Capital Asset Committee – Marina Docks presentation 6/08/22

1. Questions and comments were taken from the board and community members. It was noted at the beginning of the meeting that the questions would be followed up and distributed to the community. They are as follows:
    a. Request to update the financial analysis with current financial statement data. Some of the analysis is using 2021 numbers. Specifically, the marina cash and bond reserves and excess reserves calculations. (Bev Franklin) This has been completed and provided to the Board.
    b. Requested a “walk through” of the ‘Marina Reserve Needs-No Docks’ tab of the financial analysis to better understand source of numbers, interest rates used and negative reserves in years 2037, 2038, 2040-2043. (Bev Franklin)) This has been completed and provided to the Board.
    c. Request to show market comparisons for moorage rates at local marinas. Note this question was answered showing Sandy Point and Semiahmoo. BBVCC marina rates are still well below those comparisons and would be an outstanding marina in comparison. (Bev Franklin)
    d. Please explain use of 2% interest in the initial calculations. Also please explain if the banking institutions rates being looked at are consistent with the annual compounding interest calculations, or if they should be revised to monthly rates? (Bev Franklin) Interest has been adjusted based on APR.
    e. How does the marina make money? I.E. what is and isn’t included in the calculations used? (Terry Sullivan) All income marina related less repairs, maintenance, supplies, utilities, improvements, etc. is expensed against the revenue to generate the calculation for profit.
    f. Do the financial calculations presented take into account interest that will no longer be earned on existing cash/bond reserves? Impact to village? (Terry Sullivan) Yes. The past practice of keeping interest revenue generated from reserve money as operating income is not done anymore. Interest money generated by marina reserve stays in marina reserve and is figured into the projections.
    g. Are dollars in the reserves all going to the marina? How do we fund other areas? Drainage? (Terry Sullivan). Sandy Z. said all roads/drainage and general reserves are not being touched.
    h. Did the committee consider only the fuel dock and D dock for now, adding the remaining docks at a later date? (Dave Owen). The committee answered, yes, they had considered that proposal. However, both potential suppliers indicated the costs would be substantially higher to do them piecemeal as they would not have economies of scale and expected prices to only increase in the future.
    i. B dock cost just under $900,000 to replace. Why are these proposals so much higher? (Dave Owen) Rob Simonds responded that the B dock replacement was quoted in 2019 (pre-COVID) and even though it was done late 2020, Bellingham Marine honored the 2019 bid prices. Jim Thomson also said the 2017 study identified all docks would need to be replaced by 2027.

j. In the financial presentation, there is a $75k shortfall (note that funding for this short-fall was presented with a buffer to $80k) that was recommended to be made up primarily from moorage fee increases. What if we start losing marina customers? (Dave Owen) Dave Luton and Rob Simonds responded that the financial presentation was based on current usage. Additionally, over the years there has been little variation in slip usage. Competing marinas are both full and more expensive. The committee determined that it was a low risk.
k. The $80k shortfall, is that a one-time or ongoing shortfall? (Wade Church) Dave Luton responded that it was ongoing over the debt service period (15 yrs).
l. Will the costs go down after the debt service ends? (Wade Church) The committee responded that it is likely other costs will increase and the increased moorage fees would go to cover that.
m. Asked for clarification of how the $76k shortfall was calculated and how moorage rates and dues would be calculated to cover it. (Wade Church). Dave Luton explained the annual debt service less existing moorage fees and marina cost savings. He also explained how increased moorage rates and dues would make up the difference.
n. Is this fixed or variable interest rate? Recommended the rate be fixed. It was also noted that all members are responsible for the debt of the Village. Increasing moorage is a good solution. (Harry Shearer) Rob Simonds responded that the marina is a community asset and will increase all property values by more than 1%.
o. Full replacement and reserves studies are state law and requires HOA's to maintain community assets. (Jim Thomson)
p. We do not know with certainty that prices will go down in the future. (Dave Luton).

Capital Asset Committee Presentation (Dave Luton) 6/15/2022

Review of powerpoint,

- Committee members presented
- History of Marina and history of past recommendations
- Discussion of 2018 Surowiecki Consulting document
- 2019 asset team reviewed - recommend replacement of docks using as is configuration (Pg 9)
- Discussion of 2 suppliers pros/cons (pg 12)
- Cost review, recommend Bellingham Marine
- Other considerations, expiring permits, electrical and continued rotting substructure
- How to pay for it? Pages 16, 18-20
- Moorage fees comparison Pg 21
- Recommendation page 22

Questions

Dave Owen – Did we question Bellingham Marine if we don't replace all the docks and were to build reserves & replace only A or D dock (and possibly Fuel dock) at this time. The answer was we don't have a bid for only one dock and the current fixed price bid would expire.

Rod O'Dell – How does this impact reserves and rebuild reserves? Jen responded that it is permitted for the entire marina to same money and potential future changes or obstacles. The funding provides for building back reserves.

Lawrence Pang – It's a big loan, what is the cost of interest? Answered at 5.85% (updated recently) over 15 years, to be adjusted (up or down) at halfway point.

Bellingham Marina included a list of items not included, was a costing done for those items? Answered, most of them are not considered necessary at they are items that are not expected to be incurred, such as the pilings are excluded but are re-usable. Sales tax has since been added into the financial calculations.

Does there need to be a contingency for the project. Answered, based on work on B dock, there was one minimal change order for $27k and that has been addressed in the additional docks.

Based on D dock, what was the incremental cost? Answered, none other than the $27k for electrical pedestals addressed in the above.

Dave Scheirman – This is a good value to BBV

Maureen Server – Can we refinance? Is the rate locked in? Answered yes we can refinance, no penalty for early repayment if used with Association funds (i.e. we pay it down sooner), but a prepayment penalty may be assessed if refinanced through another institution. Rate will be locked for first half of loan.

Jim Thomson – There will be savings in maintenance costs.

Susie Walker – Are the reserves from only marina or all funds? Answered, only marina funds.

Dave Owen – What would maintenance savings be? Answer, for use in financing $60k per year was used.

Discussion Points for BBV Board Workshop – June 15, 2022 on Capital Asset Committee's Report for dock replacements (submitted by Lawrence Pang)

NOTE – The Board has not formally discussed or decided on any of the information presented by the Capital Assets committee, however, based on information currently presented to the Board responses are in *italics*.

Assumption:

1. Committee is recommending to the BBV Board, that due to the insufficient funds in the Marina Reserves, that BBV takes on a bank loan (of $2-3 million) NOW to pay for replacing ALL the remaining docks at the BBV marina. The monthly payment for the loan would be about

$75,000. The Homeowners' fees will be increased for the next XX years to pay for this loan.

Please refer to the Capital Assets Marina committee presentation. Total cost is $4,175,000 of which the down payment of $1,043,750 could be funded from current MARINA only reserves. The balance would be funded from a 15yr bank loan at 5.5%. The loan would be repaid primarily from Marina fees, with a small portion proposed from HOA dues increase (1%).

2. The Board heard this recommendation at a "special Board meeting" announced on short notice (~ 1 pm) held on June 8 at 5 pm. No written material has yet been made available to the Board or Homeowners (at this time).

The presentation was not made available to the board in advance of the June 8th meeting. A revised presentation was only made available the afternoon of the workshop. It is the intent that the presentation and related questions will be made available to community prior to the board meeting next week.

Written Questions & Discussion Points

A. Isn't taking on an APR loan at this time, when interest rates are expect to increase, NOT smart?

It is not smart to take on a debt at this time, particularly when the price of labor and material is at a HIGH ! And, when a recession is foreseen over the next year or two. And, when it will cost (far) less when such work is undertaken during a "recessionary" period, when labor and material prices will be (much) lower due to a slow-down in the economy, and lower demands for labor and material.

No time in recent past history has skilled labor declined as a result of a recession. Our consultants and suppliers are willing to give a fixed bid. The bank will be offering a fixed rate for the first half of the loan. Borrowing at a lower fixed rate during periods of high inflation is financially sound. There is no expectation that prices will decline.

B. Why should Homeowners NOW be subjected to pay for the Marina facility when the Board has boasted for decades that the Marina has paid for itself, and it had not cost Homeowners a penny ?

Or has this claim been false because the Board and past Boards (many of whom are/were marina users) have NOT wanted to account for the REAL costs to operate and maintain the marina facility? It seems that marina related costs have been and continue to be posted against "slush" accounts, like Administration, Maintenance, Reserve, etc. And previous Boards has repeatedly refused to properly account for and report to Homeowners the real cost of operating and maintaining the Marina since 2016 when it had first been requested at the Annual Board meeting.

The recommendations and consultant documents have been identifying the need to replace docks beginning in 2012. Rates have certainly increased over time. Comparing the 2019 bid for B dock with the new bids for remaining docks is a validation. The known contractor is still the least expensive.

Marina operation net revenues up until the past few years were used to fund overall operating expenses. More recently, we have made sure that this excess income from marina has been set aside in reserves which is why we were able to complete B Dock. We have estimated at least a loss of $1M in interest revenue alone tied to this past practice.

C. What changes (increases) to the user & usage fees have been proposed, to cover these costs, so that the Marina facility can continue to still “pay for itself” without any Homeowners' contribution ? e.g. slip rental fee, storage parking fees, etc. ?

Would such increases in fees, etc., discourage some boaters to use the marina ? And, if so, what is the estimated decrease in user/usage ? And how would that impact the decision to spend more money to replace the docks, etc. ? i.e. where is the break-even point ?

Refer to the presentation for comparable marina costs. This is still the most reasonable rate for a comparable community marina. The board may want to consider ways to obtain full usage, possibly by allowing outside boaters for empty marina slips?

D. What “new” fees can Marina users be asked to pay, e.g. in addition to the slip rental fees ?

This would apply particularly for those marina users who have found “cheap” ways to take advantage of the marina facility, like just paying for launching fees, not renting slips, not parking their boats in the “storage” lot, etc. Has consideration for such “new” additional fees included:

an annual facility fee for using the Marina, e.g. 80% of the fees to rent a slip a facility usage fee for those who doesn't rent the slip or park their boats at the storage lot, e.g. based on the size of the boat. Kayaks, canoes, etc., that doesn't need to use the boat launch may be exempt (?) a fee to park (store) a boat at the Homeowners' lot / property, e.g. maybe 10% less than the

fee to park it at the storage lot

Yes, options are looking at all marina fees, including moorage. Further review will include looking at Marina user fees

E. Are the current conditions of the docks so inadequate and unsafe that it is necessary to make such a big $$$ commitment now ? What are the implications/impacts if the decision is to only replace the “most” inadequate dock next, using available funds in the Marina Reserve ? i.e. don't commit to replace ALL the docks NOW, or take out a bank loan.

Yes, the docks are in ill repair and the proposal is cheaper than spreading out the timeline, including the cost of interest. Refer to the consultants who have been identifying problems and boards/management who have kicked the can down the road since 2012.

F. Seeing there are currently still 9 or more slips available today, is there still a need to have so many docks ? i.e. have excess slips ? Would the demand for slips decrease when the slip fees are increased ?

If the cost to operate and maintain the marina is supposed to be covered fully by marina users, would that mean that the slip rental fee will need to be increased (for those who rent slips), when there are still empty slips ? to cover the (entire) cost to operate and maintain the marina.

Can there be a formula to determine the slip rental rate based on the cost to operate and maintain the marina ? (including dredging, etc.) so that the cost of the marina facility continues to be covered fully by its users.

Given the price value compared to even a similar private marina, this is still a deal and will be sought after. The proposal includes repayment of a loan and additional reserve build up at the same time.

G. Why is there a need or “rush” to make such a big $$ commitment NOW ?

Was there any “unspoken” agreement made with the contractor that they will get such a deal in return or fixing Dock B to meet contract specifications ?

No there are no agreements. There has been a lot of planning and activity over the years

- In 2012 the discussion of dock replacement was evaluated

- In 2018 an independent consultant provided their evaluation. We were informed that we should replace the docks within 5 years.

- In 2019 the asset team recommended a dock replacement plan

- Guest dock and launch docks replaced

- In 2021 B dock was replaced

- In 2022 Need to decide if the BBV community will continue to implement the plan?

There isn’t a "Rush", however, there has been a lot of careful consideration, planning and good decisions from the committees.

H. Does “living within one's means” not something that the Committee believes in ?

It is understandable that it would be nice, great, ideal to have a superior and much envied marina in this area, particularly by those who move to BBV (or own a lot just) to use its marina, and when slip rental fees are so cheap, compared to others in this region.

Yes, a lot owner may use the marina, but even those who buy a lot to use the marina pay the same HOA fees as everyone else.

Has there been any consideration to solicit BBV Homeowner(s) (or businesses) to sponsor the one-time cost of the replacement of one or more docks, in exchange for their lifetime (or maximum period of 15 years) single slip use of the dock ? i.e. slip rental fee is waived, plus the dock will be named in their honor, e.g. Lutton dock, Shearer dock, Zeitel dock.

Sponsorship has not been reviewed at this time as a viable way to fund our community assets.