

Bald Head Island Transportation Authority, NC Series 2021A And 2021B Revenue Bonds Assigned 'BBB-' Rating

January 13, 2021

CENTENNIAL (S&P Global Ratings) Jan. 13, 2021--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. The outlook is stable.

"The rating reflects our opinion of the authority's adequate enterprise risk and financial risk profiles," said S&P Global Ratings credit analyst Scott Shad.

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.

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.

We analyzed the authority's environmental, social, and governance risks relative to its market position, management and governance, and financial performance, and determined that environmental risks are above the sector standard. Similar to other transportation infrastructure providers, the authority is exposed to health and safety social risks that could present financial pressures in the near term from the COVID-19 outbreak, particularly if activity deteriorates and

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remain at weakened levels. Longer term, we believe the environmental risks for the authority are elevated based on the coastal location of system assets at Deep Point Terminal and Bald Head Island exposing it to severe weather-related events including hurricanes and sea level rise. We note system vessels are stored at an inland shipyard during severe weather events and much of the housing stock is elevated and designed to mitigate effects associated with hurricane storm surges. Finally, while small in scale, the authority's governance risks are in line with those of other transit providers, in our opinion.

The stable outlook reflects our view that the authority's activity levels have generally recovered to pre-pandemic levels, although we note lingering and ongoing risks related to COVID-19 remain.

We could lower the rating if debt service coverage (DSC) or debt-to-net revenues are consistently and materially lower than our expectations.

We could raise the rating if activity is sustained at higher levels than we expect, resulting in DSC or debt-to-net revenues increasing at levels we believe are sustainable.

RELATED RESEARCH

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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