

April 30, 2021

Members of the Local Government Commission
North Carolina Department of State Treasurer
3200 Atlantic Avenue
Raleigh, North Carolina 27604

Bald Head Island Transportation Authority
Application for Approval of Bald Head Island Transportation Authority
Transportation System Revenue Bonds

Dear Commissioners:

As the Chair of the Bald Head Island Transportation Authority (the “Authority”), I am responding to the letter dated April 23, 2021 from the Village Council of the Village of Bald Head Island (the “Village”) once again requesting delay of the approval by the North Carolina Local Government Commission (the “LGC”) of the proposed issuance by the Authority of its Transportation System Revenue Bonds (the “Bonds”) in order to finance the acquisition of the ferry, parking, barge, and ground transportation assets (collectively, the “System”) that provide service to Bald Head Island, North Carolina (the “Island”) from Bald Head Island Limited and Bald Head Island Transportation, Inc. (collectively, the “Sellers”).

Summary. The Authority was formed by the General Assembly for the express purpose of “providing reliable and safe public ferry transportation services in its service area.” The authorizing legislation (Session Law 2017-120) (the “Act”) requires representation on the Board of Trustees from the Island, the City of Southport and Brunswick County, as well as other statewide appointees, to assure that all potential users of the System have a voice in its operation. The legislation permits the issuance of revenue bonds to finance the acquisition of the System, payable solely from the revenues of the System.

The financial transaction that has been presented to the LGC for approval meets the requirements of Article 5 of Chapter 159 of the North Carolina General Statutes (the “Revenue Bond Act”) for approval. The Authority has provided the information to the LGC and its staff necessary for it to make the findings required by the Revenue Bond Act, including three years’ audited financial statements of the Sellers broken out and audited to show the different elements of the operation of the System (barge, parking, and ferry and tram); a formal feasibility study that incorporates those historical, audited financials as well as projected operations going forward; all elements of the appraisals and valuations that were used to support the Authority’s agreed upon purchase price (including real estate, vessels and other assets); evidence of an investment grade rating; and other information requested by LGC staff.

The information used by the Authority to reach a purchase price for the System and to develop the financing model is available to the public, and was explained in detail by the independent, third party consultants (i.e. Davenport & Co. as financial advisor, UBS Financial Services Inc. as the Underwriter and Mercator International as the feasibility consultant) who assisted the Authority in developing the feasibility study and pro forma financial projections. In addition to the public hearing, the Authority has provided an extensive response to the questions that were raised, explaining in detail how it reached its conclusions. It has acknowledged that there are operational issues going forward that need to be addressed; those cannot be addressed until the Authority controls the System.

The Village in its various letters to the LGC has voiced a number of concerns about the purchase of the System, including issues relating to transparency of the process, the purchase price agreed to between the Authority and the Sellers, and various aspects of the current operation of the System by the Sellers. On March 22, 2021, following discussions in closed session on March 19, 2021, the Village indicated that it would pursue purchasing the System itself, presumably at the same price offered to the Authority, although to our knowledge no offer has been made to the Sellers, no financing has been discussed and no application with respect to such a transaction has been filed with the LGC. The Sellers have indicated their interest in completing the sale that has been negotiated over several years with the Authority, and fulfilling the legislative goal of public ownership under a regional structure. (Letter from Sellers to LGC 3-26-2021). Furthermore, it is not clear that the Village has the statutory authority to acquire or operate all aspects of the System, nor is it clear that the Village has the authority to use property tax revenue for a ferry transportation system.

The financing transaction before the LGC for consideration is the Authority's issuance of revenue bonds to purchase the System in accordance with the Act and the Revenue Bond Act.

In the April 21, 2021 letter, the Village states that it is not opposed to the Authority acquiring and operating the System, but then goes on to raise a number of concerns, which I will address in turn.

Timeliness of Consideration. The Village states that the Authority has not provided sufficient opportunity for the public to provide input in the acquisition and financing. As the Commission is aware, the Authority held a public hearing attended by over 200 people, and provided detailed responses to the questions raised. Those questions and answers are all available on the Village webpage. (See BHITA Questions and Answers 2-26-2021). The Authority conducts its monthly meetings in open session, and members of the public are able to attend. Many of the items complained about by the Village relate to the operations of the System (baggage handling, parking spaces, number of ferry runs and boat capacity), all of which can be addressed once the Authority owns the System. The fundamentals of the transaction remain as they were earlier this year, with a few modifications. While the purchase price has not changed, the Sellers have added additional land for parking and are making additional capital improvements to the parking area and barge loading area, which will be included in the property to be purchased. The proposed method of sale of the Bonds with an investment grade rating also has not changed, and that rating was affirmed by S&P this week. The transaction has met the statutory criteria for approval by the Local Government Commission; there is no reason not to proceed with the financing.

LGC Guidelines regarding Appraisals. The Village disagrees with the results of the third party appraisals of various portions of the System. The LGC Guidelines require that “[a]ppraisals, feasibility studies and comfort letters (if required) must be prepared by parties that are both independent to the transaction and possessing adequate expertise.” The Authority hired a number of independent third party experts to assist it in determining the “appraised value” of the assets of System in order to satisfy the statutory requirement that the System be purchased below the appraised value of these assets. Each of the consultants hired by the Authority was a third party with expertise in its field - Kopco Marine Services, Inc., a vessel survey and valuation company out of Florida; Moffatt & Nichol, a national firm providing engineering and consulting work relating to marine terminals; SM&E, a national firm with expertise in environmental issues; Worsley Real Estate Company, one of the largest commercial real estate appraisal firms in southeastern North Carolina, with specific experience in marinas and deep water port related properties; and Davenport & Company, a financial advisor with extensive experience with public finance transactions in North Carolina. All of these were third party, independent experts as required by the LGC Guidelines. Such independent appraisals and assessments are also required in order to meet the fair dealing and disclosure requirements of the SEC and MSRB in selling the Bonds.

Necessary and Expedient. The Village asserts that the Commission must determine whether the project is “necessary and expedient,” and lists a number of operational issues to support its contention that it is not. However, the statutory criterion is whether the proposed revenue bond issue is necessary and expedient. The Authority has done the diligence required, has negotiated an asset purchase agreement with the Seller which has been approved by the Board of the Authority, and has a financing that is ready to go to market. The Authority has been working with LGC staff for more than two years on the details of the financing, and has met the criteria of Chapter 159, Article 5 governing revenue bonds, and the related LGC Guidelines. LGC Staff feedback was taken into account in structuring the financing and the overall transaction. The repayment plan presented to the LGC is complete and is consistent with the financial projections provided. Financial projections prepared by an independent third party feasibility consultant demonstrate feasibility and are reasonable compared to prior financial performance. The Authority has obtained an investment grade rating. In short, acquisition of the System is necessary to move it from private to public ownership and control, and proceeding to sell and close on the revenue bonds is the most expedient way to achieve that goal.

Adequate Financing. The feasibility study was prepared using historical, audited financials provided by the current operator of the System, and includes a range of future scenarios as to parking, ridership and homeownership, as well as projected capital expenditures such as expanding parking and replacing ferry vessels. The feasibility study demonstrates the feasibility of the financing and the ability of the System to handle projected use of the facilities based on various volume assumptions. The Authority expects to continue to employ most of the same employees who currently operate the System, a process similar to the transition of other assets and operations on the Island from private ownership to Village ownership in the past. The Authority is projected to be able to operate the System without the need for tax dollars, thus fulfilling the General Assembly’s intent that the System be paid for by the users thereof and not supported by taxpayers.

We note that the Village does not appear to have the power to levy property taxes to support the ferry if it were to own it; Section 160A-209 provides that “each city may levy property taxes for one or more of the following purposes: (27) Public Transportation - to provide public transportation by rail, motor vehicle, or another means of conveyance *other than a ferry*, including any facility or equipment needed to provide the public transportation.” Thus the Village would not be permitted to spend tax revenue on the System.

Bond Rating and Financing Costs. Our underwriter has informed us that the BBB- credit rating from S&P makes the Authority the highest rated unsubsidized ferry operation in the world. S&P utilized the same Global Not-For-Profit Transportation Infrastructure criteria used for other public transportation assets, and concluded that the Authority’s credit strengths (i.e. autonomous rate-setting flexibility, favorable historical demand trends, monopolist competitive position and strong debt and liabilities capacity given a moderate debt burden and a manageable capital improvement plan) offset the potential negatives (i.e.. a narrow revenue stream, relatively discretionary demand to a single location with comparatively low activity levels, exposure to weather-related events and periods of economic weakness) and merit an investment grade rating.

While the rating is lower than the rating of many North Carolina local governments, which have the benefit of either a broader revenue base or an ability to raise taxes, the Authority’s credit rating is comparable to other infrastructure assets in the United States with a narrow revenue base, including, for example, the Monroe Expressway near Charlotte, which also carries an underlying rating of BBB-. In fact, the Authority’s investment grade rating significantly improves the marketability of the Bonds and

positions it to take advantage of historically low interest rates in the municipal bond market. Without an investment grade rating, the underwriter expects that the Authority's cost of capital could be in excess of 5%, with the additional debt service costs increasing the burden on users.

Increase in User Fees. As described in other communications with the public and with the LGC, the increase in the ferry rate of \$4.00 is the first increase in rates since 2010, and is less than the rate of inflation over that same period. The Authority believes that increase is reasonable and indeed not unexpected by the riding public. Based on the rating agency methodology and the LGC requirement that the issue have an investment grade rating, the focus on the structuring efforts was to raise rates just enough to achieve an investment grade rating, place the Authority on a secure financial footing and show funding for capital improvements over the life of the Bonds. While the feasibility study assumes additional rate increases in the future (structured to reflect expected inflation), to the extent the Authority realizes operational efficiencies, it may not need to implement these increases.

I will address several additional points raised by the Village Council.

Working Capital. Under Section 159-83 of the North Carolina General Statutes, a municipality (defined to include the Ferry Transportation Authority for purposes of that article), has the power

“(9) To appropriate, apply, or expend for the following purposes the proceeds of its revenue bonds, notes issued in anticipation thereof, and revenues pledged under any resolution or order authorizing or securing the bonds: (i) to pay interest on the bonds or notes and the principal or redemption price thereof when due; (ii) to meet reserves and other requirements set forth in the bond order or trust agreement; (iii) to pay the costs of the revenue bond projects authorized in the bond order, reimburse funds loaned or advanced for the costs of these revenue bond projects in accordance with the bond order, and provide working capital for initial maintenance and operation until funds are available from revenues....”

Similarly, Section 159-84 authorizes the issuance of revenue bonds “in such principal amount as may be necessary to provide sufficient moneys for the acquisition, construction, reconstruction, extension, betterment, improvement, or payment of the cost of one or more revenue bond projects, including engineering, inspection, legal and financial fees and costs, working capital, ... establishment of debt service reserves, and all other expenditures of the State or the municipality, as the case may be, incidental and necessary or convenient thereto.”

Thus the structure of the bond issue is authorized by the Revenue Bond Act. Similar revenue bond issues also include costs other than the actual capital assets financed, such as debt service reserve funds, capitalized interest, and fees and expenses incurred in connection with the transaction. As a start-up transportation authority with no tax supported funding, the Authority will need some working capital at the outset to run its operations “until funds are available from revenues,” as authorized by the Revenue Bond Act.

Community support. The five members of the Village Council of the Village have made clear their objections to the transaction, both as dissenting members of the Authority Board of Trustees and through communications with the LGC. As noted, the Village Council is elected by the approximately 200 full time residents of the Island, and does not necessarily speak for all of the users of the System, including the general public, nonresident homeowners, workers and contractors, and renters who also use the System. Since the public information session on February 17, 2021, and the posting of the responses to the questions raised, there has been very little additional public comment regarding the proposed

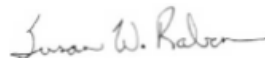
acquisition, and additional favorable support has been expressed in the local press. (See attached newspaper articles). It should also be noted, again, that the Village was in full support of the regional organizational structure of the Authority from the outset, as evidenced by the resolutions it adopted supporting the legislation and creating the Authority in August, 2017.

The community served by the System extends beyond the Island, and includes in particular the rest of Brunswick County and Southport, as that is where most of the workers and contractors who depend on the System to get to the Island live. **Both the Board of Aldermen of the City of Southport and the County Commissioners of Brunswick County, who also supported the organizational structure of the Authority in creating it, have unanimously passed resolutions supporting the regional operation of the System in general and the Authority's proposed transaction specifically.** (Resolution of Brunswick County and Resolution of Board of Aldermen of Southport).

In conclusion, the Authority again requests the LGC to approve this transaction at its May 4, 2021 meeting, based on the information provided and the statutory criteria in the Revenue Bond Act.

As always, the Authority Board members and consultants stand ready to respond to questions from the LGC members and staff.

Very truly yours,



Susan Rabon
Chair, Bald Head Island Transportation Authority

cc: Sharon Edmundson, Deputy Treasurer
Tim Romocki, Director, Debt Management
Mayor J. Andrew Sayre, Village of Bald Head Island
Michael Brown, Mayor Pro Tempore, Village of Bald Head Island
Scott Gardner, Councilor, Village of Bald Head Island
Emily Hill, Councilor, Village of Bald Head Island
Peter Quinn, Councilor, Village of Bald Head Island
K. Christopher McCall, Village Manager, Village of Bald Head Island
Chad Paul, CEO, Bald Head Island Limited, LLC