



The Village of Bald Head Island

April 23, 2021

Mr. Timothy Romocki
Director, Debt Management
North Carolina Department of State Treasurer
State and Local Government
Finance Division
3200 Atlantic Avenue
Raleigh, North Carolina 27604
tim.romocki@nctreasurer.com

Honorable Dale R. Folwell, CPA
State Treasurer
Local Government Commission Chairman
North Carolina Department of State Treasurer
3200 Atlantic Avenue
Raleigh, North Carolina 27604
dale@nctreasurer.com

Ms. Sharon Edmundson
Deputy Treasurer
North Carolina Department of State Treasurer
State and Local Government
Finance Division and the Local Government Commission
3200 Atlantic Avenue
Raleigh, North Carolina 27604
sharon.edmundson@nctreasurer.com

Re: Bald Head Island Transportation Authority (“Authority”)
Application for Approval of Bald Head Island Transportation Authority
Transportation System Revenue Bond Findings (“Application”) for
\$56,144,303.30 Financing

P.O. Box 3009 BALD HEAD ISLAND, NC 28461 (910) 457-9700 FAX (910) 457-6206
E-MAIL: village@villagebhi.org WEBSITE <http://www.villagebhi.org>

Mr. Timothy Romocki
Honorable Dale R. Folwell, CPA
Ms. Sharon Edmundson
Page 2
April 23, 2021

Dear Mr. Romocki, Mr. Folwell and Ms. Edmundson:

The Village of Bald Head Island ("Village") respectfully requests that the Local Government Commission ("LGC"), for the reasons below described, defer consideration of the Application, as presently constituted, at the LGC's May 4, 2021 meeting.

It is our understanding that the LGC has adopted a policy requiring written comments to be submitted at least seven (7) business days prior to the scheduled meeting, so this letter is submitted in compliance with the LGC's policy. We may need to update this letter, depending on further information that is received between now and May 4.

TIMELINESS OF CONSIDERATION

The Village represents the interests of the public on Bald Head Island, including the residents, property owners, visitors and businesses. In principle, the Village is not opposed to the Authority acquiring and operating the Transportation System (the "Proposed Acquisition"), provided its financial and operational planning for the transaction is sound and in the best interests of the users of the System. The Transportation System constitutes the lifeblood of the Island and it is paramount that planning for its acquisition, operation, transition and financing be sound, well-considered and in the public interest.

In its prior correspondence to the LGC, the Village described substantive concerns regarding the Application and the Proposed Acquisition. Those concerns have not been addressed by the Authority or by Bald Head Island Limited, LLC/Bald Head Island Transportation, Inc. (collectively, the "Seller"). The Authority's primary engagement with the Island and other public stakeholders has been to conduct a public informational meeting via teleconference on February 17, 2021. This minimal engagement with the public and absence of any substantive response to the questions and concerns raised is inconsistent with the LGC's instructions to the Authority in its February 4, 2021 letter. That letter required that the Authority "address the four (4) Village requests [including] that the Authority:

4. Provide a process for Authority consideration and meaningful response to questions, input and concerns from the public."

To our knowledge, the Authority has not undertaken consideration and meaningful response to the questions, input and concerns from the public. In fact, the Application to be presented by the Authority to the LGC at the May 4, 2021 meeting is substantially the same as the Application the Authority first disclosed publicly and approved at its December 8, 2020 meeting. In light of this, it appears that consideration of the financing at the May 4, 2021 meeting is premature.

QUESTIONS RAISED BY THE PROPOSED ACQUISITION

Because the Authority has not provided a meaningful response to questions, input and concerns from the public as instructed by the LGC in its February 4, 2021 letter to the Authority, and based on the information available about the Proposed Acquisition, there are several questions that we believe the LGC must address during its review of the financing. Given the uncertainty relating to these questions, we believe that it would be premature to consider the Application at the LGC's May 4 meeting.

1. DID THE AUTHORITY OBTAIN APPRAISALS THAT ARE INDEPENDENT AND SUFFICIENT? The LGC's Guidelines on Debt Issuance, Section 9 provides that "appraisals... must be prepared by parties that are both independent to the transaction and possessing adequate expertise." The real estate appraisals of the ferry terminals at Bald Head Island and Deep Point (on the mainland in Southport) prepared for the Authority by Worsley Real Estate Company came to \$42,395,000.00 and, thus, formed the basis (i.e., 88%) of the Authority's proposed \$47,750,000.00 acquisition price for Seller's transportation assets.

Worsley's appraisals raised two key concerns that the Authority has yet to address or explain. The first is that the Worsley reports value the real estate parcels at the Deep Point and Bald Head Island ferry terminal sites at more than twice what Worsley himself estimates the Brunswick County tax assessor would have estimated had the County's assessor appraised the exact same parcels -- \$42,395,000.00 versus \$17,734,810.00. There is no explanation of this difference in the Worsley reports; only a brief reference that the difference exists. This is surprising given that under state law, the Brunswick County property tax assessor is required to assess commercial property for tax purposes at its fair market value.

A second concern with the Worsley appraisals is that they are based on only one of three methods that are commonly used to estimate values of commercial real estate. The three-method practice is routinely used in appraising commercial properties in order to reduce the risk that any one method might produce an inaccurate valuation. Worsley used only the Cost Approach. This is unusual, since the Income Approach is generally regarded to be the most accurate of the three methods when appraising income producing properties. Worsley's appraisal reports state that the Income Approach was not used on explicit instructions from the Authority's Business Valuation Consultant.

We do not know why the Income Approach was purposefully excluded from the Worsley appraisals, particularly in view of stark differences in the valuation of the parcels at the Bald Head Island and Deep Point ferry terminal sites that were developed by Worsley and the Brunswick County tax assessor.

2. **IS THE PROJECT NECESSARY AND EXPEDIENT?** In reviewing the financing, the Commission must consider whether the Project is “necessary and expedient.” N.C.G.S. § 159-52(b)(1). There are serious questions about the prudence of the Project at this time.

The Ferry Transportation Authority Act (the “Act”), as enacted by Session Law 2017-120 (“SL 2017-120”), was largely the brainchild and guided through the legislature by the Seller. Once formed, the Authority was authorized to negotiate with the Seller for the potential acquisition of the Transportation System, N.C.G.S. § 160A-685(c)(7-8, 10-11). The Authority’s ability to enter the Proposed Transaction is proscribed by the requirement in SL 2017-120, Section 6(a)(ii), that the acquisition of an existing service provider’s assets in the service area be “at or below their appraised value.” The questions noted in Section 1 above and in other public comments and concerns, including those voiced by the Authority Board members who voted against the transaction, raise questions regarding the Proposed Acquisition’s compliance with this mandate.

Further, SL 2017-120, Section 6(a)(ii), does not require the outright purchase of the existing operator’s assets. That section expressly permits acquisition by “purchase, gift, lease or otherwise...”. *Id.* Has the Authority explored gift, lease or other terms for the Proposed Acquisition?

As the Deep Point terminal constitutes a substantial portion of the financing, has the Authority explored a lease of Deep Point or other potential sites for a mainland terminal? The Transportation System was previously operated from Indigo Plantation in Southport, until its relocation on June 2, 2009 to Deep Point. It is noted that the State of North Carolina owns a nearby ferry terminal and also 42 acres of undeveloped property (the former North Carolina International Terminal site) in the vicinity of Deep Point that could constitute alternate or long-term sites for a mainland terminal.

Further, had the General Assembly been adamant that the transaction occur, it could have, at any point since passage of the Act, allocated funds for that purpose. N.C.G.S. § 160A-685(b). Tellingly, it has not. The statute does not require the Proposed Acquisition to occur at any cost or set a timetable for the acquisition. *See* N.C.G.S. § 160A-689 (permitting the Authority Board of Trustees to terminate the Authority at any time when there is no indebtedness, but not requiring termination by any certain time period).

There are serious issues with the adequacy of the existing system, particularly during peak traffic periods such as during the summer months. During a normal peak season, both passenger and vehicular traffic capacities are strained, with there being inadequate parking spaces for vehicles and passengers often missing or being “bumped” from the desired ferry and having to wait several hours for an available boat. These factors will be compounded in the upcoming 2021 summer season by (a) projections that this will be a particularly busy season at

Bald Head Island with record numbers of rentals and visitors; and (b) Covid-19 related precautions and procedures, such as deep cleaning of vessels between transport runs. Costs for land acquisition for additional property and vessel or terminal improvements to meet existing and anticipated capacities are not included, nor have operational plans or projections for these critical issues been presented.

The peak summer season is nearly upon us and we question whether the timing of the transaction is beneficial or whether it would distract the Authority and the System operator during this peak time period.

3. IS THE AMOUNT OF FINANCING PROPOSED ADEQUATE? These issues raise questions whether “the amount proposed is adequate.... for the proposed purpose of the issue” which the Commission must consider under N.C.G.S. § 159-52(b)(2).

Additionally, the LGC’s Guidelines on Debt Issuance, Section 9 provides:

“Financial projections should be presented that demonstrate feasibility and are clearly reasonable in comparison to prior financial performance. Appraisals, feasibility studies and comfort letters (if required) must be prepared by parties that are both independent to the transaction and possessing adequate expertise.

No such projections or feasibility studies have been presented to demonstrate the feasibility and reasonableness of passenger and vehicular parking capacities.

No salary and compensation study was performed with respect to necessary staffing for the Authority. The Authority will not have the taxing power and the ability to raise additional funds to address these issues, which should be addressed in the revenue financing.

4. ARE THE BOND RATING AND FINANCING COSTS IN THE PUBLIC INTEREST? In reviewing the financing, the Commission must consider whether “the proposed bonds can be marketed at reasonable rates of interest.” N.C.G.S. §159-52(b)(5). The proposed interest rate of 4.15% appears excessive for a governmental unit and reflective of the unit’s start-up nature and lack of financial history or taxing authority, including as reflected in the low “BBB” bond rating. It is worth asking, has the Authority considered partnering with other state, county or municipal unit or units of government for a guarantee or other financing which would result in a lower debt burden to the public? *See* LGC Guidelines on Debt Issuance, Section 12, “Enhancements includ[ing]... a parent guarantee, etc., should be considered.”

5. WILL THE INCREASE IN SYSTEM USER FEES AND CHARGES TO SERVICE THE PROPOSED DEBT BE EXCESSIVE? In considering the Application, the Commission must consider whether “the increase in taxes, if any, necessary to service the proposed debt will not be excessive.” N.C.G.S. § 159-52(b)(4).

Mr. Timothy Romocki
Honorable Dale R. Folwell, CPA
Ms. Sharon Edmundson
Page 6
April 23, 2021

Because these will be revenue bonds, the taxes will be in the form of user fees and charges for the Transportation System. In order to service the substantial debt to be incurred, the proposed financing would impose a \$4.00 per ferry ticket increase in 2021 from \$23.00 to \$27.00 (a 17.4% increase), plus future increases. Barge rates would increase \$5.00 per six (6) linear feet from \$50.00 to \$55.00 (a 10% increase), plus future increases. The LGC is not merely approving a bond issuance in this instance; its actions would immediately affect thousands of individuals and businesses who depend upon the Transportation System as their sole means of access to Bald Head Island.

6. DOES THE APPLICATION SATISFY OTHER LGC GUIDELINES ON DEBT ISSUANCE?

See LGC Guidelines on Debt Issuance, including:

“4) The request to borrow must be for capital expenditures, not operating expenses.”

The financing would include \$8,394,303.30 in operating expenses and reserves for the start-up unit of government.

“7) Community support for the project is important, especially for non-voted debt. Lack of community support may be evidenced by comments at meetings of the governing body or public hearings, correspondence, newspaper articles, etc.”

Community support in favor of the Proposed Acquisition, as currently constituted, has not been documented. The records of the public comments at the February 17, 2021 Authority meeting (**Exhibit A** hereto) document numerous objections and concerns.

As you can see, the Proposed Acquisition leaves unanswered questions. The answers to each of these questions are critical, as they could determine the ultimate fate of the financing. We are grateful for the LGC’s careful review of the financing and its consideration of the questions we have identified.

Thank you for your consideration.

Respectfully,

Village of Bald Head Island Council

/s/ J. Andrew Sayre

Mayor

Mr. Timothy Romocki
Honorable Dale R. Folwell, CPA
Ms. Sharon Edmundson
Page 7
April 23, 2021

/s/ Michael Brown
Mayor Pro Tempore

/s/ Scott Gardner
Councilor

/s/ Emily Hill
Councilor

/s/ Peter Quinn
Councilor

pc: The Honorable Beth Wood, State Auditor
The Honorable Elaine Marshall, Secretary of State
The Honorable Ronald Penny, Secretary of Revenue
The Honorable Scott Padgett, Mayor, City of Concord
The Honorable Viola Harris, Commissioner, Edgecombe County
Mr. Edward Munn, member, Local Government Commission
Mr. Joshua Bass, member, Local Government Commission
Mr. Mike Philbeck, member, Local Government Commission
Cindy Aiken, Attorney, Department of the State Treasurer
Susan Rabon, Chair, Bald Head Island Transportation Authority
Chad Paul, CEO, Bald Head Island Limited, LLC
K. Christopher McCall, Village Manager
Charles S. Baldwin, IV, Village Attorney
(all via email)