

**FEASIBILITY STUDY FOR THE ACQUISITION OF THE
BAR HARBOR FERRY TERMINAL**



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INTRODUCTION

The Town of Bar Harbor engaged Bermello Ajamil & Partners, Inc. (B&A) on behalf of the Town, the Maine Port Authority, and the Bar Harbor Chamber of Commerce for Phase I of a proposal to evaluate the feasibility of acquiring the Bar Harbor Ferry Terminal.

This initial assignment is limited to making an early determination of the financial feasibility of the ferry facility in order to assist the parties in making a decision as to whether the facility should be acquired or not.

Subsequent phases of the proposal presented by B&A have not been authorized.



Given the limited nature and the timeframe in which this assignment was completed, a number of the more detailed studies have been deferred until later pending the outcome of the decision on whether or not to proceed.

The parties understand that the current ferry facility has sat idle since the termination of ferry service between Yarmouth and Bar Harbor and that its current Canadian owner may wish to divest itself from the property. Should the parties have an interest in proceeding with the acquisition of the property, the next step would be to provide an expression of interest to the current owner in order to begin the process of negotiation for its acquisition.

This document provides a synopsis of the findings of this phase of the work.

STRATEGIC ASSET

The parties have agreed to proceed with this engagement because of the strategic nature of this asset. This is a facility that provides deep water berthing for larger ships. The facility has been in existence for over half a century. The facility is also a significant real estate asset, strategically located along the main highway leading to the central core of the Town of Bar Harbor.

- **Irreplaceability** - Due to the current financial situation as well as the significant environmental hurdles that need to be overcome in order to obtain permitting, this is a facility that cannot be easily replicated or built elsewhere.

- **Port-of entry status** – Bar Harbor is designated as a Class A Port of Entry by the United States Customs and Border Protection (CBP). A Class A facility allows entry into the United States by all aliens. There are only 327 such ports of entries in the US and only 16 in Maine. Such status has been critical for the ferry operation and for the visitation by cruise ships which are coming from abroad. Such a status requires the maintenance of a physical plant that has been approved by CBP, as is the case at the existing ferry terminal. Therefore this is a strategic asset of Bar Harbor, one critical for current maritime activities.

Therefore, the parties have agreed that this facility should be viewed in this strategic context as part of making a determination on acquisition.

HISTORY

The current ferry terminal has a long history over its half a century of existence. The ferry terminal came about as a result of a competitive bid that the Town of Bar Harbor participated in during the 1950's when the Canadian government announced it wished to develop a maritime transportation ferry station between Nova Scotia and the United States.

The current site and location was chosen by the Town leadership and townspeople at the time. This process was full of discussion and differing opinions over whether or not such a facility should be part of the Bar Harbor landscape. The decision was then made, that such a service and facility would be of importance to Bar Harbor. The Town acquired the property and subsequently the Maine Port Authority invested \$1 million in its development. Thereafter, the facility was built and the service commenced in 1954-55 with the introduction of the original M/V Bluenose ferry.

Initially, the ferry service was provided by a Crown Corporation of the Canadian government and eventually in 1980 the Canadian government decided to divest itself from the ferry operation and engaged Bay Ferries to operate the vessel between Bar Harbor and Yarmouth. Bay ferries replaced the slower conventional car and truck carrying ferry service (the Bluenose) to the modern high-speed catamaran; the *Cat* in 2002. In 2006, the *Cat* expanded its route to not only service Bar Harbor and Yarmouth, but also including Portland several days a week.



Since its inception, the service has been relying on subsidies from both Provincial and Federal Canadian governments. Once the subsidy was discontinued, the catamaran ferry stopped operating and has since been sold and the facility has lain fallow.

Currently, the facility is controlled by Marine Atlantic, the Crown Canadian Corporation that is the successor to CN Marine and is paying its bills to maintain it in its current state.

CURRENT CONDITION

The current situation is that the building, berths, piers, and paved areas lie unused. The facility is still fully operational if necessary and it is being minimally maintained by Marine Atlantic. The terminal building currently houses a CBP Port of Entry facility which includes the latest in equipment for the search and interdiction of products that move across the border between Canada and the U.S.

As with any other facility that remains unused for a number of years, deterioration quickly takes hold. A number of reports have been obtained that document the condition of the facility. The reports and visual inspection point out to maintenance that has been deferred. This deferred maintenance can be categorized into a number of major areas:

- **Pavement** – The pavement has deteriorated and cracked in most places and will, in the near foreseeable future, need to be resurfaced in order to maintain its life.
- **Building** – The building, although fully operational, will require a number of mechanical and routine maintenance items such as painting, caulking, waterproofing, and improvements to the mechanical systems.
- **Docks** – The docks are the area where most of the deferred maintenance has taken place. Although a detailed evaluation was not done, a cursory view of the facility shows conditions that have been previously documented, mainly deterioration of the piles under the pier, are in need of attention. This will represent a significant cost.
- **Docking and floating equipment** – This is an area of the facility that, because of its more recent construction, seems to be in the best shape. Nevertheless it does require regular routine maintenance.

As is, the facility could begin operating with little difficulty immediately. However, most of these deferred maintenance items will need to be taken care of, particularly the condition of the piles.

The Canadian government performed a cost estimate for the improvements however, as of the date of this report, that cost estimate has not been disclosed. In a second report that was done for ACOA, a cost estimate of C\$11.5 Million as deferred maintenance for both the Yarmouth and Bar Harbor facility was cited.

For purposes of this study, a very cursory cost estimate has been done to provide a safe estimate for deferred maintenance of approximately US\$6.2 million that need to be invested in the facility to

rebuild the entire facility. It is important to note that the entire amount does not need to be spent up front from the on-set, but rather through a capital improvement program can be implemented over a period of time. In addition, as a pure ferry facility, the piers were built when the ferry operating was a side loading vessel, subsequently the *Cat* was a bow loading ship, depending on the characteristics of a future ferry ship, both the pier and or the float may not need to be rebuilt, but rather only one of the two.

INFORMATION GATHERED

As part of this initial phase, a series of interviews were held with elected officials, business people, and representatives of the different industries, and sponsors of the report. In particular, discussions were held with:

- Staff of the Town of Bar Harbor
- Town Council of Bar Harbor
- Maine Port Authority
- Cruise Maine
- Chamber of Commerce
- National Park Service
- Current staff of the ferry terminal facility
- Representatives of:
 - Ocean Properties
 - DownEast Transportation
 - The fishing industry
 - Hotel industry
 - Marine Atlantic
 - Certain of the cruise lines now calling in the area.

Historical and current information was gathered including past schedules of the facility, cost of operating the facility, plans, economic impact statements, and condition reports.

One very important study that was collected independently was a report that forecasted future ferry traffic between Yarmouth and Maine and evaluated the feasibility of that service into the future.

MAJOR FINDINGS

The early major findings based on the data collected can be categorized in the following major themes:

1. This is a one-of-a-kind facility and it should be preserved. The parties should do whatever they can to acquire the facility.
2. The impact that ferry service has had on the Town and its businesses has evolved over time. Where once it was critically important to economic development of the Town, by the time

that the ferry was cancelled it had a different type of impact on the community. Since the ferry has been discontinued, most businesses in the community have adapted and have thrived. Therefore, the impact of the loss of the ferry has not been as dramatic in Bar Harbor. In Yarmouth, on the other hand, the impact has been dramatic.

3. We received many suggestions for other uses of the property including a series of public uses such as museum, open space, and others. For purposes of this study, the analysis is concentrating on those which could generate revenue.
4. There was strong direction that whatever uses are considered on the property, that they should not negatively impact the existing businesses in the Town. Therefore the study should not be relying on the relocation of an existing traffic or use in order to create revenue at the expense of those already in town.
5. Although not part of the study, everyone felt that the acquisition of the ferry terminal should, in some way, become part of a strategy to resolve some of the congestion issues associated with cruise traffic and parking within the Town center.

USES CONSIDERED

As part of this initial Phase 1 Study, there are a number of public and private uses that were discussed and considered in developing a financial model to determine if there is financial feasibility. However, they could all be categorized into the following three major areas:

1. The re- starting up of a new ferry service between Bar Harbor and Nova Scotia.
2. The expansion of cruise traffic into the ferry terminal.
3. Some level of commercial development in the property which could be used to generate revenues to offset costs.

The study in general as described below looked at each use individually and/or a combination of any of the uses.

FERRY

A stand-alone ferry facility was the first preference for the use of the property that was reviewed. After all, this was what the facility has been used for. In order to determine the feasibility for the potential for the ferry a number of studies and historical documents were reviewed and the following are the conclusions of those studies:

1. The ferry service traffic has been in decline since 2002. The decline is a combination of a number of issues which range from the economy, the imposition of travel documents of the United States, the cost of the facility, the cost of the ferry, strength of the Canadian dollar, the actual ride in the ferry, the cost of a Canadian vacation, and the overall shifting patterns of traffic.

2. The *Cat* carried predominantly passengers and vehicles associated with tourism. Most of the commercial traffic has shifted to the ferry operating from Digby to Saint John. This “all Canadian” ferry service pre-dated the Bar Harbor to Yarmouth service. The ability to carry commercial traffic significantly affects the economics and economic impact of that ferry versus one not carrying commercial traffic.
3. The predominance of the commercial traffic is fisheries. The lumber products, which at one time were a heavy contributor to the traffic, have been on a steady decline and are not expected to rebound, even if the US economy returns with more demand for lumber products.
4. The ferry service relies extensively on Canadian subsidies for its operation. The minute that the subsidies were eliminated, the ferry was not financially viable.
5. Projections done by Canadian entities show that the levels of ferry traffic, if reintroduced, would never reach the high levels that the ferry carried at the beginning of the decade.

In order to determine the potential revenue associated with ferry operations at the facility, a financial model was constructed in which the ferry terminal would operate as an independent port facility charging for its use to the ferry. Rates were established using the existing competitive rates that currently were being used in Portland and/or certain Canadian ports. These tariffs are typically charged on a “per passenger” and “per vehicle” basis as the traditional way of being able to obtain income from operations.

In order to determine the full potential, four different projections levels were used with the ferry traffic reaching somewhere between 70,000 and 120,000 passengers per year in ten years. In addition, a fictitious scenario was run to determine what would be the income levels associated with the operation if the traffic rebounded to its former highs of 250,000 passengers for the year combined between both Portland and Bar Harbor.

Expenses for the facility were based on the actual expenses of operating the facility which B&A was able to obtain from the current operator. Those included all expenses associated with utilities, personnel, and maintenance. B&A established a level of additional costs associated with the new ownership which included costs for insurance. In all cases, the profit and loss statements include continuing the payment of taxes to the Town of Bar Harbor at the current levels.

Finally, it was assumed that the repairs associated with the ferry terminal would be undertaken on the first year and would be financed using tax exempt bonds. This is the cheapest form of capital available today.

The conclusion of the above shows the following:

- As a stand-alone ferry facility, the facility will suffer operational losses throughout the 30 year projection period.
- The facility will not be generating sufficient revenues from operations to pay for its operating cost.

- Once the annual costs to pay for the debt associated with the capital and improvements needed to be made are added, the facility will be generating losses of over \$1 million per year.
- Even if the traffic would rebound to all-time highs, the facility would still be generating significant losses.

The conclusion is that, as a stand-alone ferry facility, it is not a viable financial use. The facility would either need to have a mixed-use to generate additional revenues and/or to reduce its operating cost by sharing some of the major fixed cost expenses.

CRUISE

As opposed to ferry, which was a business that was steadily diminishing over the past decade, cruise has been the total opposite. Cruise traffic in Bar Harbor has increased dramatically over the past decade reaching a maximum of 180,000 passengers during the 2010 season. Over these last 10 years, the average annual cumulative rate growth has been 24% in Bar Harbor.

Cruise has been a business that has been highly sought out by some, while others see it as a business that is creating issues of congestion in Town. It is, however, one of the fastest growing tourism products in the entire world and one that Bar Harbor has been able to compete very well during this timeframe.

The economic impact of cruise ship tourism on Bar Harbor and Maine are rather obvious as one witnesses the operations during days of arrivals. According to the latest figures provided by Cruise Line Industry International (CLIA) the cruise industry accounted for more than \$36 million in direct spending on the State in 2010, an increase of 5% over 2009. The study also cited the generation of 692 jobs and wages of \$21.2 million for Maine workers.

Because Bar Harbor does not have a pier, all cruise ships have to tender into a private facility adjacent to the town pier. The town pier is limited in size and in areas that are available for tour buses and dispersal of passengers and, as a result, it creates congestion in the Town. The Town has developed a series of policies, including limiting the number of passengers on any given day to try to mitigate this issue.

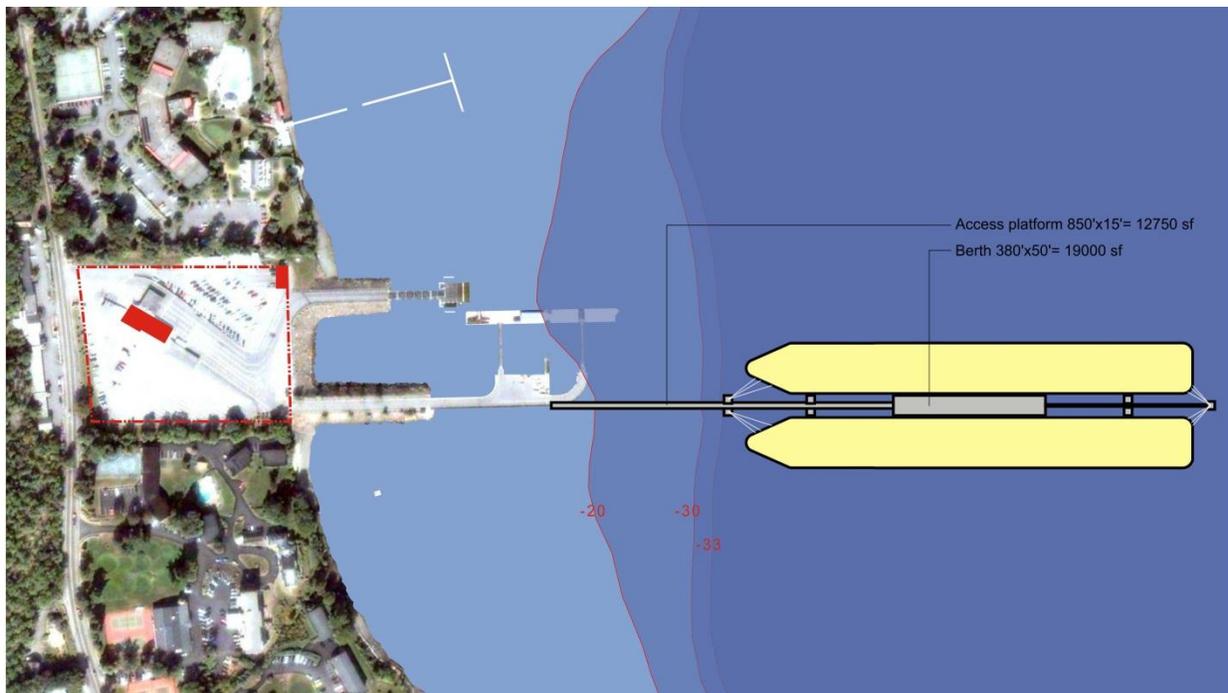
One of the most important findings is that as cruise ships have gotten bigger, their ability to tender has become more and more of a limiting factor. In fact, the study showed that most ports now are doing away with tendering. Most cruise lines are requiring a pier if they are to visit a destination, and most cruise lines are building piers at their own Company destinations.

Tendering of passengers from a big ship results in passengers having to wait for long periods of time on the vessel and in long lines at the pier to get onto the ship. What this does is reduce the amount of time a passenger can stay in town and thus reduces the economic impact of that passenger by limiting the length, number and types of tours. In addition, tendering discourages many passengers from actually getting off the ships.

Ports that rely on tendering are quickly building piers, and those that are not, are losing traffic. In summary in the long-term, the concept of tendering as a strategy for the cruise industry in Bar Harbor is not a sustainable strategy.

Therefore, the idea of building a pier at the ferry terminal to be able to provide enhanced capability for a cruise ferry facility was developed.

In reviewing the role that the ferry terminal could play in serving the cruise business, there could be two extremes: the first would be to move the existing cruise traffic to the ferry terminal and provide a point for the dispersal of passengers for either tours or back into the Town in an organized way; the second would be to grow the traffic at the ferry terminal and maintain the existing traffic in Town. The first concept of just moving the existing traffic is not viewed as one that is consistent with the directions previously explained of not robbing traffic or business from another part of town. Therefore further analysis was done of the latter, of building a facility that could attract additional traffic.



Basic preliminary forecasts were done for the growth of this business and tariffs were established for how much could be charged by the ferry terminal for cruise ships and passengers landing there. Rather than having to develop fictitious tariffs, the study looked at the current tariffs charged at nearby ports and created a very competitive tariff for any ships that are landing there.

Based on the traffic and the tariffs, revenue and expense projections were done for the facility as well as carrying the expense of building a new pier which was estimated at \$16.7 million. The results

of the analysis show that a cruise pier targeting only to capture traffic over and above what is expected to be carried in the Town in 2012 can provide a profitable operation which would not only pay the current taxes that the Town's collecting, pay for the improvements, pay for the operating expenses, and yield a modest surplus revenue that can be used to make further improvements to the facility. More important, if this use is mixed with the ferry use, the two can physically coexist on site and the cruise operation will help defray some of the operating cost of the ferry facility and yield a profitable combined operation of both cruise and ferry.

COMMERCIAL DEVELOPMENT

Although the intent of obtaining the property is to create a maritime use for the facility, its real estate is nevertheless an important asset of the facility and the study looked at ways that some commercial development could coexist along with the maritime uses to help defray costs or generate additional income.

The model looked at subdividing the site into six distinct parcels, basically as established by today's uses. The model was run with different levels of development for each of the parcels which would range all the way from no development throughout the project to development of all the parcels.

The two most promising schemes are to be able to subdivide frontage parcels along the main highway for development, and/or take the area that is currently used for parking and be able in the future to dedicate it for development along with parking. In both of these cases the model only viewed at developing very modest levels of development with facilities, restaurants, and on-site parking.

All of these developments would be by a private company in which the entity that controls the ferry terminal would lease the property to the private developer. The two most promising levels of development show that the facility could yield anywhere between \$40,000 to \$80,000 per year in rent once it is built-out and operating fully.

COMBINATION OF USES

After having evaluated each of the uses independently, a series of analyses were done combining the three uses with different levels of intensity yielding five different combinations of uses from different levels of ferry, cruise, and development. The conclusions of these studies were as follows:

1. In any of the combination of uses, the ferry should be included as a primary use and at least preserve the site for a predetermined period of time until it is clear whether a ferry service will restart or not.
2. In addition, the preferred use included the development of a pier for cruise ships that could coexist at the same time that the ferry terminal is being developed.

3. The most profitable operation can include commercial development along the frontage parcels and the parking parcel being integrated with level of development that would pay a rental fee for the use.

The model shows that these combinations of uses can yield sufficient revenues to pay taxes, operating costs, and capital expenses. The model also shows the first two or three years always at break-even or modest incomes. In a few scenarios, some early years show some slight deficits that will need to be structured properly in order to cover. Subsequently, by the 10th year, the property should be yielding a reasonable return and excess cash from operations.

RECOMMENDATIONS

Based on the detailed analysis that has been done, the preliminary findings and/or recommendations are:

1. The property can be acquired and maintained for maritime use.
2. With the right mix of uses the property can generate sufficient revenues to pay for all operating expenses and debt associated with future capital improvements.
3. The property can yield sufficient revenues to pay current Town taxes;
4. A detailed implementation plan has to be developed to confirm some of the model assumptions as to levels of traffic from the cruise and ferry business; however the assumptions made so far are relatively conservative and yield sufficient information to move forward to the next step;
5. The next significant step forward is to be able to acquire the property from the Canadian government.
6. It is recommended that a single entity be named by the parties as the entity responsible for moving this project forward and be able to negotiate its transfer. The entity that needs to move the project forward should be one that meets a series of criteria which are legislatively important. Such criteria include that the entity must be able to:
 - a. Buy and own land
 - b. Enter into contracts and leases
 - c. Borrow money
 - d. Enter into usage agreements;
 - e. Enter into leases
 - f. Set port tariffs
 - g. Best suited to issue non-recourse revenue bonds
 - h. Best suited to be able to negotiate with foreign governments.

Based on the discussions in Bar Harbor at different levels, it is apparent that the Maine Port Authority would be the best suited agency to move forward.