



LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
SHARON EDMUNDSON, DEPUTY TREASURER

QUESTIONS REGARDING THE BHITA ACQUISITION OF THE BHI FERRY SYSTEM:

LGC STAFF ASSESSMENT OF QUESTIONS

Background

Per the directive of Commission members at the June 1, 2021 LGC meeting, LGC staff reviewed all questions that were presented to the Commission in order to provide a recommendation as to the relevancy of the questions in supporting the Commission's consideration of Bald Head Island Transportation Authority's proposed financing of the Bald Head Island ferry system.

The Commission requested the questions be categorized as follows; please note that the number assigned to the category serves as the key for the pages that follow:

- 1: Must be answered
- 2: Nice to know
- 3: No longer relevant

Assessment of Questions

In assessing the questions presented and developing its recommendations, LGC staff used the following references:

North Carolina General Statutes [Chapter 160A, Article 29 -Ferry Transportation Authority](#)

North Carolina General Statutes [Chapter 159, Article 5 - Revenue Bonds](#)

North Carolina General Statute [159-86 Approval of application by Commission](#)



Staff Recommendations

The following pages include the questions reviewed by LGC staff, a “Reference” (the statutory consideration or finding staff believed the question supported), and a “Staff Rank” of 1 (must be answered), 2 (nice to know) or 3 (no longer relevant). Staff made limited edits to some questions for the purposes of consistency and/or brevity to make this document a useful tool for the Commission. Please refer to the packet of materials provided at the June 1, 2021 meeting for reference and/or complete question text.

In the cases where staff assigned a recommendation of 3 (no longer relevant), an explanation may be provided for that assessment. Some questions were assigned a 3 only because they had already been (substantially or completely) addressed in other questions already presented. A rank of 3 also was assigned to questions that staff believed had been asked and answered in other materials or Commission proceedings or were not relevant to the considerations and findings under NCGS 159-86. The text of NCGS 159-86 is included in the final pages of this document for reference.

LGC staff assessed 74 questions submitted by LGC members, the Village of Bald Head Island, and citizens and recommends that 23 questions (1 through 23) should be assigned a rank of “1” (must be answered), three questions (24 through 26) should be assigned a rank of “2” (nice to know), and 48 questions (27 through 74) should be assigned a rank of “3” (no longer relevant).

Commissioners’ Review and Feedback

LGC staff requests that Commission members review staff’s assessment and recommendation on each question. Should a member disagree with staff’s assigned rank on a question, please note the category you believe is appropriate in the “LGC Rank” column: 1 (must be answered), 2 (nice to have), or 3 (no longer relevant). If you agree with the assessment, feel free to leave this column blank. LGC staff will then review Commissioners’ feedback and compile a final list of ranked questions.



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	Source	Question	Reference	Staff Rank	LGC Rank
1	Auditor Wood	Why is there such a great disparity between the appraised value of the Deep Point Ferry Terminal Operation (Deep Point) and the Bald Head Island Ferry Operation (Bald Head) and the Tax Value of the same properties?	159-86(b)(2)	1	
2	Auditor Wood	For each building/site improvement, how does Worsley's appraisal valuation compare to the book value, depreciated based on useful life of the assets?	159-86(b)(2)	1	
3	Auditor Wood	While the methodology is said to be in accordance with appraisal standards, I need more evidence, independent and objective, to be convinced these values used in the appraisal are justified, especially given the qualifying statement on the Limiting Conditions page of the report stating that all opinions, estimates, data and statistics furnished by others are assumed to be correct.	159-86(b)(2)	1	
4	Auditor Wood	Deep Point - How is it that entrepreneurial incentive applies in "this" deal? (Referring to deal in Question 53)	159-86(b)(2)	1	
5	Auditor Wood	Analysis of comparable market data: 5% annual upward adjustment was used, stated to be based on historical data. What historical data? Because it is also stated the 5% is "somewhat" judgmental.	159-86(b)(2)	1	
6	Auditor Wood	Analysis of comparable market data: Comparable 1 & 4 properties received a 10% upward adjustment due to inferior locations but no background on why the locations are inferior. So why this percentage and where is the justification for these 2 Comparables?	159-86(b)(2)	1	
7	Auditor Wood	Analysis of comparable market data: I understand the adjustment upward for utilities for comparable 1 but nothing indicates this is justified for 2, 3, 5. So what is the justification?	159-86(b)(2)	1	
8	Auditor Wood	Analysis of comparable market data: I don't understand why the 5% upward adjustment for Comparables 2, 4 and 5 for zoning. There is nothing to justify this zoning. What is the justification for this?	159-86(b)(2)	1	



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9	Auditor Wood	This is not a question but it does need to be done –in the next appraisal the Income Approach, for which data was gathered but not used to assist in the appraisal of Deep Point and Bald Head, should be utilized.	159-86(b)(2)	1	
10	Auditor Wood	In the Chair’s letter to the Local Government Commission dated March 4, 2021, page 35 in the LGC packet, but page 2 of the “Bald Head Island Transportation Authority, Questions and Answers”, the Authority dismisses the transaction price as a multiple of earnings (EBITDA). The current purchase price of the System reflects a value of roughly 12 times EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization) when a multiple of 4 to 6 is said to be typical for transactions of this type. The Authority refers to this metric as a “rough” measure when nothing in the appraisal world indicates there is anything “rough” about it. Certainly, there are pros and cons but nothing “rough” that would cause the Authority not to consider the metric. How is it that the Authority “dismisses” this metric without any real, valid reasons for doing so? Most of the argument that “is” given is based on “Projected” EBITDA for FY 2022. “Projected” EBITDA????	159-86(b)(2)	1	
11	Auditor Wood	What is the current tax value of the land and improvements at Deep Point and at Bald Head Island?	159-86(b)(2)	1	
12	Auditor Wood	When was the assessment done?	159-86(b)(2)	1	
13	Secretary Penny	Is the fee appraisal a “Going-Concern Value”? If yes, have the intangibles, goodwill been appraised separately? By statute intangibles are exempt for property tax. So the county assessor could only appraise the tangible property (land, ferry, equipment). Whereas the fee appraiser may be valuing the entire ferry system as a business and maybe including intangible assets (such as workforce, contracts with vendors, trademarks, goodwill, etc.) in their appraisal that by definition could not be included in the county’s assessment.	159-86(b)(2)	1	



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14	Secretary Penny	What are the dates of the appraisal (or what is the date the appraisal is based on?) The county's land value will be based on their last reappraisal which was January 1, 2019 and their personal property will be based on January 1 of the date of the appraisal (which I am assuming is January 1, 2020). What is the date of the fee appraisal? If January 1, 2020 – then we could assume the land values would have changed some (not to that extreme) but it is possible we are not comparing apples to apples.	159-86(b)(2)	1	
15	Secretary Penny	Do both appraisals clearly identify what they are appraising? Does the fee appraisal say it is appraising the tangible assets only, or the ferry system as a business? We know the county can only appraise the tangible assets.	159-86(b)(2)	1	
16	Secretary Penny	What is the purpose/use of the appraisals? The county's appraisal is for property tax purposes, but there are all kinds of reasons to hire a fee appraisal. The purpose is normally listed early in the fee appraisal. But based on why the appraisal was conducted could explain the variance in values. But to compare the two, they really should be based on the same purpose.	159-86(b)(2)	1	
17	Secretary Penny	What information did both sides have to conduct their appraisals? The county is following their schedule of values for the appraisal of the land, and likely using cost figures reported by the taxpayer to determine the ferry value and any other personal property. But did the fee appraiser have additional information provided to them that the county didn't? Were there major renovations to the ferry that were not provided to the county assessor? Example – airplane values typically drop as they get older. However, if you added certain engine kits to them or replaced the engines with new ones, you could have the values increase. Any major overhaul should have been reported to the county over the years; have there been any and were they reported?	159-86(b)(2)	1	
18	Mr. Bass	Please provide a new appraisal without limitations set on it.	159-86(b)(2)	1	
19	Village of BHI	Has a quality of earnings assessment been conducted as is typical for transactions of this size and nature and has it been disclosed?	159-86(b)(2) 159-86(b)(3)	1	



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20	Village of BHI	Is there sufficient community support, including by the regular users of the Transportation System, for the Project/financing? LGC Guidelines, Section 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.”).	159-86(a) – “any other matters”	1	
21	Village of BHI	Do the proposed transaction and financing adequately account for the condition of the assets and improvements necessary to operate the System through the maturity date of the financing?	159-86(b)(2)	1	
22	Village of BHI	Are the financial projections consistent with past performance, including the audited three (3) year financial statements?	159-86(b)(3)	1	
23	Citizens	Did the Mercator cash flow projections take into account: a) the age of the vessels and the estimated costs of their repair and replacement b) the acquisition of additional land for parking c) the revamping of the baggage delivery system. <i>LGC Staff note –</i> a) <i>Answered - see feasibility study page 8 (Sec.2.1.4); Table 14, p. 48</i> b) <i>Answered - see feasibility study page 29</i> c) <i>*Not answered – to be included as rank “1”</i>	159-86(b)(3)	1* (c only)	
24	Auditor Wood	The value of the land used for the first comparable for Deep Point is a “listing”. The difference in the price per acre versus the most recent (2016) sale is a 45% increase. Why is the adjustment 10%? What backs up that judgement call?	159-86(b)(2)	2	
25	Auditor Wood	Why don’t the Village and the Authority agree on an appraiser AND split the cost of the Appraisal?	159-86(a) – “any other matters”	2	
26	Auditor Wood	What is the Authority’s plan for holding a meeting where “all” questions are answered openly and thoroughly?	159-86(a) – “any other matters”	2	



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27	Auditor Wood	<p>Per the report, site improvements/buildings were estimated based upon the depreciated values. However, the report describes that methodology as comparing the effective age (apparent age of an asset) with “typical” building lives based upon the construction.</p> <p>The effective age, used in the report, was 5 years.... Is the appraiser telling us that, after visiting and “eye-balling” the assets, they likened the visible wear on the assets to 5 years after construction?</p> <p><i>LGC Staff note – please see Worsley appraisals.</i></p>		3	
28	Secretary Penny	<p>What approach was used to appraise the property? Were all (3) approaches considered and included in the appraisals?</p> <p>The county likely used the cost approach only for the ferry and personal property. They probably took the original cost of the equipment and trended it based on cost indexes. The fee appraisal may have been more based on income approach.</p> <p><i>LGC Staff note – please see Worsley Deep Point appraisal, p. 4 (cost approach only).</i></p>		3	
29	Secretary Penny	<p>Who was the client for the fee appraisal?</p> <p><i>LGC Staff note – Client is the Bald Head Island Transportation Authority; please see Worsley Deep Point & Island appraisals’, opinion letters.</i></p>		3	
30	Secretary Penny	<p>What was the Highest and Best Use of Property listed from both appraisals?</p> <p><i>LGC Staff note – Highest and best use is as ferry transportation system; please see Worsley Deep Point & Island appraisals, p. 38; p. 35.</i></p>		3	
31	Secretary Penny	<p>What comps did both use?</p> <p><i>LGC Staff note – please see Worsley Deep Point & Island appraisals – p. 41, p. 38</i></p>		3	
32	Village of BHI	<p>Has the Authority conducted sufficient public meetings and disclosure in order for the public to become aware of and understand the nature and significance of the proposed transaction and financing?</p> <p><i>LGC Staff note – Authority conducted one public hearing at request of the LGC. Documents and information provided to the Village and posted on their website.</i></p>		3	



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33	Village of BHI	Have the three (3) year audited financial statements referenced at the May 4, 2021 LGC meeting been disclosed? <i>LGC Staff note – provided in the application to the LGC; basis for feasibility projections.</i>		3	
34	Village of BHI	Has the enterprise value requested by the Seller referenced at the May 4, 2021 LGC meeting been disclosed? <i>LGC Staff note – yes - \$55.8 Million - reference to January 2018 Mercator valuation, credit presentation – slide p. 34.</i>		3	
35	Village of BHI	Whether the Seller historically has transferred its utility assets and employment of its utility employees to the Village?		3	
36	Village of BHI	Has the Village efficiently and in the public interest operated since 2005 the water and sewer utility assets acquired from Bald Head Island Utilities, Inc. and Bald Head Island, LLC?		3	
37	Village of BHI	Whether this transaction and financing, if approved over the objection of a majority of the Transportation System users, would set up an antagonistic relationship between the users and the Authority?		3	
38	Village of BHI	Whether the Village could operate the assets efficiently, with substantial savings of public funds? For example, by issuing general obligation bonds for non-ferry assets (e.g., barge, warehouse and parking), higher bond rating and lower interest rates based upon Village’s credit history and \$1,156,220,487.00 ad valorem tax base and avoiding wasteful duplication of administrative offices, personnel, communications and systems.		3	
39	Village of BHI	Whether the Village Council, consisting of regular riders and users of the Transportation System, would be more informed, responsive and fiscally responsible than an Authority Board, a majority of which consists of persons who do not regularly use the Transportation System?		3	
40	Village of BHI	Are the regular users of the Transportation System sufficiently represented on the Authority governing board, when the proposed transaction was approved by a 7-4 vote, over the objection of all four (4) Bald Head Island resident appointees who are regular users of the System?		3	



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41	Village of BHI	Are the regular users of the Transportation System sufficiently represented on the Authority governing board, when no Bald Head Island appointee, including the ex officio Mayor and Mayor Pro Tem members, were appointed to the negotiating committee with the Seller within the past approximately 1½ years?		3	
42	Village of BHI	Do the governing boards of other transportation authorities which are truly regional in nature more closely reflect the communities of the users than the governing board of the Bald Head Island Transportation Authority, which solely provides transportation to and from Bald Head Island?		3	
43	Village of BHI	The Transportation System has been operated by the developer of Bald Head Island for several decades. Has any public concern regarding governance arisen that would require a regional Transportation Authority to address?		3	
44	Village of BHI	If the financing application is denied for the questions and concerns noted, is it likely that the Transportation System assets would be acquired by a public entity, either the Village or a transportation authority established by it under Article 25, 3 Chapter 160A, pursuant to the Right of First Refusal granted the Village by Bald Head Island Transportation, Inc. and Bald Head Island Limited recorded at Book 1329, Page 932, Brunswick County Registry?		3	
45	Village of BHI	Has the Authority conducted a salary and compensation study, including health and retirement benefits for the necessary staff? <i>LGC Staff note – Assumes status quo personnel costs with 4 additional staff from parent operations; see Mercator study – pp. 49, 50, 52</i>		3	
46	Village of BHI	What increases in user fees and charges beyond those proposed in 2021 would be necessary for the financing and would they be excessive? <i>LGC Staff note – Ferry ticket initial increase \$4, then \$2 five years later; inflation adjustment every 3 years; see Mercator study – p.49; Parking rate initial increase of 21% followed six years later by annual inflationary increases – p.50; Table 15; Table 16.</i>		3	
47	Village of BHI	Would the increases in user fees and charges fall disproportionately on the daily workers?		3	
48	Village of BHI	Would the increases in user fees and charges be a disincentive to the employers of daily workers to do work on Bald Head Island?		3	



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49	Village of BHI	Has the Authority sufficiently explored acquisition by gift, lease, or otherwise?		3	
50	Village of BHI	Has the Authority explored lease of the ferry terminals instead of purchase?		3	
51	Village of BHI	Has the Authority explored with the State of North Carolina use or lease of the nearby marine terminal parcels for the Fort Fisher-Southport ferry or the former North Carolina International Terminal site of 42 acres?		3	
52	Village of BHI	Has the Authority obtained independent, qualified appraisal reports for the real estate to be acquired?		3	
53	Village of BHI	Why is a developer's incentive of fifteen (15%) percent of total cost included in the real estate appraisals? <i>LGC Staff note – see Auditor Wood's question (#4) re: "entrepreneurial incentive"</i>		3	
54	Village of BHI	The debt burden of "not to exceed \$59,000,000.00" is substantially in excess of the appraised asset value, which is \$47,750,000.00 or less. Would that constitute an impermissibly heavy debt burden exceeding that of similar units? <i>LGC Staff note – BHITA is a unique entity with no "similar units" with which to compare.</i>		3	
55	Village of BHI	Is the request for operating expenses, not capital expenditures? <i>LGC Staff note: Bond proceeds can be used for working capital for initial maintenance and operations. See 159-83(a)(9)(iii).</i>		3	
56	Village of BHI	Are the financial projections and amount of the proposed financing sufficient for the operation of a first-class Transportation System, consistent with the Bald Head Island community?		3	
57	Village of BHI	Is the three (3) year review of past financials sufficient, given the major impacts of Hurricane Florence and COVID-19 on ferry usage in recent years? <i>LGC Staff note – Feasibility study looked at last 20 years of operations; see Mercator Study – Fig. 13 & 14; p. 37.</i>		3	
58	Village of BHI	Is the asset depreciation schedule too low, given the deteriorated condition of the equipment? <i>LGC Staff note – see similar question from Auditor Wood (#2)</i>		3	



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59	Village of BHI	With current unmet deferred maintenance and capital expenditures, are the ratepayers effectively having to pay for these items twice; initially through the bond sale with \$47,750,000.00 being paid to the Seller; and again when rates are raised to pay for maintenance and capital repairs that should already have been addressed? <i>LGC Staff note – assets values were reduced for depreciation and future capital outlays were included in the feasibility study; see Mercator Study – Table 14, p. 48</i>		3	
60	Village of BHI	Has the Authority sufficiently considered partnering with other State, County or municipal units of government for a guarantee, letter of credit, or other financing (such as inclusion in State financing) that would result in a lower debt burden to the public?		3	
61	Village of BHI	Are the low bond rating of “BBB-” and 4.25% interest rate reasonable and in the public interest for a project of this magnitude? <i>LGC Staff note – this will be a determination made by the Commission.</i>		3	
62	Village of BHI	Could the Village obtain a higher bond rating and lower interest rate by issuing general obligation bonds to purchase the parking, warehouse, and barge assets that are not regulated by the Utilities Commission as part of the ferry system?		3	
63	Village of BHI	Could the Village obtain a higher bond rating and lower interest rate by issuing revenue bonds for the ferry assets, based upon its credit history?		3	
64	Village of BHI	In light of all of the foregoing questions and concerns, is the Project to be financed “necessary or expedient”? <i>LGC Staff note – this will be a determination made by the Commission.</i>		3	
65	Citizens	Can the seller provide the prior-year financial data for the system and the financial data used in BHITA’s appraisals? <i>LGC Staff note – for prior year financials, see similar question from the Village (#33); financial sources are referenced in the appraisal reports.</i>		3	



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66	Citizens	Can the seller provide historical operating income and expenses as well as usage statements? <i>LGC Staff note –historical financial information for the ferry and tram operations are on file with the NC Utilities Commission. Historical ferry and barge ticket data is found in the feasibility study; see Mercator Study – Fig. 13 &14, p. 37.</i>		3	
67	Citizens	Does BHITA have a fiduciary responsibility to acquire BHI Limited ferry system at the best price for the users and owners, or only to purchase the system below the appraised value?		3	
68	Citizens	Three methods could be utilized to provide a valuation of the system - cost approach, business enterprise value, and sales/market value. Why was only one method (cost approach) used for valuation of the system? <i>LGC Staff note – see Worsley’s appraisals; see similar question from Secretary Penny (#28).</i>		3	
69	Citizens	If the cost approach is used for valuation, is an analysis available (or can an analysis be provided) that includes functional obsolescence and addresses the inadequacies of both the parking facility and baggage delivery operation both at Deep Point and on the Island? <i>LGC Staff note – see similar question from Auditor Wood (#2)</i>		3	
70	Citizens	Can BHITA request an independent and transparent third-party analysis of the valuation using all three methods? <i>LGC Staff note – see BHITA Memo dated May 21, 2021</i>		3	
71	Citizens	Please provide a timeline of the negotiations between BHITA and the seller.		3	
72	Citizens	What was the negotiated price/price range of the system?		3	
73	Citizens	Please provide a list of all offers the seller received along with the amounts and dates they were rejected.		3	
74	Citizens	What indications did BHITA have that they were being outbid by another entity?		3	



§159-86 - Approval of application by Commission

(a) In determining whether a proposed revenue bond issue shall be approved, the Commission may consider:

- (1) Whether the project to be financed from the proceeds of the revenue bond issue is necessary or expedient.
- (2) Whether the proposed project is feasible.
- (3) The State's or the municipality's, as the case may be, debt management procedures and policies.
- (4) Whether the State or the municipality, as the case may be, is in default in any of its debt service obligations.
- (5) Whether the probable net revenues of the project to be financed will be sufficient to service the proposed revenue bonds.
- (6) The ability of the Commission to market the proposed revenue bonds at reasonable rates of interest.

The Commission may inquire into and give consideration to any other matters that it may believe to have a bearing on whether the issue should be approved.

(b) The Commission shall approve the application if, upon the information and evidence it receives, it finds and determines:

- (1) That the proposed revenue bond issue is necessary or expedient.
- (2) That the amount proposed is adequate and not excessive for the proposed purpose of the issue.
- (3) That the proposed project is feasible.
- (4) That the State's or the municipality's, as the case may be, debt management procedures and policies are good, or that reasonable assurances have been given that its debt will henceforth be managed in strict compliance with law.
- (5) That the proposed revenue bonds can be marketed at reasonable interest cost to the State or the municipality, as the case may be. (1971, c. 780, s. 1; 1983, c. 554, ss. 7, 8.