35.29%	36.91%	34.37%	34.84%	34.64%	34.37%	34.56%	34.36%	35.64%	33.92%	33.27%	34.52%	34.72%
Class VI Employee	18.51%	16.59%	29.01%	30.67%	32.32%	32.54%	33.70%	32.77%	32.57%	34.36%	32.09%	34.00%	29.93%
Class VII/V Contractor	12.10%	13.18%	12.04%	11.02%	10.14%	9.44%	8.83%	9.95%	10.96%	10.47%	12.20%	10.52%	10.90%
Class II Bulk 40	7.19%	7.53%	10.75%	9.11%	8.95%	8.81%	8.70%	9.16%	8.82%	9.94%	11.94%	10.65%	9.30%
Class X/VII Children	6.13%	6.32%	6.45%	6.41%	6.32%	6.14%	6.08%	5.92%	5.68%	5.29%	4.98%	5.25%	5.91%
All Other Ticket Classes	20.78%	19.47%	7.38%	7.95%	7.63%	8.69%	8.13%	7.84%	6.33%	6.02%	5.52%	5.06%	9.23%
Total Ridership	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

(a) Ferry and Parking operations moved from Indigo Plantation Terminal facilities to Deep Point Terminal Facilities in June 2009.

(b) In 2010, the regulated utility concluded a rate case with the North Carolina Utilities Commission. New Ticket classes and tariffs became effective January 1, 2011. Ferry Ticket prices have not changed since January, 2001.

(c) Hurricane Florence (September 2018) had significant effects on Ferry operations during the Q4 2018 -to- Q2 2019 period.

(d) COVID-19 had significant effects on Ferry operations in 2020.

Historical and Projected Fare Increases

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A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R
Date	CPI	Ferry - Class I Rates				Barge - Cost per 6ft				Parking - General Lot*				Parking - Revenue per Slot/Day			
	Annual Growth	Actual/ Planned Rate	% Growth	Hypothetical Rate (Inflation Adjusted)	Difference vs. Actual	Actual/ Planned Rate	% Growth	Hypothetical Rate (Inflation Adjusted)	Difference vs. Actual	Actual/ Planned Rate	% Growth	Hypothetical Rate (Inflation Adjusted)	Difference vs. Actual	Actual/ Planned Rate	% Growth	Hypothetical Rate (Inflation Adjusted)	Difference vs. Actual
7/1/1993	-	\$15.00															
7/1/1994	2.8%	\$15.00	0.0%	\$15.42	\$0.42												
7/1/1995	2.8%	\$15.00	0.0%	\$15.84	\$0.84												
7/1/1996	3.0%	\$15.00	0.0%	\$16.31	\$1.31												
7/1/1997	2.2%	\$15.00	0.0%	\$16.67	\$1.67												
7/1/1998	1.7%	\$15.00	0.0%	\$16.95	\$1.95												
7/1/1999	2.1%	\$15.00	0.0%	\$17.32	\$2.32	\$45.00											
7/1/2000	3.7%	\$15.00	0.0%	\$17.95	\$2.95	\$45.00	0.0%	\$46.65	\$1.65								
7/1/2001	2.7%	\$15.00	0.0%	\$18.44	\$3.44	\$45.00	0.0%	\$47.92	\$2.92								
7/1/2002	1.5%	\$15.00	0.0%	\$18.71	\$3.71	\$45.00	0.0%	\$48.62	\$3.62	\$7.00							
7/1/2003	2.1%	\$15.00	0.0%	\$19.10	\$4.10	\$45.00	0.0%	\$49.64	\$4.64	\$7.00	0.0%	\$7.15	\$0.15				
7/1/2004	3.0%	\$15.00	0.0%	\$19.67	\$4.67	\$45.00	0.0%	\$51.13	\$6.13	\$7.00	0.0%	\$7.36	\$0.36				
7/1/2005	3.2%	\$15.00	0.0%	\$20.30	\$5.30	\$45.00	0.0%	\$52.75	\$7.75	\$7.00	0.0%	\$7.59	\$0.59				
7/1/2006	4.1%	\$15.00	0.0%	\$21.14	\$6.14	\$50.00	11.1%	\$54.93	\$4.93	\$7.00	0.0%	\$7.91	\$0.91				
7/1/2007	2.4%	\$15.00	0.0%	\$21.64	\$6.64	\$50.00	0.0%	\$56.23	\$6.23	\$7.00	0.0%	\$8.10	\$1.10				
7/1/2008	5.6%	\$15.00	0.0%	\$22.85	\$7.85	\$50.00	0.0%	\$59.38	\$9.38	\$7.00	0.0%	\$8.55	\$1.55				
7/1/2009	-2.1%	\$15.00	0.0%	\$22.37	\$7.37	\$50.00	0.0%	\$58.13	\$8.13	\$9.00	28.6%	\$8.37	(\$0.63)				
7/1/2010	1.2%	\$15.00	0.0%	\$22.65	\$7.65	\$50.00	0.0%	\$58.85	\$8.85	\$9.00	0.0%	\$8.47	(\$0.53)	\$8.28			
7/1/2011	3.6%	\$23.00	53.3%	\$23.47	\$0.47	\$50.00	0.0%	\$60.99	\$10.99	\$9.00	0.0%	\$8.78	(\$0.22)	\$7.59	-8.2%	\$8.58	\$0.98
7/1/2012	1.4%	\$23.00	0.0%	\$23.80	\$0.80	\$50.00	0.0%	\$61.85	\$11.85	\$9.00	0.0%	\$8.90	(\$0.10)	\$7.60	0.1%	\$8.70	\$1.09
7/1/2013	2.0%	\$23.00	0.0%	\$24.27	\$1.27	\$50.00	0.0%	\$63.06	\$13.06	\$9.00	0.0%	\$9.08	\$0.08	\$7.27	-4.4%	\$8.87	\$1.60
7/1/2014	2.0%	\$23.00	0.0%	\$24.75	\$1.75	\$50.00	0.0%	\$64.31	\$14.31	\$9.00	0.0%	\$9.26	\$0.26	\$6.94	-4.6%	\$9.04	\$2.11
7/1/2015	0.2%	\$23.00	0.0%	\$24.79	\$1.79	\$50.00	0.0%	\$64.42	\$14.42	\$9.00	0.0%	\$9.28	\$0.28	\$7.00	0.9%	\$9.06	\$2.06
7/1/2016	0.8%	\$23.00	0.0%	\$25.00	\$2.00	\$50.00	0.0%	\$64.96	\$14.96	\$9.00	0.0%	\$9.35	\$0.35	\$6.41	-8.5%	\$9.13	\$2.73
7/1/2017	1.7%	\$23.00	0.0%	\$25.43	\$2.43	\$50.00	0.0%	\$66.08	\$16.08	\$9.00	0.0%	\$9.51	\$0.51	\$5.94	-7.3%	\$9.29	\$3.35
7/1/2018	2.9%	\$23.00	0.0%	\$26.18	\$3.18	\$50.00	0.0%	\$68.03	\$18.03	\$9.00	0.0%	\$9.79	\$0.79	\$6.09	2.5%	\$9.57	\$3.48
7/1/2019	1.8%	\$23.00	0.0%	\$26.65	\$3.65	\$55.00	10.0%	\$69.26	\$14.26	\$10.00	11.1%	\$9.97	(\$0.03)	\$6.30	3.4%	\$9.74	\$3.44
7/1/2020	1.0%	\$23.00	0.0%	\$26.91	\$3.91	\$55.00	0.0%	\$69.94	\$14.94	\$10.00	0.0%	\$10.07	\$0.07	\$6.61	4.9%	\$9.84	\$3.23
7/1/2021	2.0%	\$27.00	17.4%	\$27.45	\$0.45	\$60.00	9.1%	\$71.34	\$11.34	\$12.00	20.0%	\$10.27	(\$1.73)	\$8.00	21.1%	\$10.03	\$2.03
7/1/2022	2.0%	\$27.00	0.0%	\$28.00	\$1.00	\$60.00	0.0%	\$72.77	\$12.77	\$12.00	0.0%	\$10.48	(\$1.52)	\$8.00	0.0%	\$10.23	\$2.23
7/1/2023	2.0%	\$27.00	0.0%	\$28.56	\$1.56	\$60.00	0.0%	\$74.22	\$14.22	\$12.00	0.0%	\$10.69	(\$1.31)	\$8.00	0.0%	\$10.44	\$2.44
7/1/2024	2.0%	\$27.00	0.0%	\$29.13	\$2.13	\$60.00	0.0%	\$75.71	\$15.71	\$12.00	0.0%	\$10.90	(\$1.10)	\$8.00	0.0%	\$10.65	\$2.65
7/1/2025	2.0%	\$27.00	0.0%	\$29.72	\$2.72	\$60.00	0.0%	\$77.22	\$17.22	\$12.00	0.0%	\$11.12	(\$0.88)	\$8.00	0.0%	\$10.86	\$2.86
7/1/2026	2.0%	\$29.00	7.4%	\$30.31	\$1.31	\$62.50	4.2%	\$78.77	\$16.27	\$12.75	6.3%	\$11.34	(\$1.41)	\$8.50	6.3%	\$11.08	\$2.58

* Average of Peak and Non-Peak Rates.

Financial Forecast and Key Assumptions – Consolidated BHITA

Median (Expected) Scenario

Mercator International

- Volume returns to a “normal” pattern in CY 2021; growth of about 2%.
- Prior peak passenger level (359,000 tickets in 2019) is reached again in FY 2024. System capacity reached in about 2045
- Parking Capacity expansion will be undertaken in FY 2022 to increase capacity to about 500,000 vehicle days per year.
- Barge traffic does not reach previous peak (28,744 recorded in 2019) until 2028.
- EBITDA of \$5.6 million during each of the first two full fiscal years, increasing to about \$6.0 million in 2026.
- EBITDA reaches \$7.6 million in 2030, \$9.5 million in 2035.

			13 mo to Jan CY 2020	5 mo to Jun FY 2021	Fiscal Years Ending June 30:												
Consolidated BHITA Results	UOM				FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2035	FY 2040	FY 2045	FY 2050
Ferry Tickets	Passengers		307,995	145,805	347,800	356,700	366,500	375,400	383,600	389,100	395,600	404,700	412,200	451,300	494,100	537,800	537,800
Barge Traffic	Barge Tickets		23,600	9,900	23,800	25,300	26,100	27,100	27,800	27,900	29,000	29,900	30,300	34,200	38,200	42,700	39,300
Parking Volume	Vehicle Days		387,191	183,297	437,231	448,420	460,740	471,928	482,237	489,151	497,322	508,762	518,191	567,345	621,150	676,087	676,087
Ferry Capacity	R-T Passengers		401,250	401,250	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000
Revenue- Ferry, Barge, Parking	USD (000s)		9,340	4,451	12,216	12,564	12,905	13,235	13,530	14,575	14,861	15,218	16,002	19,063	23,260	28,326	30,192
Costs	USD (000s)		7,887	2,945	6,565	6,908	7,115	7,324	7,531	7,720	7,934	8,167	8,385	9,591	10,984	12,582	13,807
EBITDA - BHITA	USD (000s)		1,454	1,506	5,651	5,657	5,790	5,911	5,999	6,855	6,928	7,052	7,616	9,472	12,276	15,745	16,384
EBITDA Margin	% of Rev		15.6%	33.8%	46.3%	45.0%	44.9%	44.7%	44.3%	47.0%	46.6%	46.3%	47.6%	49.7%	52.8%	55.6%	54.3%
Unit Rev	USD/Ferry Tkt		30.33	30.53	35.12	35.22	35.21	35.25	35.27	37.46	37.57	37.60	38.82	42.24	47.07	52.67	56.14
Unit Costs	USD/Ferry Tkt		25.61	20.20	18.88	19.37	19.41	19.51	19.63	19.84	20.06	20.18	20.34	21.25	22.23	23.39	25.67
Unit EBITDA	USD/Ferry Tkt		4.72	10.33	16.25	15.86	15.80	15.74	15.64	17.62	17.51	17.42	18.48	20.99	24.85	29.28	30.47
YoY Growth Rates																	
BHITA Revenue	%					2.9%	2.7%	2.6%	2.2%	7.7%	2.0%	2.4%	5.1%	1.9%	1.9%	5.1%	-2.1%
BHITA Costs	%					5.2%	3.0%	2.9%	2.8%	2.5%	2.8%	2.9%	2.7%	2.7%	2.8%	2.6%	0.8%
BHITA EBITDA	%					0.1%	2.4%	2.1%	1.5%	14.3%	1.1%	1.8%	8.0%	1.1%	1.1%	7.3%	-4.4%

Note: EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

Financial Forecast and Key Assumptions – Consolidated BHITA

Low (Bond Rating) Scenario

Mercator International

- Passenger growth of about 1%; Ferry system capacity is not reached before 2050.
- Parking capacity expansion will be undertaken in FY 2022 to increase capacity to about 500,000 vehicle days per year.
- Barge traffic is lower due to reduced construction activity. 2019 peak barge traffic not reached again until 2049.
- EBITDA of \$5.0 million in FY22, then about 4.5 million per year until 2027.
- EBITDA reaches \$5.4 million in 2030, \$6.3 million in 2035.

		13 mo to Jan CY 2020	5 mo to Jun FY 2021	Fiscal Years Ending June 30:												
Consolidated BHITA Results	UOM	CY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2035	FY 2040	FY 2045	FY 2050
Ferry Tickets	Passengers	307,995	145,805	334,700	326,400	332,900	337,600	341,400	343,200	345,200	349,500	352,200	366,800	384,200	400,000	418,900
Barge Traffic	Barge Tickets	23,600	9,900	19,700	20,800	21,400	21,800	22,200	22,000	22,500	23,000	22,800	24,400	26,100	27,500	29,400
Parking Volume	Vehicle Days	387,191	183,297	420,763	410,329	418,500	424,409	429,186	431,449	433,963	439,368	442,763	461,117	482,991	502,854	526,614
Ferry Capacity	R-T Passengers	401,250	401,250	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000
Revenue- Ferry, Barge, Parking	USD (000s)	9,340	4,451	11,566	11,367	11,594	11,758	11,900	12,701	12,804	12,975	13,490	15,265	17,815	20,712	23,386
Costs	USD (000s)	7,887	2,945	6,558	6,843	7,019	7,190	7,360	7,522	7,689	7,873	8,052	8,989	10,083	11,291	12,681
EBITDA - BHITA	USD (000s)	1,454	1,506	5,008	4,524	4,575	4,568	4,540	5,179	5,115	5,102	5,438	6,276	7,732	9,422	10,705
EBITDA Margin	% of Rev	15.6%	33.8%	43.3%	39.8%	39.5%	38.8%	38.2%	40.8%	39.9%	39.3%	40.3%	41.1%	43.4%	45.5%	45.8%
Unit Rev	USD/Ferry Tkt	30.33	30.53	34.56	34.83	34.83	34.83	34.86	37.01	37.09	37.13	38.30	41.62	46.37	51.78	55.83
Unit Costs	USD/Ferry Tkt	25.61	20.20	19.59	20.96	21.09	21.30	21.56	21.92	22.27	22.53	22.86	24.51	26.24	28.23	30.27
Unit EBITDA	USD/Ferry Tkt	4.72	10.33	14.96	13.86	13.74	13.53	13.30	15.09	14.82	14.60	15.44	17.11	20.13	23.55	25.56
YoY Growth Rates																
BHITA Revenue	%				-1.7%	2.0%	1.4%	1.2%	6.7%	0.8%	1.3%	4.0%	0.8%	0.9%	4.6%	1.1%
BHITA Costs	%				4.3%	2.6%	2.4%	2.4%	2.2%	2.2%	2.4%	2.3%	2.2%	2.3%	2.3%	2.4%
BHITA EBITDA	%				-9.7%	1.1%	-0.1%	-0.6%	14.1%	-1.2%	-0.3%	6.6%	-1.1%	-0.9%	7.6%	-0.3%

Note: EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

Future Capital Expenditures

- Over the period of time between 2011 and 2019, capital spending on the combined system totaled \$10.5 Million, or an average of \$927,000 per year.
- Ongoing routine capital expenditures, including ferry engine overhauls, are extrapolated from historical actual expenditures.
- Facility maintenance projects are included as per engineering consultant recommendations.
- Ferry replacements are programmed and itemized based on estimated remaining life.
- The Authority will pay 33% of the cost of annual maintenance dredging and periodic major dredging at Deep Point and 27% of the major dredging at BHI, and pay 0% for entrance channel dredging at BHI. The BHITA share of annual maintenance dredging, although none has been required in recent years, is included in operating cost estimates. Major dredging (done about every 10 years) is included as "Capital Dredging".
- Projects that address capacity, such as parking lot expansion, are programmed according to expected demand.
- All required capital expenditures for repair and replacement work identified by Moffat & Nichol is programmed for completion in the next 10 years.

Capital Spending Forecast (\$000s)

	Fiscal Year													
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031-'35	2036-'40	2041-'45	2045-'50
Ferry and Tram System	Feb-Jun													
Docks/Piers/Bulkheads	0	107	74	155	0	0	527	538	188	0	0	0	0	0
Capital Dredging	0	0	0	0	93	0	138	0	0	0	112	164	330	0
Ferry Vessel Overhaul	80	80	0	166	0	172	0	183	187	187	404	651	966	805
Ferry Vessel Replacement (net)	0	0	2,435	2,153	0	0	0	0	0	0	5,484	0	0	7,166
Vehicles (Trucks and Trams)	27	55	56	86	236	152	246	220	412	164	792	454	706	649
Equipment - Luggage Dollies	0	0	0	0	0	0	0	0	122	0	0	0	0	0
IT - Ticketing System	0	250	0	0	0	0	0	0	0	0	0	0	0	0
Other / Sustaining	38	77	79	81	82	84	86	87	89	91	482	532	587	648
Subtotal Ferry and Tram	145	569	2,645	2,640	412	407	996	1,028	998	441	7,273	1,802	2,589	9,268
Freight Barge System														
Docks/Piers/Barge Ramps	0	0	0	0	0	320	0	0	0	0	0	390	0	475
Barge / Towboat Replacement	0	0	0	0	0	0	0	0	179	305	0	0	0	0
Other / Sustaining	13	27	27	28	28	29	29	30	30	31	165	182	201	222
Subtotal Freight Barge	13	27	27	28	28	349	29	30	210	336	165	572	201	697
Parking Operations														
Parking Lots: Land Acquisition	0	0	0	0	0	0	0	0	0	0	0	549	618	0
Parking Lots: Development	0	347	0	0	0	200	0	0	194	546	291	840	394	0
Other / Sustaining - Parking	6	12	12	12	12	13	13	13	13	14	73	80	88	98
Other / Sustaining - Landlord	65	133	135	138	141	144	146	149	152	155	825	911	1,006	1,110
Subtotal Parking	71	492	147	150	153	356	159	163	360	715	1,188	2,380	2,107	1,208
Grand Total Capital Spending	229	1,088	2,819	2,818	593	1,112	1,185	1,220	1,568	1,492	8,626	4,754	4,897	11,173
Vessel Replacement Capex (net)	-	-	2,435	2,153	-	-	-	-	-	-	5,484	-	-	7,166
Other than Vessel Replacement Capex	229	1,088	384	665	593	1,112	1,185	1,220	1,568	1,492	3,142	4,754	4,897	4,008

Note: The capital expenditures reflect capital dredging costs that are not shown in the most recent pro forma financial model.

Source: Mercator International

Financial Modeling and Bond Sizing Assumptions

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■ Assumptions used in the financial projections assume the following:

- **30-year municipal Bonds** payable solely from the revenues of the System.
 - Proceeds fund \$47,750,000 purchase price to Seller.
 - Working capital (estimated at \$1 million).
 - Debt service reserve fund (estimated at \$3.3 million).
 - Operating and Maintenance Reserve Fund for unforeseen operating and maintenance costs (estimated at \$1.6 million).
 - Bond Documents also provide for a reserve for capital improvements funded beginning on July 1, 2021 (estimated to be 20% of the 5-year Capital Improvement Plan).
- **Scheduled vessel replacements** funded primarily by additional subordinated debt amortized over 10 years.
- **Fare increases sized to roughly keep pace with inflation.** For the ferry, the initial increase of \$4 per full fare ticket reflects the CPI increase *since the last fare increase a decade ago*. The next increase is projected to occur in 2026.
- **Current operating schedules would be unchanged.** As traffic increases over time, additional trips would be added as needed.
- **Operating and maintenance expenses** would be consistent with inflation-adjusted historical figures.
- **A capital improvement plan** based on historic costs and independent evaluations of the vessels, terminals, and other assets.
 - Funded from a combination of cash on hand and permitted subordinate debt.

Revenue Bond Overview

Sources of Funds		
Par Amount	\$	49,940,000
Premium		5,996,386
Total	\$	55,936,386

Uses of Funds		
Cash Due at Closing for Acquisition	\$	47,750,000
Working Capital		1,000,000
Debt Service Reserve Fund		3,295,125
Operating and Maintenance Reserve Fund		1,641,296
Cost of Issuance		1,500,000
Underwriter's Discount		749,100
Additional Proceeds		865.75
Total	\$	55,936,386

Key Features/Statistics

- Assumed Rating: BBB-
- Term: 30 years
- Estimated TIC: 4.15%
- Interest Rate Mode: Fixed Rate
- Call Provisions: 10-year Par Call
- Average Annual DS: \$3,264,022

Fiscal Year	Principal	Interest	Debt Service
2022	\$ -	\$ 2,236,863	\$ 2,236,863
2023	670,000	2,447,283	3,117,283
2024	700,000	2,415,949	3,115,949
2025	735,000	2,383,098	3,118,098
2026	770,000	2,348,632	3,118,632
2027	805,000	2,312,551	3,117,551
2028	845,000	2,274,730	3,119,730
2029	885,000	2,235,044	3,120,044
2030	925,000	2,193,493	3,118,493
2031	965,000	2,150,104	3,115,104
2032	1,015,000	2,104,600	3,119,600
2033	1,245,000	2,050,125	3,295,125
2034	1,305,000	1,986,375	3,291,375
2035	1,375,000	1,919,375	3,294,375
2036	1,445,000	1,848,875	3,293,875
2037	1,520,000	1,774,750	3,294,750
2038	1,595,000	1,696,875	3,291,875
2039	1,675,000	1,615,125	3,290,125
2040	1,765,000	1,529,125	3,294,125
2041	1,850,000	1,438,750	3,288,750
2042	1,945,000	1,343,875	3,288,875
2043	2,050,000	1,244,000	3,294,000
2044	2,155,000	1,138,875	3,293,875
2045	2,260,000	1,028,500	3,288,500
2046	2,375,000	912,625	3,287,625
2047	2,500,000	790,750	3,290,750
2048	2,630,000	662,500	3,292,500
2049	2,765,000	527,625	3,292,625
2050	2,905,000	385,875	3,290,875
2051	3,055,000	236,875	3,291,875
2052	3,210,000	80,250	3,290,250
Total	\$ 49,940,000	\$ 49,313,472	\$ 99,253,472

Note: As of December 23, 2020. Preliminary and subject to change.

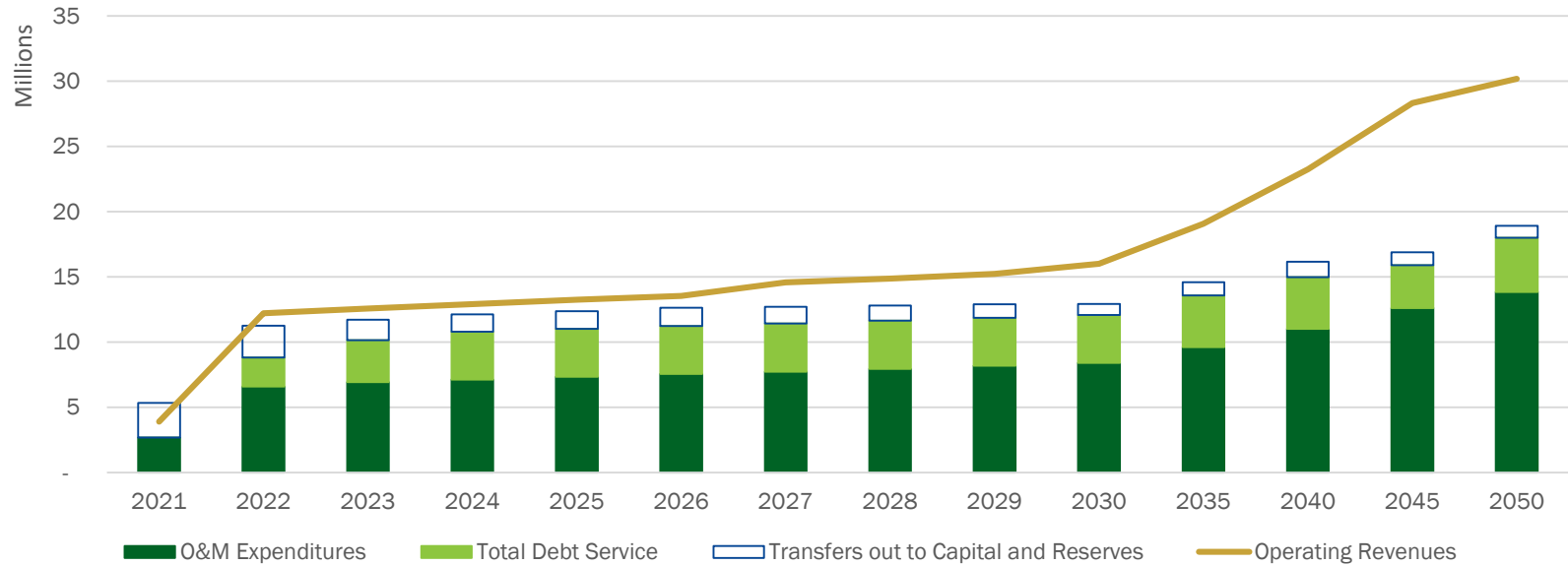
Financial Modeling Overview – Median Case

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BHITA Cash Flow Summary

Scenario:	Median
Vessel Funding:	Subordinated Debt Funded
Acquisition Funding:	100% Senior Lien

Fiscal Year	2021 Projected	2022 Projected	2023 Projected	2024 Projected	2025 Projected	2026 Projected	2027 Projected	2028 Projected	2029 Projected	2030 Projected	2035 Projected	2040 Projected	2045 Projected	2050 Projected
1 Operating Revenues	\$ 3,897,148	\$ 12,215,945	\$ 12,564,439	\$ 12,904,963	\$ 13,234,535	\$ 13,529,602	\$ 14,575,221	\$ 14,861,456	\$ 15,218,352	\$ 16,001,593	\$ 19,062,519	\$ 23,259,664	\$ 28,326,093	\$ 30,191,880
2 O&M Expenditures	2,664,346	6,579,427	6,922,360	7,129,346	7,339,092	7,546,465	7,735,460	7,949,808	8,183,042	8,402,009	9,609,048	11,003,883	12,604,011	13,832,216
3 Net Revenues Available for Debt Service	\$ 1,232,802	\$ 5,636,519	\$ 5,642,079	\$ 5,775,617	\$ 5,895,443	\$ 5,983,138	\$ 6,839,760	\$ 6,911,647	\$ 7,035,311	\$ 7,599,584	\$ 9,453,471	\$ 12,255,781	\$ 15,722,082	\$ 16,359,664
4														
5 Debt Service														
6 Senior Lien Net Debt Service	\$ -	\$ 2,236,863	\$ 3,117,283	\$ 3,115,949	\$ 3,118,098	\$ 3,118,632	\$ 3,117,551	\$ 3,119,730	\$ 3,120,044	\$ 3,118,493	\$ 3,294,375	\$ 3,294,125	\$ 3,288,500	\$ 3,290,875
7 Subordinated Debt Service	-	-	91,769	558,068	557,763	557,445	557,114	556,770	556,412	556,040	666,198	664,057	-	871,031
8 Total Debt Service	\$ -	\$ 2,236,863	\$ 3,209,052	\$ 3,674,017	\$ 3,675,861	\$ 3,676,077	\$ 3,674,665	\$ 3,676,500	\$ 3,676,456	\$ 3,674,533	\$ 3,960,573	\$ 3,958,182	\$ 3,288,500	\$ 4,161,906
9														
10 Net Revenues Before Capital / Transfers	\$ 1,232,802	\$ 3,399,655	\$ 2,433,027	\$ 2,101,600	\$ 2,219,583	\$ 2,307,061	\$ 3,165,095	\$ 3,235,147	\$ 3,358,854	\$ 3,925,051	\$ 5,492,898	\$ 8,297,598	\$ 12,433,582	\$ 12,197,758
11														
12 Transfers out to Capital and Reserves	(2,671,027)	(2,440,731)	(1,567,091)	(1,320,873)	(1,354,596)	(1,414,758)	(1,284,801)	(1,172,930)	(1,029,241)	(852,273)	(1,005,194)	(1,183,220)	(985,790)	(917,747)
13														
14 System Surplus/Deficit	\$ 1,195,933	\$ 958,924	\$ 865,936	\$ 780,727	\$ 864,986	\$ 892,303	\$ 1,880,295	\$ 2,062,217	\$ 2,329,614	\$ 3,072,777	\$ 4,487,704	\$ 7,114,378	\$ 11,447,792	\$ 11,280,011
15														
16 Unrestricted Reserves	1,195,933	2,154,857	3,020,793	3,801,520	4,666,506	5,558,809	7,439,104	9,501,321	11,830,935	14,903,712	34,682,042	66,212,256	116,007,060	175,539,280
17 Restricted Reserves	1,644,857	2,195,655	2,937,489	3,567,324	4,302,446	4,579,402	4,540,363	4,463,636	3,896,282	3,227,474	4,502,330	4,246,897	4,837,234	5,144,285
18 Total Reserves	\$ 2,840,789	\$ 4,350,512	\$ 5,958,282	\$ 7,368,844	\$ 8,968,952	\$ 10,138,211	\$ 11,979,466	\$ 13,964,957	\$ 15,727,217	\$ 18,131,186	\$ 39,184,373	\$ 70,459,154	\$ 120,844,294	\$ 180,683,566
19														
20 Senior Lien Debt Service Coverage (1.30x minimum)	0.00x	2.52x	1.81x	1.85x	1.89x	1.92x	2.19x	2.22x	2.25x	2.44x	2.87x	3.72x	4.78x	4.97x
21 Total Debt Service Coverage (1.05x minimum)	0.00x	2.52x	1.76x	1.57x	1.60x	1.63x	1.86x	1.88x	1.91x	2.07x	2.39x	3.10x	4.78x	3.93x
22 Unrestricted Days Cash on Hand	164	120	159	195	232	269	351	436	528	647	1317	2196	3359	4632

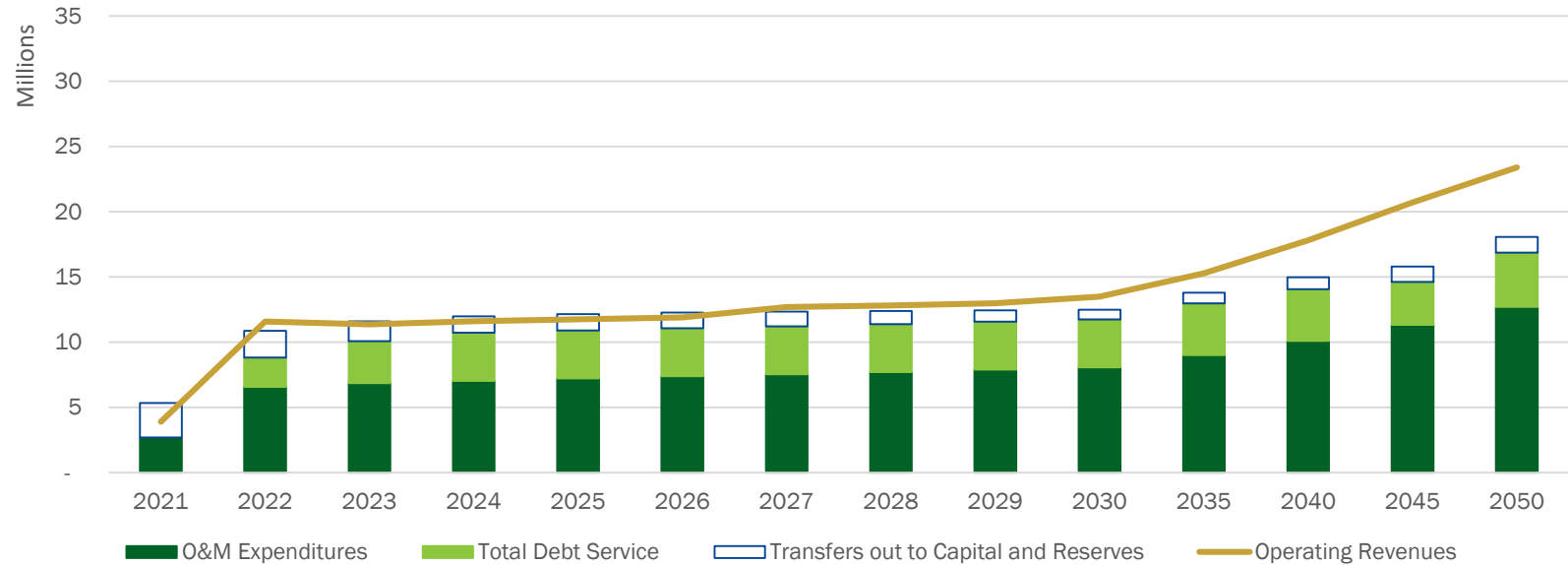
Financial Modeling Overview – Low Case

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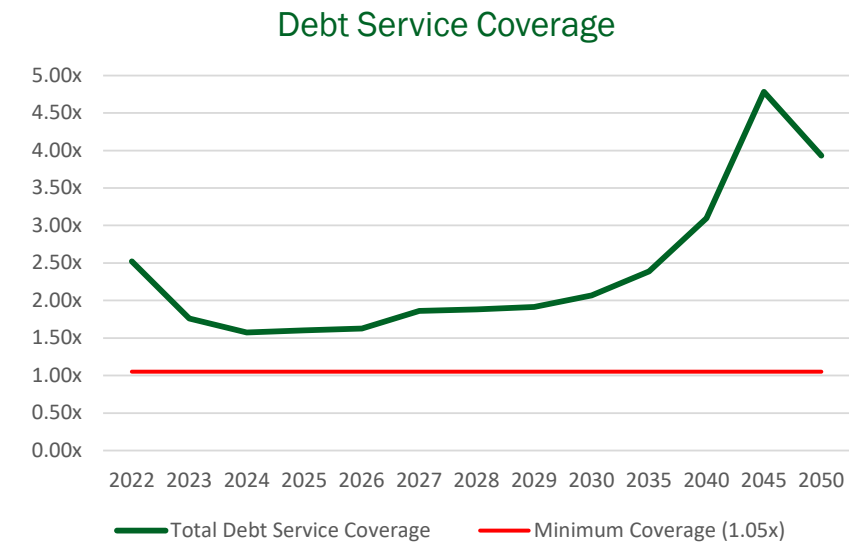
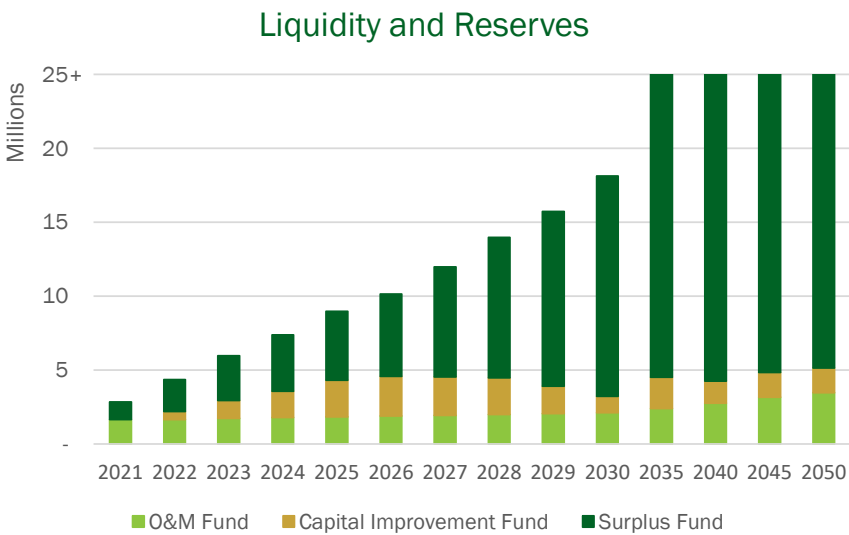


BHITA
Cash Flow Summary
Scenario: **Low**
Vessel Funding: **Subordinated Debt Funded**
Acquisition Funding: **100% Senior Lien**

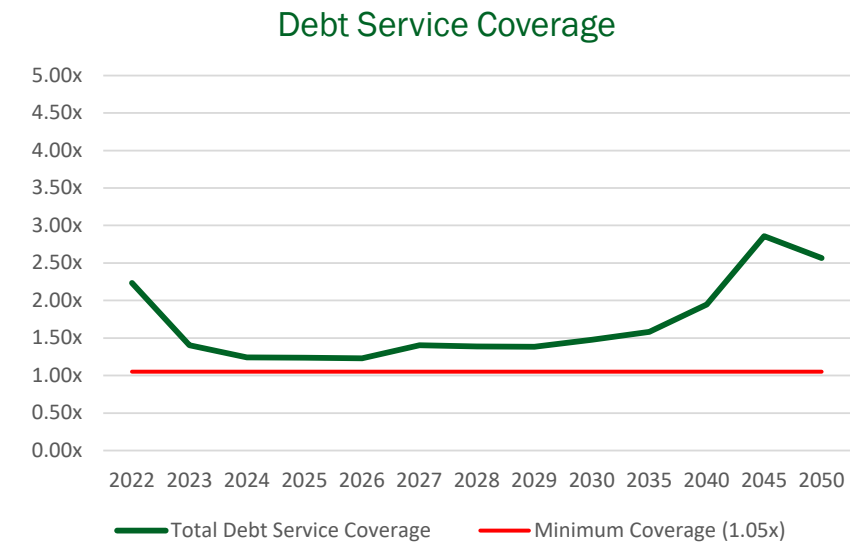
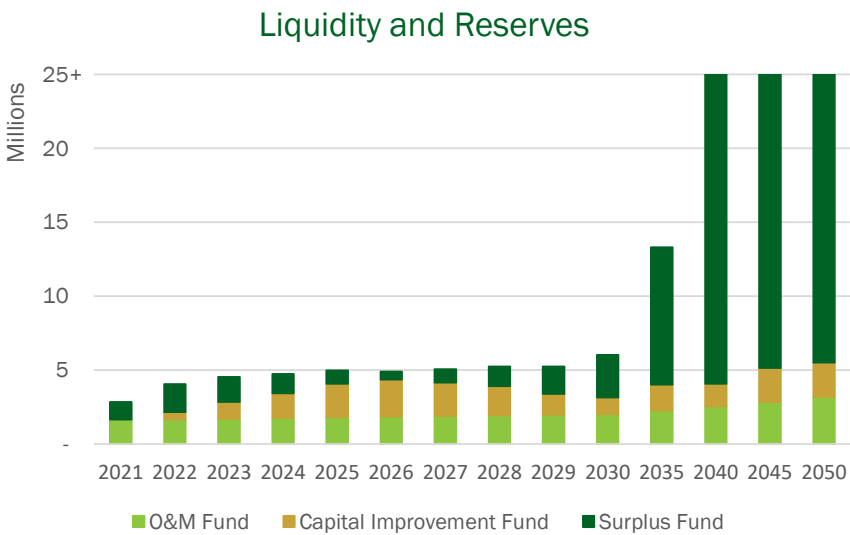
Fiscal Year	2021 Projected	2022 Projected	2023 Projected	2024 Projected	2025 Projected	2026 Projected	2027 Projected	2028 Projected	2029 Projected	2030 Projected	2035 Projected	2040 Projected	2045 Projected	2050 Projected
1 Operating Revenues	\$ 3,897,148	\$ 11,565,771	\$ 11,367,034	\$ 11,593,698	\$ 11,757,688	\$ 11,899,598	\$ 12,700,852	\$ 12,803,887	\$ 12,975,473	\$ 13,489,587	\$ 15,265,163	\$ 17,815,478	\$ 20,712,220	\$ 23,386,409
2 O&M Expenditures	2,664,346	6,572,292	6,857,179	7,034,018	7,205,144	7,375,314	7,537,269	7,704,816	7,889,836	8,068,573	9,007,819	10,103,369	11,313,024	12,706,150
3 Net Revenues Available for Debt Service	\$ 1,232,802	\$ 4,993,479	\$ 4,509,854	\$ 4,559,680	\$ 4,552,544	\$ 4,524,284	\$ 5,163,583	\$ 5,099,071	\$ 5,085,636	\$ 5,421,013	\$ 6,257,345	\$ 7,712,108	\$ 9,399,196	\$ 10,680,259
4														
5 Debt Service														
6 Senior Lien Net Debt Service	\$ -	\$ 2,236,863	\$ 3,117,283	\$ 3,115,949	\$ 3,118,098	\$ 3,118,632	\$ 3,117,551	\$ 3,119,730	\$ 3,120,044	\$ 3,118,493	\$ 3,294,375	\$ 3,294,125	\$ 3,288,500	\$ 3,290,875
7 Subordinated Debt Service	-	-	91,769	558,068	557,763	557,445	557,114	556,770	556,412	556,040	666,198	664,057	-	871,031
8 Total Debt Service	\$ -	\$ 2,236,863	\$ 3,209,052	\$ 3,674,017	\$ 3,675,861	\$ 3,676,077	\$ 3,674,665	\$ 3,676,500	\$ 3,676,456	\$ 3,674,533	\$ 3,960,573	\$ 3,958,182	\$ 3,288,500	\$ 4,161,906
9														
10 Net Revenues Before Capital / Transfers	\$ 1,232,802	\$ 2,756,616	\$ 1,300,803	\$ 885,663	\$ 876,684	\$ 848,208	\$ 1,488,918	\$ 1,422,571	\$ 1,409,180	\$ 1,746,480	\$ 2,296,772	\$ 3,753,926	\$ 6,110,696	\$ 6,518,352
11														
12 Transfers out to Capital and Reserves	(2,669,243)	(2,053,259)	(1,512,600)	(1,273,357)	(1,265,013)	(1,216,307)	(1,128,869)	(1,012,058)	(868,016)	(732,994)	(823,591)	(909,740)	(1,204,708)	(1,200,426)
13														
14 System Surplus/Deficit	\$ 1,197,717	\$ 703,357	\$ (211,797)	\$ (387,695)	\$ (388,330)	\$ (368,100)	\$ 360,048	\$ 410,513	\$ 541,164	\$ 1,013,486	\$ 1,473,181	\$ 2,844,186	\$ 4,905,988	\$ 5,317,926
15														
16 Unrestricted Reserves	1,197,717	1,901,073	1,689,276	1,301,581	913,252	545,152	905,200	1,315,714	1,856,878	2,870,364	9,308,096	22,333,845	43,185,734	69,984,433
17 Restricted Reserves	1,643,073	2,153,893	2,841,236	3,423,556	4,069,094	4,347,493	4,152,522	3,914,924	3,386,093	3,144,115	4,002,604	4,074,043	5,143,277	5,491,559
18 Total Reserves	\$ 2,840,789	\$ 4,054,966	\$ 4,530,512	\$ 4,725,137	\$ 4,982,346	\$ 4,892,646	\$ 5,057,723	\$ 5,230,638	\$ 5,242,971	\$ 6,014,479	\$ 13,310,700	\$ 26,407,888	\$ 48,329,011	\$ 75,475,992
19														
20 Senior Lien Debt Service Coverage (1.30x minimum)	0.00x	2.23x	1.45x	1.46x	1.46x	1.45x	1.66x	1.63x	1.63x	1.74x	1.90x	2.34x	2.86x	3.25x
21 Total Debt Service Coverage (1.05x minimum)	0.00x	2.23x	1.41x	1.24x	1.24x	1.23x	1.41x	1.39x	1.38x	1.48x	1.58x	1.95x	2.86x	2.57x
22 Unrestricted Days Cash on Hand	164	106	90	68	46	27	44	62	86	130	377	807	1393	2010

Financial Modeling – Key Indicators

Median Case



Low Case



Credit Ratings and Global Perspective

- The Authority received a BBB- / stable outlook credit rating from Standard and Poor's.
 - This rating would need to be reviewed if the Bond issue is delayed beyond mid-April.
- The BBB- credit rating from S&P makes BHITA the highest rated unsubsidized ferry operation in the world.
- For perspective, BHITA is rated 8 notches above Hornblower, the largest private ferry operator in the United States.
- BHITA is rated 10 notches above the largest unsubsidized private ferry operators in Spain, noting most ferry systems around the world are subsidized (similar to mass transit).
- BHITA's credit ratings are comparable to other infrastructure assets in the United States with a narrow revenue base, like the Monroe Expressway near Charlotte, which is also rated BBB-.
- Most state and local governments are rated in the "A" category or higher, but they are supported by a much broader revenue base.

Standard & Poor's	
AAA	Investment Grade
AA+	
AA	
AA-	
A+	
A	
A-	
BBB+	
BBB	
BBB-	
BB+	Non Investment Grade
BB	
BB-	
B+	
B	
B-	
CCC+	
CCC	
CCC-	
CC	
C	
D	

Bald Head Island Transportation Authority, North Carolina; Transit

Credit Profile

US\$46.755 mil transp sys rev bonds ser 2021A due 08/01/2051		
Long Term Rating	BBB-/Stable	New
US\$3.185 mil transp sys rev bonds (taxable) ser 2021B due 08/01/2031		
Long Term Rating	BBB-/Stable	New

Rating Action

S&P Global Ratings assigned its 'BBB-' long-term rating to the Bald Head Island Transportation Authority, N.C.'s estimated \$46.8 million series 2021A tax-exempt transportation system revenue bonds and estimated \$3.2 million series 2021B taxable transportation system revenue bonds, using its "Global Not-For-Profit Transportation Infrastructure Enterprises" criteria, published Nov. 2, 2020. The outlook is stable.

The bonds are secured by system net revenues, which include all revenues, income, proceeds, tolls, rents, proceeds of ticket sales, parking revenue, lease money, returns, and charges derived from the system less operating and maintenance (O&M) expenses. The system is composed of four services: ferry transit, on-island tram transportation, parking at Deep Point Terminal, and barge (tug and freight) operations. The ferry system consists of four vessels and transports passengers from the Deep Point Terminal in Southport, N.C. (mainland) to Bald Head Island, a residential and resort barrier island community four nautical miles off the coast of mainland North Carolina.

We view the bond provisions as credit neutral. The rate covenant requires net revenues to provide at least 1.3x debt service coverage (DSC), per the indenture, on senior-lien debt and 1.05x DSC on senior- and subordinate-lien debt. An additional bonds test is also in effect based on a historical test the same as the rate covenant and 1.45x of projected net revenues on senior bonds. Furthermore, there is an O&M reserve requirement at 25% of fiscal 2022 O&M expenses as projected by the feasibility report, revised each year based on budgeted O&M for the following year, and a capital improvement fund requirement at 20% of the five-year capital improvement plan (CIP) for the system with a minimum balance of \$500,000. A cash-funded debt service reserve provides additional liquidity for bondholders.

The proposed series 2021A&B bond proceeds will be used to finance the acquisition of the system from Bald Head Island Ltd. and Bald Head Island Transportation; fund a debt service reserve, O&M reserve, and \$1 million in working capital; pay capitalized interest; and pay costs of issuance.

Post issuance, the authority will have approximately \$49.94 million in senior-lien debt outstanding. However, our financial risk profile assessment also considers an expected \$4.6 million in additional subordinate-lien debt for a ferry vessel replacement in fiscal 2023 in our evaluation of financial performance, debt and liabilities capacity, and liquidity and financial flexibility.

- Standard & Poor's assumed the "low growth" scenario in determining the bond rating.
- "Key credit strengths, in our opinion, are:
 - Autonomous rate-setting flexibility with the ability to increase fares across service lines (ferry, parking, and barge);
 - Generally favorable historical demand trends prior to the pandemic and a monopolist competitive position; and
 - Moderate debt burden following the proposed series 2021A&B bonds and subordinate-lien debt for the ferry vessel replacement in 2023, with no additional near-term debt needs and a manageable capital improvement plan."
- "Key credit weaknesses, in our view, are the authority's:
 - Role as a marginal provider of relatively discretionary transit service to a single location and narrow market with comparatively low activity levels;
 - Exposure to revenue fluctuations due to weather-related events, periods of economic weakness, and a generally limited and highly correlated revenue stream;
 - Demand and future growth prospects that we view as somewhat limited, constrained by residential housing buildout, and susceptible to different economic conditions; and
 - Exposure to longer-term climate-related risks that could result in more frequent and more severe weather events."

Asset Purchase Agreement

- Bald Head Island Transportation, Inc. (“BHIT”) and Bald Head Island Limited, LLC (“BHIL” and together, the “Sellers”) will enter into an Asset Purchase Agreement with the Authority.
 - Purchase Price of \$47,750,000.
 - Authority to purchase all of Sellers’ rights, title and interests in and to the assets of Sellers used and useful in the operation of passenger ferry transportation services, the tug and freight barge services, the parking operations at the Deep Point terminal facilities, the on-island tram services and the marine maintenance department.
 - Includes land and improvements at the Deep Point and Bald Head Island terminals, furniture, fixtures, machinery, equipment, vehicles, vessels, and other tangible personal property, intellectual property, contracts, leases, permits, inventory associated exclusively with the business and business records.
 - Authority is not assuming any of the Sellers’ liabilities.
 - Authority has required Seller, at Seller’s expense, to provide representations and warranties insurance.
 - Asset Purchase is contingent upon successful closing of the Revenue Bonds.
 - 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%).
 - Sellers and Authority will enter into an option agreement with respect to an additional 2.21 acres for parking at Deep Point Terminal.
- Following closing, the Authority and BHIT will enter into an Operating and Transition Services Agreement pursuant to which BHIT will operate the System until the Authority is able to hire executive staff, and take over the operations in an orderly fashion.

Operating and Transition Services Agreement

- Bald Head Island Transportation, Inc. (the “Operator”) will enter into an Operating and Transition Services Agreement with the Authority.
 - Operator will operate the System at the direction of, and reporting to, the Authority, including vessel operations, vessel maintenance, parking management, barge and freight, tram, passenger delivery services and ticket sales.
 - Current employees of the Operator, including its Chief Executive Officer and Chief Financial Officer, will continue to operate the facilities in the same manner as before the asset transfer for and on behalf of the Authority, until the operations can be smoothly and efficiently transferred to the Authority during the term of the Agreement.
 - Operator will continue to operate the System using employees of the Operator.
 - Operator will pay costs of operating the System using revenues of the System collected by Operator and delivered to the Authority; funds will be made available to the Operator as needed to pay operating expenses.
 - Operator and Authority intend to transition all operations to the Authority by June 30, 2022:
 - Employees and human resources functions;
 - Information technology;
 - Accounting;
 - Security;
 - Emergency response;
 - All other aspects of operating the System.
- Operator will not charge a fee for its management services. All costs, including employee costs, of operating the system will be paid by the Authority from the revenues of the System. Operator shall engage, at the Authority’s expense, an experienced certified public accounting firm approved by the Authority to review Operator’s books and records in connection with this Agreement.

Next Steps – Bond Issuance and Asset Purchase

LHR / CAP REBUTTAL EXHIBIT 3
A-41 SUB 22

BHITA

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Feb 28 2023

- Authority Board approves Final Resolution authorizing Bond Sale subject to parameters established by the Board of Trustees.
- Local Government Commission approves Bond Financing subject to established parameters.
- Bond Documents and Offering Documents Finalized.
- Bond Underwriting Pre-Marketing completed.
- Bond Sale conducted and Asset Purchase Agreement and Bond Purchase Agreement executed.
- Simultaneous Closing on Bond Sale and Asset Purchase.
- Authority commences operations.

Operational / Governance Post-Closing Considerations

LHR / CAP REBUTTAL EXHIBIT 3
A-41 SUB 22

BHITA

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Feb 28 2023

- Transition from a system operated for the Authority by BHI Transportation to a system operated by the Authority
 - Hiring of senior management
 - Transition of staff and systems from BHI Transportation to the Authority
- Develop formal and informal ways to get customer input about ferry, barge, and parking operations
- Continuing efforts to minimize both risk and disruption from Covid-19
- Move toward a modern ticketing and reservation system to improve predictability and eliminate long lines
- Focus on improving baggage handling at busy periods
 - Situation is most challenging at island terminal due to limited space
 - Baggage conveyor on mainland is operational, but is labor intensive
- Explore ways to improve system efficiency
- Mid-term: Explore modernizing tram system
- Mid-term: Explore hybrid diesel-electric boats to lower operating costs and carbon emissions, in keeping with the island's eco-friendly identity

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