



January 9, 2024

Dear Members,

Over the past three weeks, I have seen and heard questions related to the beach renourishment referendums. I want to address these questions for our members. As stated in the annual letter sent to the membership before the holidays, the BHI Club Board of Governors unanimously supports voter approval of both GO Bonds referendums on the ballot in the March 5th election.

I am discouraged by the tone that discussion of issues has taken recently on the island. It is truly unfortunate that some community members resort to accusations related to the motives of others in our community to try to win their debates. Words such as “short on credibility” and “disingenuous” when referring to islanders harshen the discourse. Attacks against the messengers and candidates rather than their messages have no place on the island. We should be better than that.

In the detailed letter below, we answer questions and cover the following information:

- 1) Why would we vote to support beach stabilization that helps one commercial business on the island?**
- 2) We should learn to live with the higher sea levels rather than try to fight them.**
- 3) There isn't a reasonable long-term solution for beach erosion at the point. Why vote for renourishment when the sand will just wash away?**
- 4) Is there any compelling reason why the Shoals club cannot start the process of the relocation now?**
- 5) What assets can be relocated to the new site which is about 2 acres? Is it the pool system or can the club dining building also be relocated?**
- 6) How long would it take to rebuild the club assets that could be relocated? How much would it cost in total? What would be the cash costs of abandoning part of the existing site? Would the State or Federal government require removal of abandoned assets?**
- 7) What would be the various financing options to pay for the move? Would this include new club debt and/or a special assessment from the members etc?**
- 8) Your annual letter states that this issue could have an effect on the Bald Head Island Club. I thought the clubs were financially separate. How would this affect the BHI Club?**
- 9) To buy the time to rebuild, can the club essentially abandon the baby pool if necessary and move the so-called line of defense a bit closer to the adult pool?**
- 10) Would the club be willing to pay that portion of the proposed sand fill directly in front of the club? It may be more compelling in the minds of the voters to pay only for the sand in front of the few homes directly to the west of the club down to the loggerhead area.**

Now, I would like to respond to some questions/comments I have heard and read.



Why would we vote to support beach commercial business on the island?

stabilization that helps one

This referendum is not just about the Shoals Club. There are at 37 parcels that front the beach to be renourished as part of the \$4.5M GO bond referendum. There are 23 structures on these properties and 7 buildable residential lots. The beach in front of the Shoals Club accounts for approximately 8% of the beach front to be renourished in the third mile. The properties that will be protected have paid the highest tax rate on the island as part of Municipal Service District A (MSD) – a service district created for the purpose of providing beach stabilization to properties in the district. These property owners combined have paid nearly \$1M in extra taxes as part of the MSD created to provide them beach stabilization yet they have not received any service in return for those payments. In fact, should the \$4.5M GO bond fail, these taxpayers will not have access to the service they have been paying for, especially when it is most critical. Some of these taxpayers have already begun to question why we have MSD. They feel that if the Village is not going to provide shoreline protection services to the property owners in the MSD's, perhaps we should remove them and spread the cost of shoreline stabilization equally across all island taxpayers.

We should learn to live with the higher sea levels rather than try to fight them.

If we had taken this approach twenty-five years ago, it is very likely that many of the homes to the south of South Bald Head Wynd near the Bald Head Island Club would have washed into the ocean by now. South Bald Head Wynd would have needed to be relocated. All electrical, water, and sewer utilities would have been flooded. The Bald Head Island Club would have suffered significant damage. While it may be appropriate for some communities and organizations to “let nature take its course,” Bald Head Island realized many years ago that this was not the right direction for the viability of the island. Bald Head Island's experience over the past 25 years has proven that an engineered approach works.

On top of that, the coastal engineer hired by the Shoals Club to evaluate the situation and recommend solutions does not believe that sea level rise has contributed to the erosion at the east end of South Beach. His conclusion is that channels cut through the point close to shore by recent storms have increased the amount of ocean current near the beach. This has resulted in accelerated erosion in recent years.

There isn't a reasonable long-term solution for beach erosion at the point. Why vote for renourishment when the sand will just wash away?

All beach renourishment projects are temporary. This is why the Village is on a seven-year beach renourishment funding cycle. As specified in the initial permits for the terminal groin, Bald Head must continue to maintain the terminal groin by adding sand to the beach on a periodic basis. If you don't support temporary beach renourishment, you should vote against both referendums. When they are defeated, the Village might be required to remove the terminal groin and “let



nature take its course.” That would reverse the very significant benefits all islanders have received from the successful temporary renourishment efforts that the Village has completed.

In the engineering study referenced above, the coastal engineer advocated for beach renourishment and suggested that the Shoals Club should pay for additional sand on top of what the Village has planned if feasible. Both the CPE engineer and the Village’s coastal engineer have proposed adding sand to the east end of South Beach to plug the channels and reduce the flow of ocean current close to the beach.

As for a long-term solution, when Bald Head Island first started to renourish South Beach the long-term solution of a terminal groin was not available. But initial beach stabilization efforts bought enough time for a long-term solution to become viable. If voters and the Village cannot agree to spend money now to protect the third mile of beach at the east end of the island, it will be difficult to convince other local, state, and federal officials to adopt policies needed for a long-term solution to protect Bald Head Island.

Is there any compelling reason why the Shoals club cannot start the process of the relocation now?

In fact, the club began preparing for a potential relocation by purchasing the property adjacent to Shoals Alley over the summer. This effort began in late 2022. That was the first step in a long-term process to prepare the Shoals Club for relocation if necessary. The Club engaged site planners in 2023 to determine future options for pools, clubhouse, and parking on the new site. The process to design and build facilities to replace the current Shoals Club will take years and will be expensive. The club would rather work through a solution that will protect the club and the other 22 homes and buildable properties that share the last mile of beach that needs to be renourished.

What assets can be relocated to the new site which is about 2 acres? Is it the pool system or can the club dining building also be relocated?

Based on initial site planning, we believe we could build a pool complex, casual pool restaurant, an upscale dining facility, and appropriate parking on the property purchased for eventual relocation. This is obviously subject to many restrictions including CAMA, Stormwater Management, and Village Commercial Development Guidelines.

How long would it take to rebuild the club assets that could be relocated? How much would it cost in total? What would be the cash costs of abandoning part of the existing site? Would the State or Federal government require removal of abandoned assets?

While we are still VERY early in the efforts to estimate a project to relocate the club, our initial estimates are that the project would take at least three years from initial design through completion of construction. Early estimates are that the cost would be at least \$5M. We could



consider executing the project in stages – dining and finishing with a new clubhouse as needed.

starting with the pools and casual

As for any required cleanup of the current site, it is not clear who would have responsibility for that effort. That question is probably dependent on the corporate structure and health of the entity that owns the property when any cleanup is required.

What would be the various financing options to pay for the move? Would this include new club debt and/or a special assessment from the members etc?

To pay for a new pool, casual dining, and clubhouse, the Shoals Club would need to borrow money and pay it back using positive operating cash flows. The Shoals Club documents do not allow the club to institute a member assessment to pay for the project. The Shoals Club currently has approximately \$3.1M in debt that was used in the initial purchase of the club from the developer and for the recent purchase of the property adjacent to Shoals Alley. The Club’s operational cash flow will cover the debt service through the payoff of the existing debt in 2027 or 2028. At that point, the club will have enough cash flow to take on additional debt necessary for the construction of a new facility. This is demonstrated by the current Shoals Club cash projections below.

Shoals Club Financial Projections 2024-2030 (in \$thousands)

Year	2024	2025	2026	2027	2028	2029	2030
Operating Revenue	6,602	6,847	7,101	7,364	7,638	7,921	8,216
Operating Expenses	<u>-5,993</u>	<u>-6,038</u>	<u>-6,263</u>	<u>-6,496</u>	<u>-6,738</u>	<u>-6,990</u>	<u>-7,251</u>
Operating Income	609	809	838	868	900	932	965
Membership Fees	818	105	105	105	105	105	105
Capital Maintenance	<u>-740</u>	<u>-516</u>	<u>-514</u>	<u>-300</u>	<u>-363</u>	<u>-57</u>	<u>-478</u>
Cash Flow before Debt Svc.	687	398	429	673	642	980	592
Principal and Interest	<u>-625</u>	<u>-640</u>	<u>-640</u>	<u>-1,287</u>	<u>-233</u>	<u>-19</u>	<u>0</u>
Net Cash Flow	62	-242	-211	-614	409	961	592
Cash on Hand	1,432	1,190	979	365	774	1,735	2,327

Your annual letter states that this issue could have an effect on the Bald Head Island Club. I thought the clubs were financially separate. How would this affect the BHI Club?

I want to be very clear that there are no plans to use any funds from the Bald Head Island Club for current or future Shoals Club expenses or capital projects. Since the purchase of the Shoals Club from the developer in 2018, the Shoals Club has exceeded the results expected by the Board of Governors when the original transaction was approved. The Shoals Club has paid all of its expenses, including over \$500K to mitigate beach erosion, through revenue from its members. The Shoals Club has proven to be a strong financial asset to the BHI Club. The BHI



Club has been diligent in accounting for Shoals assets and BHI Club assets separately and we plan to continue doing so. While both clubs are not-for-profit entities, any excess cash produced at the Clubs is used to fund capital projects, reduce debt, and bolster storm contingency funds.

Our bank views the BHI Club and Shoals Club as one organization since the Shoals Club is a wholly owned subsidiary of the BHI Club. They determine our borrowing capacity and the cost of borrowing based on the combined income and assets of the BHI Club and the Shoals Club. To date, the Shoals Club's strong financial position has been a benefit to the BHI Club as we borrow funds for the completion of the Campus Master Plan projects. The combined EBITDA and cash positions of the two clubs is very positive from a borrowing perspective.

The risk moving forward is threefold and these three risks become much more likely to be realized if the 2025 Village east end beach renourishment does not occur as planned. BHI Club members need to understand these risks as they decide how to vote on the bond referendums.

First, if the EBITDA contribution of the Shoals Club to the organization as a whole is reduced due to the closure of the pool and subsequent reduction of profitability, the BHI Club would be required to offset that loss in EBITDA through earnings of its own. This could require a small dues increase to make sure the BHI Club meets its borrowing covenants - although this is not a foregone conclusion.

Second, the Shoals Club provides swimming pool amenities to several hundred members and guests on peak days in the summer season. If the pool is not available due to erosion, either temporarily or permanently, the BHI Club will need to reduce Guest Member access to its pools to accommodate more primary members. This reduction in available guest memberships could require a dues increase in the 8-15% range depending on the reduction in Guest Memberships necessary to accommodate the increased members usage of the pool.

Third, should the Shoals Club be required to borrow funds to build a new pool complex prior to the final payment on the debt used to fund the initial purchase of the club, the bank may likely require the BHI Club to guarantee that borrowing. If the Shoals Club needs this financing for a pool prior to 2027, the BHI Club would have to decide whether to help acquire the new debt, even if all debt payments were covered by Shoals Club operations.

Currently there are approximately 770 members of the BHI Club who are also members of the Shoals Club. Nearly 60% of the members of the BHI Club are Shoals Club members. While we want to continue to avoid risk to the BHI Club due to the situation at the Shoals Club, I doubt the majority of our members want their Shoals Club memberships to be threatened if the BHI Club can avoid that outcome, especially if the solution requires no direct investment of BHI Club funds.

To buy the time to rebuild, can the club essentially abandon the baby pool if necessary and move the so-called line of defense a bit closer to the adult pool?



The club will likely abandon the baby pool as soon as we expand the sandbag revetment.

Would the club be willing to pay that portion of the proposed sand fill directly in front of the club? It may be more compelling in the minds of the voters to pay only for the sand in front of the few homes directly to the west of the club down to the loggerhead area.

The club is the only private entity to pay for its own beach stabilization efforts in the 15 years since the Municipal Service Districts were put in place. Once the second sandbag revetment is complete, we will have spent over \$1M to protect the club. Additionally, the club has paid approximately 12% more in property taxes per year since 2009 as part of the MSD created to provide beach stabilization. Despite that, the club would certainly consider paying 8% (the percentage of beach to be renourished that fronts the club) of the cost of the renourishment if it would help the Village complete the project.

Fellow members, thank you for reading another rather long email. I understand the decision to renourish the beaches is a costly one. But the risks of allowing the continued erosion are greater for all island homeowners. If you are a registered voter on Bald Head, please vote "YES" for both of the beach renourishment referendums on March 5th. If you are not registered but are eligible to be registered to vote on Bald Head, please register and vote. If you are a homeowner who does not qualify to vote on Bald Head, please spread the word to your friends and neighbors who can vote. Encourage them to vote "YES" for the two beach renourishment referendums.

Here is a link to the Brunswick County Board of Elections detailing three ways to vote in the March 5th election: <https://www.brunswickcountync.gov/629/3-Ways-to-Vote>.

Instructions for registering to vote in Brunswick County can be found at this link: <https://www.brunswickcountync.gov/753/Voter-Registration>.

Sincerely,

Slaughter Fitz-Hugh
President
Board of Governors