

Cindy Aiken

From: Kit Adcock <kit.adcock@gmail.com>
Sent: Friday, July 9, 2021 2:32 PM
To: Beth_wood@ncauditor.net; Dale Folwell; Tim Romocki; ronald.penny@ncdor.gov; Cindy Aiken; emum@carolina.rr.com; scottpaggett693@gmail.com; violaharris39@yahoo.com; SharonEdmundson@nctreasurer.com
Cc: Susan Rabon; Chad Paul
Subject: BHITA Bond Financing - Vote "YES"

To the Honorable Members of the NC Local Government Commission and Staff -

As former Mayor Pro Tempore of Bald Head Island and as an active member of the Bald Head Island Transportation Authority [BHITA], I enjoyed a unique perspective on the activity of the Village, BHITA, and their individual and joint interactions with Bald Head Island Limited/Transportation.

Attached please find the first of three letters you will receive from me regarding the acquisition of the Bald Head Island transportation system.

1. Why previous statements to the Local Government Commission in support of Village ownership should be discounted. These include misrepresentations to the Village community about the grants that funded BHITA's work and the factual actual representation on the negotiating committee. I believe that these misrepresentations have created a distrust of BHITA and its legitimate and ethical management of its due diligence, leading to the bond request *the Village* has presented to you.
2. Why I believe the Village of Bald Head Island is ill-prepared and ill-equipped to manage any aspect of the transportation system, except possibly trams as part of a long-term on-island transportation/shuttle system.
3. Why the ONLY option for fair and proper governance of transportation to and from Bald Head Island is the genius concept of the Bald Head Island Transportation Authority.

I urge you, PLEASE, approve the bond request of the Bald Head Island Transportation Authority. (Letter 1 follows my signature and is also attached.)

Sincerely,
Kit Adcock
Mayor Pro Tempore, December 2015-December 2019
BHITA, December 2017-December 2019

Honorable NC Treasurer Folwell
Honorable NC Auditor Wood
Distinguished Members of the Local Government Commission

Re: Approval of BHITA Bond Submission
Letter 1. Why previous statements in support of Village ownership should be discounted.

The future of Bald Head Island lies in your hands.

As the recent past Mayor Pro Tempore of Bald Head Island, and thus a member of the Bald Head Island Transportation Authority (BHITA) from December 2017 until my resignation for medical reasons in December 2019, I urge you to APPROVE the BHITA bond request.

The ONLY issue before you is whether the valuation of assets from which the BHITA bond request is based, is appropriate. Your legitimate questions about how that figure arose will be answered by BHITA. A second appraisal is now underway.

It has been appalling to me to read the letters that have been sent to you. All of them are based on items of misinformation, disinformation, and innuendo. Implying that BHI Limited selected the appraisers for BHITA, is NOT true. I urge you to read and parse carefully all correspondence submitted questioning the appraisals performed by BHITA. I have spent hours enlightening my neighbors with facts. You will note that many of the signatories to the initial letters sent to you about transparency now fully support BHITA.

As you know, no funding was provided to BHITA to manage the duties assigned to it by the NC legislature. BHI Limited offered funding for the work of BHITA through intergovernmental agreements where BHITA would request grants to manage operations and expenses. BHI Limited/Transportation then provided lump sums paid to the Village of Bald Head Island, which then forwarded funds to BHITA. Each of these transfers was approved by the Village of Bald Head Island in public sessions.

[See 4/28/21 Community Letter opposed to BHITA bond: "First, because the Act provided BHITA with no state funds, BHITA was forced to rely on Limited, the seller, to select and pay various consultants that BHITA would use in carrying out its statutory mandate."

...We are bringing this matter to your attention because the figures and circumstances cited above underscore a potentially very serious conflict of interest in the manner in which BHITA has relied on Limited's resources in valuing Limited's transportation System."]

At the very first opportunity, I and others insisted that BHITA perform all its own appraisals and valuations. We knew that Islanders would never accept any values determined by BHI Limited/Transportation. Simply because BHI Limited funded ALL the operations of BHITA, it does not equate to BHI Limited selecting or hiring the companies and individuals who performed the due diligence for BHITA. BHI Limited DID NOT choose ANY of the contractors chosen by BHITA.

My term on BHITA ended in December 2019. All due diligence regarding valuations requested of outside consultants had been received. Financial records from Limited had been provided at the very outset of the meetings held by BHITA. Any additional information requested was freely provided. I have no recollection of BHI Limited or its representatives EVER interfering or refusing to provide information needed to evaluate the system properly.

[See 4/28/21 Community Letter opposed to BHITA bond: "Second, in the course of appraising the market value of the System, BHITA failed to account for, or evaluate, the System's prior financial performance (e.g., for the years 2013-2018), apparently at Limited's insistence."]

Originally, there were seven members of BHITA with Bald Head Island connections: the three official BHI designees, Mayor Andrew Sayre, John Fisher, and me, Susan Rabon (Chair), Brad Smith (Vice-chair), David Jessen (Treasurer), and Dr. Rex Cowdry (NCDOT appointee).

Brad Smith resigned in late 2019 and was later replaced by an individual with no island affiliations. To this day, July 4, 2021, BHITA still has a majority of members with island affiliations.

Treasurer David Jessen and Chair Susan Rabon both served on the negotiating committee. Each has long and deep island connections. Their status as current residents is irrelevant to the best possible negotiations with Village taxpayer representation at the forefront. [See 4/28/21 Community letter in opposition to BHITA bond: "Third, "negotiations" between Limited and the BHITA over the \$47.75M acquisition price were done completely behind closed doors by a Board-appointed subcommittee with absolutely no public review or input from any BHI stakeholder, including the three designated members of the BHITA Board that actually own property on BHI, all of whom were purposefully excluded from the negotiating subcommittee."]

For the record, Mr. Jessen owned property on Bald Head Island for twenty-five years, most recently as a full-time resident. He sold his island property prior to the negotiating committee getting into full swing. During his time at Bald Head Island, I personally worked with him on a variety of long-term issues, beginning in 2007. In 2014, when I was president of Bald Head Association, Mr. Jessen assisted with negotiating the acquisition of an

adjacent parcel of land. Questioning Mr. Jessen's residency, or his long-term affiliation and commitment to BHI is appalling. Because someone doesn't own property on BHI at the moment of negotiations, does not disqualify them to serve as a negotiator for the island. Mr. Jessen's background and professional experience are directly relevant to a state authority start-up. Ms. Rabon is a long-time property owner. Those who would disparage these individuals seem to believe that only current residents are qualified to negotiate.

Presentation of the appraisal occurred in spring of 2019. Of the three official Bald Head Island representatives, I was the only one who commented on it at all. I believe that my role on the Authority was to act on behalf of all the homeowners and businesses. I also believe that regardless of what communications BHITA had publicly, it was the obligation of the official Bald Head Island representatives both to represent the island effectively and to communicate with them as non-disclosure agreements allowed.

Further, there were THREE opportunities for the Village to get islanders with the expertise needed onto the Authority. The first arose with my replacement as Mayor Pro Tempore with Mike Brown in December 2019. The second occurred with the end of John Fisher's term, when Jim Bonica was appointed. Bonica served for one meeting. (Bonica sold his island home which had been for sale for more than six months, and he moved to Cleveland. One might assume that the Village Mayor, a close personal friend and real estate broker, knew. That when the appointment was made.) Finally, Claude Pope was appointed in July or August of 2020, well into the negotiating process. This constant change of island representation did Bald Head Islanders no favors, rather creating a discontinuity among those affected most by BHITA's decisions. Under these circumstances, the BHITA board members who served since day one, who have legitimate and long-standing Bald Head Island connections and knowledge, as well as the background, the expertise, and relationships with the other BHITA board members, were the logical appointees to the negotiating committee.

[See 4/28/21 community letter in opposition to BHITA bond: Again, we do not know why the BHITA agreed to a \$47.75M acquisition price because no member of the Board that owns property on BHI, including the Village Mayor and Mayor pro tem, were appointed to the Board subcommittee that negotiated the acquisition price with Limited.

... Again, we do not know why the BHITA agreed to a \$47.75M acquisition price because no member of the Board that owns property on BHI, including the Village Mayor and Mayor pro tem, were appointed to the Board subcommittee that negotiated the acquisition price with Limited.]

Chad Paul, CEO of BHI Limited and BHI Transportation invited Mayor Sayre and me in my capacity as Mayor Pro Tempore to a meeting in Wilmington in late February 2017. At this session, the Mayor and I signed non-disclosure agreements. Mr. Paul presented the plan to set up BHITA through NC legislation. Although I am still governed by the NDC, ferry, barge and parking rate increases were discussed then, and also at numerous subsequent public meetings held during the summer of 2017, soon after the legislation passed the General Assembly unanimously. The projections from "Project Pelican" as the presentation came to be known, indicated that one or more of the three fee-based services would increase by one dollar each year. It is now 2021. There have been no ferry ticket increases since 2009-10, even though BHI Transportation is entitled by the NCUC to earn an eight-percent return annually on the ferry portion of the business. Had ferry prices increased one dollar per year beginning in 2018 as projected in 2017, that increase would have been approximately seventeen percent (\$4/\$23, 17%.) Based on the information provided publicly during 2021 this initial increase and subsequent increases are consistent with what was publicly presented to any islander willing to attend or listen in 2017. Finally, as there has been NO increase in ferry rates since 2009-2010, a \$4 increase for a round-trip ticket, i.e., \$2 each way, is not unrealistic or unreasonable whether the Transportation system is sold – or not. Speculating about what the NCUC might do if presented with a rate increase is like trying to read a crystal ball. Unless or until it happens, there is no reasonable way to know. The fact that Limited has NOT earned the eight percent return the NCUC allows, leads me to think that a rate increase should be expected.

[See 4/28/21 community letter in opposition to BHITA bond: "The BHITA Bond Feasibility Study done by the Mercator consulting group (also funded by Limited) subsequently determined that if BHITA paid Limited \$47.75M for the System, it would need to raise to raise ferry, barge and parking rates by **20 percent or so** this year in order to generate enough cashflow to continue operating the System while servicing the proposed \$56M revenue bond issue going forward. (*Emphasis added.*)] The only study I am aware of by Mercator is one Limited contracted as the legislation worked its way through the NC General Assembly.

During my service on BHITA, all Board members served with integrity, honesty, and diligence, with few exceptions. I am proud of my contributions to the process. Mayor Sayre and I were both thrilled in February 2017 when presented with the legislation and the plan. When Village Council voted to eliminate its rights of first refusal, there was little discussion – it was the right and the ONLY thing to do. I was shocked to learn that it had somehow come back into play in 2020.

The ENTIRE letter from April 28th, 2021 is riddled with misrepresentations as described above.

Furthermore, the series of emails you received during your May 2021 LGC meeting, referred to a letter to you from Frank Klaine, a letter that was also based on the erroneous premise that BHI Limited had selected the appraisers and consultants used by BHITA. Yes, BHI Limited paid for the appraisers of the land and the equipment. They also paid All the administrative and operational expenses of BHITA – all through grants paid to and approved by the Village.

I absolutely agree that the valuations should be completed incorporating the different methodologies outlined. However, in the context of Mr. Klaine's letter and the sixty or so based on it that were copied to you on May 3rd, the intimation that something untoward or not arm's length occurred, or that BHITA used BHI Limited's due diligence are unequivocally not true.

[Frank Klaine email of 5/3/21:

It is also my understanding that Mr. Worsley was only directed to do a cost analysis. The BHITA should have requested that Mr. Worsley use all three methods of appraising the property. It is a mystery to me why his appraisal was limited. Accordingly, Mr. Worsley's appraisal should carry little if any weight and should be disregarded. In addition consideration should be given to the fact that the Worsley appraisal was paid for by the Seller of the property.

Instead it appears that Mercator, again paid by the seller, was directed to create a cash flow projection that would justify the sale of the bonds. Did it take into account the age of the vessels and their needs for repair and replacement, the acquisition of additional land for parking and the revamping of the baggage delivery system.

Generally, when a buyer and seller' in an arm's length transaction are negotiating a sale both the buyer and seller rely on appraisals that they have required so they can make the best decision as to value with complete disclosure of financial information. In the given situation, which should be viewed as an arm's length transaction only the one set of appraisals and valuations were utilized to the ultimate detriment of the Island which so depends on this transportation system now and into the future.]

I hope that you can see how these misrepresentations have fostered an element of fear and distrust where none needed to exist. Homeowners deserve to know the facts. The facts should speak for themselves. The valuation is the only fact-based issue that is outstanding.

I urge you to review the revised appraisal/valuations performed on behalf of BHITA, and, if they answer the questions you have raised, approve the BHITA bond request at your August 2021 meeting.

Sincerely,

Mary-Kathryn (Kit) Adcock
9 Dowitcher Trail, Box 3044

Bald Head Island, NC 28461

Cindy Aiken

From: SLGFD
Sent: Sunday, July 11, 2021 10:30 AM
To: Sharon Edmundson; Tim Romocki; Cindy Aiken
Subject: FW: BHITA Sale

Visit the [LGC Staff Blog](#) to stay up to date on deadlines, news, and announcements.

Debbie Tomasko

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DEPARTMENT OF STATE TREASURER



Yale T. F. Hall, CPA
DALE R. LOYD III, CPA

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From: Bill Michels <bill.michels@gmail.com>
Sent: Sunday, July 11, 2021 9:58 AM
To: SLGFD <SLGFD@nctreasurer.com>
Subject: BHITA Sale

My wife mary & I do not support the LGC approval of the bond to purchase the BHITA because we strongly believe the Village is far better positioned to run the transportation system than an authority most of whose members do not rely on the system to the same degree our fellow Bald Head island property owners are.

Bill & Mary Michels
541 Cicamacomico Way. Bald head island

Cindy Aiken

From: Tim Romocki
Sent: Friday, July 16, 2021 1:19 PM
To: Cindy Aiken
Subject: FW: Bald Head Island Transportation Authority

Cindy - I am forwarding the e-mails I mentioned that went directly to the LGC members. I think Debbie has sent you all the ones that have to the SLGFD mailbox.

Visit the LGC Staff Blog to stay up to date on deadlines, news, and announcements.

Timothy Romocki
Director, Debt Management
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-----Original Message-----

From: Harper Peterson <harp.peterson@gmail.com>
Sent: Friday, July 9, 2021 12:05 PM
To: beth_wood@ncauditor.net; Dale Folwell <Dale@Nctreasurer.com>; emarshal@sosnc.gov;
jbbass05@gmail.com; violaharris39@yahoo.com; scottpadgett693@gmail.com; emunn@carolina.rr.com;
mdphilbeck@carolina.rr.com; Sharon Edmundson <Sharon.Edmundson@nctreasurer.com>; Tim Romocki
<Tim.Romocki@nctreasurer.com>; ronald.penny@ncdor.gov
Subject: Bald Head Island Transportation Authority

Dear Local Government Council Board Members:

July 9, 2021

My wife Plunkett and I have been business, property and 2nd home owners on Bald Head Island for the past 39 years, since 1983.

It is fair to say we have grown with the island, beginning in 1983 with a staff of three, up to today, with a staff of over 90 working in 7 retail, recreation and food and beverage locations.

A major key to our growth and success has been the reliable and efficient transportation system and associated infrastructure provided by Bald Head Island Limited, llc.

I have followed the BHI Transportation Authority since it's creation in 2017 by the NC State Legislature and continue to strongly support it as not only the best, but the only way forward to professionally provide the necessary services for the island's sustainability.

I believe its design, as a government sanctioned regional public authority, will guarantee for generations to come a reliable, safe and equitable service for its many users and beneficiaries.

Whether island resident, property owner, day or extended stay visitor, contractor, business owner, public safety officer, field scientist, all have established a symbiotic relationship; all interdependent and reliant on one another.

Having served as the Mayor of Wilmington, NC and as a NC State Senator, I can truly appreciate the financial security and operational integrity that the BHI Transportation Authority (BHITA) and the State of North Carolina will provide moving forward.

All stakeholders should feel confident that their interests will be honored.

I appreciate your time and consideration regarding this matter and look forward to the smooth and equitable transfer of ownership of the BHI Transportation System from BHIL, Inc to the BHITA.

If i can provide any further testimony please do not hesitate to contact me.

Sincerely,

Harper Peterson
Bald Head Island Business & Residential Property Owner since 1983

Sent from my iPad

Cindy Aiken

From: Tim Romocki
Sent: Friday, July 23, 2021 11:20 AM
To: Cindy Aiken
Subject: FW: Bald Head Island Transportation Authority
Attachments: Treasurer Folwell and Auditor Wood Letter - July 20.pdf

Cindy – this came in earlier this week. I think this is his third letter to the Commission.

Visit the [LGC Staff Blog](#) to stay up to date on deadlines, news, and announcements.

Timothy Romocki

Director, Debt Management
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Dale Folwell, CPA
DALE R. FOLWELL CPA

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From: ROBERT BLAU <blaur@bellsouth.net>
Sent: Tuesday, July 20, 2021 6:05 PM
To: Dale Folwell <Dale@Nctreasurer.com>; Beth_wood@ncauditor.net
Cc: ronald.penny@ncdor.gov; emarshal@sosnc.gov; mdphilbeck@carolina.rr.com; jbbass05@gmail.com; violaharris39@yahoo.com; scottpadgett693@gmail.com; emunn@carolina.rr.com; Sharon Edmundson <Sharon.Edmundson@nctreasurer.com>; Tim Romocki <Tim.Romocki@nctreasurer.com>; Susan Rabon <susanrabon@gmail.com>; Andy Sayre <jsayre@villagebhi.org>; mbrown@villagebhi.org; Paul Carey <paul.carey@icloud.com>
Subject: Bald Head Island Transportation Authority

Treasurer Folwell and Auditor Wood:

Attached is a letter urging the NC Local Government Commission to reject the Bald Head Island Transportation Authority's application to proceed with a \$56.1M revenue bond issue that would be used to purchase the BHI transportation system from its current owner, Bald Head Limited, for \$47.75M. For reasons detailed in the letter,

BHITA's proposed purchase price represents the highest price BHITA could pay Limited and finance with an investment-grade revenue bond issue. As such, if approved, the bond issue will necessarily subject users of the BHI transportation system to unreasonable costs, and Bald Head Island and the State to unnecessary financial risk.

We would be happy to discuss any questions that you or your staff might have about our analysis.

Best regards,

Robert T. Blau, CFA
J. Paul Carey

July 21, 2021

Dale R. Folwell, CPA
North Carolina State Treasurer

Beth A. Wood, CPA
North Carolina State Auditor

Dear Treasurer Folwell and Auditor Wood:

On July 6, 2021, you received a nine-page response from the Bald Head Island Transportation Authority (BHITA) to questions that the LGC raised about various flaws in BHITA's proposal to acquire the BHI transportation system (System) from its current owner, Bald Head Limited (Limited), for \$47.75M, and to finance that acquisition through a \$56.1M revenue bond issue. We are writing not so much to refute BHITA's response to your questions, but, rather, to focus attention on BHITA's response to Question 10. It explains how BHITA's proposed acquisition price was arrived at, and why its revenue bond issue would prove unreasonably costly to users of the System, and unnecessarily risky to Bald Head Island, the State, and NC taxpayers. For these reasons, we continue to believe that BHITA's bond application is not in the public interest and should be rejected by the LGC.

From the inception of the Ferry Transportation Authority Act (Act) in 2017, which Limited conceived and wrote, through BHITA's submission of its bond application, this entire process has been a classic case of what economists commonly refer to as rent-seeking. **Rent-seeking denotes efforts by a business, usually a monopoly, to manipulate public policy in ways that maximize its profitability without creating any benefits for its customers or society more generally.**¹ Many economists believe rent-seeking is akin to theft in that, when successfully executed, it simply shifts wealth from one entity to another without creating any new wealth or value.²

This letter examines how Limited used the NC legislative process and, subsequently, the BHITA in an effort to maximize the sales price of its transportation assets. Limited went down the rent-seeking path, in part, because it has a fiduciary responsibility to its owner, the George P. Mitchell Family Estate, to maximize and monetize the value of those assets. Limited also knew that it could get nowhere near BHITA's \$47.75M offer price from another commercial operator were it to put the System, or its more profitable piece parts, up for sale on the open market.

1. Limited's Framework for Rent-Seeking (In Paradise)

Limited understood from the outset that maximizing the sales price of its transportation system could best be accomplished by persuading the NC legislature to create a new state entity (i.e.,

¹ See Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies and Theft," *Western Economic Journal* 5:3 (1967, June) p. 224

² See, for example, Johann Graf Lambsdorff, "Corruption and rent-seeking," *Public Choice* 113, (2002) p. 97-125.

BHITA) and authorizing it to purchase the System using debt capital raised through the issuance of revenue bonds that the State would effectively back or guarantee. Limited also understood that whatever amount of debt that BHITA would agree to borrow through a bond issue, in order to acquire Limited's transportation assets, would have to be approved by the LGC. The LGC, in turn, would very likely insist that BHITA's bond issue be investment-grade (i.e., a bond rating of BBB- or higher) in order to better protect the State and NC taxpayers from default.

In effect then, Limited's ability to maximize the sales price of its transportation system would turn on its ability to convince BHITA to borrow as much debt capital as it could through an investment-grade revenue bond issue, and use those proceeds solely to pay Limited along with various fees and reserve requirements associated with issuing the bonds. This is precisely what Limited and BHITA did, and what the LGC is now being asked to approve.

The Ferry Transportation Authority Act contained five other provisions that would prove instrumental to Limited's rent-seeking (sales price maximization) scheme. First, it stipulated that the price BHITA paid for Limited's transportation assets would have to be "at or below their appraised value." This was necessary in order to create the appearance that the Act would not give rise to excessive profiteering on Limited's part, and that the price BHITA eventually agreed to pay Limited (i.e., \$47.75M) would have at least some basis or rationale, other than how much public debt BHITA could conceivably borrow (i.e., \$56.1M) in order to pay Limited (i.e., \$47.75M)

Second, the Act would deregulate BHI ferry passenger rates immediately after BHITA acquired the transportation system from Limited. Deregulating ferry rates was key to projecting increases in the System's annual cash flows that would be required to service a substantial revenue bond issue.

Third, the Act provided no state funding that BHITA would need in order to pay various financial and engineering consultants involved in appraising Limited's transportation assets and subsequently preparing its bond application. Instead, those consultants were paid by Limited, the seller, with predictable results. While these expenses were certainly not insignificant, they paled in comparison to the added wealth that Limited, and the Mitchell Family Estate, would realize from successfully executing its rent-see (sales price maximization) scheme.

Fourth, the Act stipulated that BHITA would be governed by an eleven-person, politically-appointed Board of Trustees of which only three members were required to reside on Bald Head Island. This made it far easier for Limited to persuade BHITA's Board – which had no budget or independent professional staff of its own -- to accept an inflated appraisal of Limited's transportation assets, and to use that appraisal as a rationale for agreeing to maximize the amount of debt that it could borrow (in order to pay Limited) through its revenue bond issue.

Fifth, the Act gave BHI stakeholders absolutely no recourse to contest any BHITA decision, including rate increases or reductions in the frequency of ferry or barge runs, that might prove

unduly harmful. This was important because prospects of BHITA being sued by users of System, including the Village of Bald Head Island, would have complicated the bond rating process, very possibly to the point of raising the level of risk that investors would impute to the bonds. Higher risk would have reduced the amount of debt that BHITA would be able to borrow which, of course, would have lowered its offer price to Limited.

Once this framework was put in place with the adoption of the Ferry Transportation Authority Act in 2017, Limited used various financial consultants, that presumably worked on BHITA's behalf, but were paid by Limited, to appraise the System's assets, and subsequently determine how much public debt BHITA could potentially raise, and how much of that debt could be paid to Limited.

All of this became apparent once, but only after, BHITA released various financial documents, including the Worsley real estate appraisal and the Mercator *Bond Feasibility Study*, as part of its revenue bond application to the LGC. This did not occur until February of this year, and then only at the LGC's insistence. Had BHITA's valuation processes been more open for public review and input, as it certainly should have been, the LGC very likely would not have found itself in the position of being asked to approve a bond application that would prove unreasonably costly to BHI stakeholders, and unnecessarily risky to Bald Head Island and the State.

2. BHITA's Appraisal: Scheme or Scam?

On December 3&4, 2020, BHITA and several of its consultants gave a *Credit Presentation* to the LGC staff which attempted to rationalize BHITA's \$47.75M offer price and its \$56.1M bond issue. Page 34 of the presentation, "Acquisition Due Diligence," summarizes the results of BHITA's asset appraisal which came to \$50.94M, based largely on two highly flawed real estate appraisals done by the Worsley Real Estate Company. Worsley's appraisals of Limited's Deep Point and BHI ferry terminal sites came to \$43.395M, or roughly two and a half times what the Brunswick County tax assessor estimated the properties were worth.

In its July 6 response to your questions, BHITA made no real attempt to defend the Worsley appraisals. Instead, it simply noted that it is conducting a new real estate appraisal which it hopes will address several obvious shortcomings of the Worsley appraisals that the LGC raised with BHITA. Significantly, the new appraisal is still in process and will be completed only a few weeks before BHITA apparently intends to ask the LGC to approve its \$56.1M bond application.

Page 34 of BHITA's *Credit Presentation* also notes that, in 2017, Limited hired Mercator International, in anticipation of BHITA being created by the Act, to estimate the enterprise value of the ferry transportation system which Mercator placed at \$55.8M, or nearly 20 times the System's operating income (EBITDA) in 2017.³ Mercator's 2017 study is consequential for a

³ See BHITA Draft 12/14,2020, *Preliminary Official Statement Dated January __, 2021*, pages 33-46. Financial operating results reported therein indicate that, in 2017, Limited's transportation system earned \$2,834,682 in total operating income (EBITDA), of which \$1,972,634 (70%) came from its unregulated parking operation,

couple of reasons. First, its \$55.8M valuation, represented Limited’s opening bid in its price “negotiation” with BHITA.⁴ Second, though never released to the public, Mercator’s 2017 valuation report was made available to the BHITA Board and subsequently shared with Worsley which completed its appraisal in 2019.

One of the major shortcomings of the Worsley appraisal had to do with the fact that it purposefully excluded use of the Income Approach which is generally regarded as the most reliable method of appraising income producing properties. Worsley states at multiple points in his two appraisal reports that the Income Approach was not used on explicit instructions from BHITA’s Business Valuation Consultant.⁵ It is not clear whether Mercator International had assumed the role of BHITA’s Business Valuation Consultant in 2019. In 2020, however, Mercator was contracted by BHITA to prepare its *Bond Feasibility Study* that BHITA subsequently relied on as the foundation for its \$56.1M bond issue that would be needed to finance its proposed \$47.75M acquisition of Limited’s transportation assets.

3. Why BHITA’s Proposed \$47.75M Purchase Price Represents the Highest Price BHITA Could Pay Limited and Finance with an Investment-Grade Revenue Bond Issue

BHITA’s \$50.9 appraisal was certainly germane to Limited’s rent-seeking scheme but only because the figure needed to exceed what BHITA would be able to pay Limited by virtue of how much public debt BHITA could raise through its investment-grade revenue bond issue. The latter amount turned out to be \$56.1M, contingent on BHITA’s willingness to immediately raise BHI ferry, barge, and parking rates by 20 percent in order to produce the added cash flow that Mercator estimated BHITA would need to cover its annual debt service costs. Again, BHITA could do so because, under the terms of the Act, once the transportation system was acquired from Limited, passenger ferry rates would no longer be regulated by the NC Utilities Commission.

All of this very likely explains why Limited hired Mercator International to value its transportation System in 2017, and why BHITA hired Mercator in 2020 to figure out how much public debt BHITA could borrow through an investment-grade bond issue, and, thus, how much it could pay Limited.

\$780,631 (27%) from its unregulated barge operation, and \$81,417 (3%) from its regulated passenger ferry operation.

⁴ In a January 5, 2021 letter from BHITA Board of Trustee Chair Susan Rabon to Treasurer Folwell, Ms. Rabon noted that: “The Authority (in conducting its due diligence) first requested the Sellers to provide all of the information they had developed regarding the (value of the) System, which included reports prepared by third party consultants for the seller.” These reports presumably included Mercator International’s enterprise valuation report.

⁵ The preface of the Worsley real estate appraisal report for the Deep Point ferry terminal site states: **At the request of the Client’s (BHITA) Business Valuation Consultant, the Cost Approach was utilized in this analysis. The Business Valuation Consultant has been retained to evaluate the Business Enterprise Value (BEV) or on-going concern. In order to ensure the opinion of value reported herein accounts only for the real property, the Sales Approach and Income Approach were not utilized. This is considered reasonable based on the special-purpose nature of the subject property and the engagement of the Business Valuation Consultant.**

In December, 2020, as part of its bond application to the LGC, BHITA submitted Draft 4 of Mercator's *Bond Feasibility Study* to the LGC. Among other things, it concluded that if BHITA raised ferry, barge and parking rates by 20 percent immediately after it acquired the transportation system, BHITA could increase the system's cash flow enough to service a \$56.1M revenue bond issue that S&P Global subsequently would rate BBB- (one notch above junk).⁶

As shown on page 53 of its *Credit Presentation*, "Estimated Sources and Uses of Funds," BHITA's financial consultants then determined that if BHITA issued revenue bonds in the amount of \$56.1M, it could pay Limited \$47.75M with the balance (i.e., \$8.35M) needed to cover fees and various reserve requirements associated with the \$56.1M bond issue.⁷ Thus, its proposed \$47.75 purchase price represents the **highest** price that BHITA could pay Limited and finance through an investment-grade revenue bond issue which the LGC is now being asked to approve.

Had BHITA's offer price been higher than \$47.75M, its proposed bond issue – and the requisite rate increases needed to generate additional cash flow -- would have been larger and, therefore, riskier. S&P Global's bond rating, in turn, would very likely have been lowered below BBB- which the LGC may not have approved, out of concern that BHITA's acquisition should not be financed in its entirety with junk bonds.

Of course, had BHITA's \$50.94M appraisal come in significantly below \$47.75M, as it should have, its offer price would necessarily have declined, along with the size of its bond issue. A smaller bond issue, in turn, likely would have garnered a higher rating simply because it would carry less risk. A smaller bond issue, with a higher investment-grade rating and a lower interest rate, also would have given BHITA more flexibility to raise additional capital in the event that future capital spending requirements exceeded BHITA's current projections which, very likely, will be the case.

We know that BHITA's proposed \$47.75M purchase price, as well as its \$56.1M bond issue, are grossly inflated simply because no entity, other than BHITA, would or could borrow that much to pay Limited. **A debt load of \$56.1M, after all, is five times the ferry system's 2019 total operating revenues and roughly 15 times its 2019 operating income (EDITDA). In a normal commercial setting, a debt-to-EBITDA ratio of less than 3 is considered reasonable for privately owned businesses and their creditors.⁸ Ratios above 3 or certainly 4 are "red flags" when it comes to judging a business' credit worthiness, but the ratio here is five times what is routinely considered reasonable or safe.**

Again, BHITA's proposed acquisition price and bond issue "work" only because under the terms of the Ferry Transportation Authority Act (that Limited conceived and wrote), BHITA would

⁶ See S&P Global Ratings, *Bald Head Island Transportation Authority, North Carolina*; Transit, January 13, 2021.

⁷ See BHITA *Credit Presentation* to LGC staff, December 3&4, 2020, p.

⁸ See, for example, Corporate Finance Institute, "Net Debt-to-EBITDA Ratio: A measure of a company's ability to pay off its liabilities," corporate finance institute.com.

have complete discretion to raise rates for the ferry, parking and barge services to whatever levels BHITA would need to service its debt. Importantly, the Act also effectively eliminates any recourse that BHI stakeholders would otherwise have to contest any BHITA decision that could unreasonably harm BHI.

Another buyer would not have this discretion. Ferry rates would remain regulated by the NC Utilities Commission. And while the system's parking and barge operations are not regulated, a potential commercial buyer (and its bankers) would need to assess the likelihood that the Village of Bald Head Island could persuade the state to regulate the entire transportation System if barge and parking rates became that much more excessive and subject to monopoly pricing abuse which they already are today.⁹

In summary, Limited's rent-seeking scheme is very well documented by the factual record presented in BHITA's bond application. It also is thoroughly corroborated by BHITA's rather remarkable and candid response to your "must answer" Question 10 in its July 6 letter to the LGC. Question 10 asked why BHITA dismissed concerns that its proposed purchase price was well in excess of what Limited's transportation System might actually be worth (i.e., to a buyer other than BHITA) based on its actual operating income (EBITDA). BHITA responded:

There is no standardized approach to valuation to this type of asset, as governmental acquisitions of privately held infrastructure assets are very rare. Furthermore, the Authority is operating under a statute that requires it to acquire assets rather than a business. EBITDA is a measure of profits that also takes into account variable tax rates and depreciation policies. **Because the Authority is not a for-profit entity, ... the Authority did not focus on EBITDA as a valuation tool for either (market) value or (bond) feasibility.... [S]ince the Authority will be operating as a public entity rather than a private enterprise; its financial analysis and financial projections are all based on operating cash flows Rather than using a simple projection of the seller's historical net income to measure financial performance (and fair market value), the Authority worked with a feasibility consultant (Mercator International) to develop cash flow models as part of its due diligence of the transaction.** In developing these models, the seller's audited financials were reviewed and analyzed to inform future projections of operating cash flow. **(Emphasis added)**

By its own admission, BHITA did exactly what Limited intended it to do in executing Limited's rent-seeking scheme for maximizing the sales price of its transportation assets. In so doing, it also placed the ball squarely in the LGC's court.

4. Why BHITA's \$56.1M Revenue Bond Application Should Be Rejected

⁹ In 2019, the operating income ratio (i.e., operating income/revenue) for Limited's unregulated parking and barge operations were 78% and 69% respectively; versus 8% for the regulated passenger ferry operation. See BHITA Draft 12/14,2020, *Preliminary Official Statement Dated January __, 2021*, pages 33-46.

There are two principal reasons why the LGC should reject BHITA's bond application. First, for reasons detailed above, BHITA's proposed bond issue is unreasonably large and, if approved, will prove to be unreasonably costly to BHI stakeholders who have no choice but to use the transportation System. Again, the BHITA's bond issue is as large (and potentially) costly as it is clearly because it was set up to maximize how much public debt it could borrow – in order to pay Limited – through an investment grade bond issue.

No buyer, other than BHITA, would or could borrow \$56.1M to purchase Limited's transportation assets. This is simply because no other buyer would be allowed to operate within the very favorable, profit-maximizing confines that Limited created for the BHITA through the passage of the Ferry Transportation Authority Act. The BHITA Board of Trustees, or at least a majority of the Board, either did not understand that they could have acquired Limited's transportation System at a far lower price, or they simply accepted what they were being told by various financial consultants (e.g., Mercator International) that supposedly were working on BHITA's behalf but were paid by Limited, the seller.

In any event, BHITA's decision to borrow \$56.1M in order to pay Limited \$47.75M is tantamount to monetizing the transportation System's future monopoly profits and transferring that wealth from captive users of the System to Limited and, by extension, the Mitchell Family Estate. This clearly is not in the public's interest.

A second reason why the LGC should reject BHITA's bond application has to do with the fact that, if approved, the bond issue will unnecessarily subject Bald Head Island and the State to an unreasonably high degree of financial risk. Because its \$56.1M bond issue is rated BBB-, or one notch above junk, it will effectively tap-out BHITA's borrowing capacity at least until a significant amount of that debt is paid down. Why? Because the LGC presumably would not, and should not, approve a second (subordinated) BHITA bond issue that almost certainly would be rated well below investment-grade.

This could prove very problematic for Bald Head Island and the State if, in the next 3-4 years, BHITA found it necessary to spend additional capital that it could not raise in the bond market. The need to do so could easily result from damage caused by a hurricane, or if BHITA found it necessary to undertake capital improvements/maintenance that Limited has very likely neglected or minimized in the last few years in order to boost the transportation System's earnings enough to justify the inflated sales price that BHITA has agreed to pay.

Should "unanticipated" and unavoidable capital spending requirements materialize, for whatever reason, BHITA would very likely have to ask the State for an infusion of capital, or failing that, try and take out a subordinated bridge loan from a bank. Even assuming a bank loan could be arranged, it undoubtedly would come with a very high interest rate which, of course, would prompt yet another major increase in ferry, barge and parking rates. If a bank loan could not be obtained, due to the large amount of debt BHITA would already be carrying relative to its operating revenue and cashflow, it could easily be forced to default on its bond payments. In that event, the State would be compelled to step in, bail out BHITA's bond holders

and take over the transportation System until new ownership could be worked out. What might happen to the quality and frequency of BHI ferry, barge, and parking service in that instance is anybody's guess but it obviously would not be for the better.

In closing, it is clear BHITA's bond application is not in the public interest, and certainly not in the interest of BHI stakeholders. It should be rejected by the LGC. The application is a product of rent-seeking behavior on Limited's part. We do not fault Limited for carrying out its fiduciary duty to the Mitchell Family Estate by trying to maximize the sales price of its transportation assets in the manner that it did. Had Limited not over-reached by attempting to squeeze as much wealth out of its rent-seeking scheme as it possibly could, BHITA's bond application might well have been approved in February.

BHITA, on the other hand, deserves a flat F for failing to work out a reasonable deal with Limited that would have served the interests of those users that depend on the BHI ferry transportation System. Instead, BHITA simply enabled Limited's rent seeking scheme. It no doubt did so largely because it was given no funding by the State which it clearly needed to hire its own independent financial advisors.

In hind sight, BHITA's Board of Trustees should have refused to proceed in appraising Limited's transportation assets and preparing its bond application until and unless it was given the requisite state funding that it needed to conduct an independent assessment of what the transportation System might actually be worth. It also should have refused to sign the non-disclosure agreement that Limited insisted each Board member sign as a condition for seeing Limited's prior-year financial statements for its transportation System. And it most definitely should have set up its own website, and posted all documents that it relied on in course of appraising Limited's transportation assets, and developing its bond application. Had it done so, as soon as those documents were completed, public input very likely would have led to a far more reasonable bond application than what is now before the LGC.

The BHITA Board did none of this. Nor, apparently, did it understand that it was being used by Limited to transfer wealth from users of the BHI transportation System to the Mitchell Family Estate, in a manner that many economists believe is akin to theft.

Respectfully yours,

Robert T. Blau, CFA
5 Starrush Trail, Bald Head Island

J. Paul Carey
611 Currituck Way, Bald Head Island

cc: Honorable Ronald Penny, NC Secretary of Revenue
Honorable Elaine Marshall, NC Secretary of State
Honorable Mike Philbeck, Speaker of the House, NC State Legislature
Mr. Joshua Bass

Ms. Viola Harris

Mr. Scott Padgett

Mr. Edward Munn

Ms. Sharon Edmundson, Deputy State Treasurer and Director NC State and Local
Government Finance Division

Mr. Timothy Romocki, Director, Debt Management, NC Department of State Treasurer

Ms. Susan Rabon, Chair, Bald Head Island Transportation Authority

J. Andrew Sayre, Mayor, Village of Bald Head Island

Cindy Aiken

From: SLGFD
Sent: Monday, August 2, 2021 8:32 AM
To: Tim Romocki; Sharon Edmundson; Cindy Aiken
Subject: FW: Bald Head Island Transportation Authority-opinion from resident
Attachments: letter to LGC.docx

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Debbie Tomasko

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Yale R. Brubaker, CPA
STATE TREASURER
DALE R. LOYD III, CPA

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From: Alan Briggs <alanbriggs1@icloud.com>
Sent: Sunday, August 1, 2021 10:38 AM
To: SLGFD <SLGFD@nctreasurer.com>
Subject: Bald Head Island Transportation Authority-opinion from resident

To the North Carolina Local Government Commission:

My name is Alan Briggs.

I live on Bald Head Island at 6 Dunedin Ct. I have owned my home on Bald Head Island for twenty years.

I write to encourage you to vote in favor of approving the debt financing for purchase of the Transportation Assets by the Transportation Authority.

My opinion is my personal opinion. I am not writing on behalf of any organization to which I belong.

I believe it is in the best interests of the future of Bald Head Island and its residents that the sale of these Transportation Assets goes to the Transportation Authority.

If the debt financing for the Transportation Authority is not approved by you BHI, Ltd. will either sell those assets off piecemeal or sell them to the Village of Bald Head Island.

I believe sale of those assets piecemeal would not serve BHI and its residents well. This piecemeal sale I believe would be the worst possible result as it most likely would result in a lack of necessary coordination among and between the operations of the ferry, the parking and the barge.

I believe the sale to the Village would be a big mistake. The single overriding issue to me is the amount of debt the Village would have to incur to finance this purchase. It is too much for the Village to incur and still be able to properly and effectively carry out its normal duties.

The amount of the proposed debt is in excess of \$50 million. I believe if the Village were to take on this debt financing it operationally would be crippling for the Village. In addition, it would significantly reduce its ability to get needed financing for the known and unknown usual responsibilities of the Village.

I am not addressing whether or not it is a fair price for the Transportation Assets. I am just stating my opinion is given the size and financial sources of income for the Village of Bald Head Island, the size of this debt is too much for the Village of Bald Head Island to borrow.

I also believe it is unfair and unreasonable for the Village to put the real property owners in the position of having the contingent liability for any revenue shortfall in its operation of the Transportation System. This kind of

potential liability is unfair and unreasonable to place on the homeowners. The amount of contingent liability is far in excess of what any reasonable homeowner would expect the Village to incur.

I do not believe there to be any justifiable reason for the Village of Bald Head Island to expose its property owners to this potential liability when there is the very reasonable alternative of a sale to the Transportation Authority.

While the Village is optimistic the revenue from the operation of the ferry, parking and barge will be sufficient and it will not be necessary to increase the real property taxes for the homeowners, there is no guaranty of this result. As a trial lawyer for forty-seven years I prosecuted and defended failed financing plans for business projects that failed despite original optimistic projections. There is no reason

here for the Village to expose the property owners to that risk.

Accordingly I respectfully request you approve the debt financing for the Transportation Authority.

Alan Briggs
6 Dunedin Ct.-3406
Bald Head Island, NC 28461

202-320-9519
alanbriggs1@icloud.com

Cindy Aiken

From: SLGFD
Sent: Saturday, August 7, 2021 9:27 PM
To: Tim Romocki; Cindy Aiken; Sharon Edmundson
Subject: FW: village debt projections

Visit the [LGC Staff Blog](#) to stay up to date on deadlines, news, and announcements.

Debbie Tomasko

Director of Business Operations
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Yale T. Felt, CPA
DALE R. LOEWEN, CPA

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From: Robert Drumheller <rbdrumheller@gmail.com>

Sent: Saturday, August 7, 2021 11:30 AM

To: SLGFD <SLGFD@nctreasurer.com>

Cc: Lou Earnhardt <lou.earnhardt.np@gmail.com>; Nathan McBrayer <nathan.mcbrayer@yahoo.com>; Kit Adcock <kit.adcock@gmail.com>; Betsi Stephen <betsistephen@gmail.com>; Chad Paul <cpaul@bhisland.com>; susanrabon@gmail.com; Cowdry Rex <rex@cowdry.net>; Johnny Shull <jshull@cardinalgps.com>

Subject: Fwd: village debt projections

Dear Sir;

I refer to the proposed sale of the Bald Head Island ferry system which is under active consideration by the Village of Bald Head Island. The village of Bald Head Island is proposing the issuance of a \$54mm General Obligation Bond to potentially purchase the system.

My name is Robert Drumheller, and I am running for a position on the Village Council for this election cycle. I am forwarding to you an email that I have sent today to various parties who have interests in the outcome of the proposed sale. The email provides information on the future debt trajectory of Bald Head Island taking into account the possible GO Bond.

As you can see from the below email the approval by the LGC of this \$54mm GO Bond could very well put the Village in an untenable debt position given our known debt requirements over the next few years.

I am asking the LGC to consider this debt trajectory when reviewing the Village's application for approval for the GO bond issuance. Given the prospect of such a large amount of debt which would need to be supported by only about 2000 property owners on the island, I would ask the LGC to seriously consider withholding its approval of the Village's request for the time being and let the process between BHI Limited and the BHITA hopefully come to a successful conclusion.

Thank you for being there to help make sure that local municipalities do not overextend themselves with debt.

Robert Drumheller

----- Forwarded message -----

From: **Robert Drumheller** <rbdrumheller@gmail.com>

Date: Sat, Aug 7, 2021 at 10:45 AM **bl**

Subject: village debt projections

To: Lou Earnhardt <lou.earnhardt.np@gmail.com>, Nathan McBrayer <nathan.mcbrayer@yahoo.com>, Betsi Stephen <betsistephen@gmail.com>, Kit Adcock <kit.adcock@gmail.com>, Johnny Shull <jshull@cardinalgps.com>

Cc: Cowdry Rex <rex@cowdry.net>, <susanrabon@gmail.com>, Chad Paul <cpaul@bhisland.com>

My comments are below related to the Village slides on debt capacity:

Current village total assessed property value (before the loss of the ferries which are now Southport assessed value) \$1,162,278,000

The maximum debt allowed by LGC at the current village valuation is \$93mm (i.e. 8% rule).

debt levels existing and projected:

existing	\$16mm
ferry system GO Bond	\$54mm
new village hall	\$2mm
wastewater expansion	\$13mm
freshwater expansion	\$4mm (estimated as we did not get a number from public works on this)
rebuild 38 sewer lift stations	\$7mm (estimated at \$200,000 per station per conversation with public works)
total	\$96mm (already above the 8% cap)

comments:

I did not include the 2028 \$15mm debt need for beach erosion control because by that time the existing \$16mm of debt will have been repaid.

The \$96mm number already exceeds the current maximum allowed of \$93mm.

In addition, the village presentation assumes that total assessed value will grow at 0.75 % per year in the future. I checked my own home assessed value numbers over time. From the peak in 2007 to the low point in 2015 based on village appraised valuations my home value declined by 23% (I believe raw land values declined by significantly more but do not have the data to confirm). In addition, my current value in

2021 remains, after 14 years, below what it was in 2007. As you know 2nd home communities have more variability in valuations over time. It appears to be overly optimistic to assume such a stable growth rate of valuations over time as the village is assuming.

Finally my list of debt needs above does not include unidentified requirements such as major road work etc. We would not have the flexibility to issue debt to finance these unknown needs in the future.

I wonder if the LGC is aware of the debt trajectory and will consider it when they review the Village's request?

RBD

--

Robert Drumheller

--

Robert Drumheller
rbdrumheller@gmail.com

Cindy Aiken

From: SLGFD
Sent: Monday, August 16, 2021 3:25 PM
To: Sharon Edmundson; Tim Romocki; Cindy Aiken
Subject: FW: I am resident and voter in Bald Head Island

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Debbie Tomasko

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Yale T. Felt, CPA
DIRECTOR OF STATE TREASURER
DALE R. JOYNT, CPA

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From: Dolores O'Callaghan <stedebonnet.wynd@gmail.com>
Sent: Monday, August 16, 2021 3:08 PM
To: O'Callaghan <gnocallaghan@gmail.com>; SLGFD <SLGFD@nctreasurer.com>
Subject: I am resident and voter in Bald Head Island

My husband and I are residents and voters at Bald Head Island North Carolina.

I am in opposition to the general obligation bonds in the amount of \$54.5 million to purchase the transportation system. I do not think the village should purchase the transportation system.

Sincerely

Dolores OCallaghan
Eugene OCallaghan

--

Dolores O'Callaghan

Cindy Aiken

From: Franklin Klaine <faklaine@gmail.com>
Sent: Tuesday, August 17, 2021 6:00 PM
To: Dale Folwell; Beth_wood@ncauditor.net; Cindy Aiken; scottpaggett693@gmail.com; ronald.penny@ncdor.gov; emum@carolina.rr.com; andy@wwpbaldhead.com; SharonEdmundson@nctreasurer.com; Tim Romocki; violaharris39@yahoo.com
Subject: BHITA

Ladies and Gentlemen,

Knowing that you have received the recent appraisals by Newmark, Knight and Frank "NKF" and that you will review carefully, I want to share some of my observations as to these appraisals.

Bald Head Island / Cost /Land Valuation

The main problem with the appraisal of the 5.57 acre tract is the land valuation figure of \$6,300,000. Specifically all 5.57 acres are treated the same, including the excess 2.7 acres and the roadway. All are valued at \$1,091,854 per acre. The appraisal states at Page 49 that the excess land site could be used for "residential or recreational" development, and specifically "single family homes or beachfront vacation cabins."

Anyone who is familiar with the Island knows that this area is subject to erosion, likely subject to building, CAMA and construction and access issues. Residential development would be particularly not desirable next to a crowded, noisy and congested ferry terminal and tram parking lot that is operable from early morning until late in the evening.

You must ask yourself if you would pay \$1,091,854 or \$3,024,435 for this 2.77 acre tract of land.

At the least NKF should have placed a substantially lower acreage valuation and reduce the \$3,024,435 value assigned to this land.

A further adjustment could be made for the access road acreage identified in the Worsley appraisal. This access roadway is also valued at \$1,091,834 per acre.

There are many hypothetical values that could be put on this excess land.

Alternatively if unable to establish a value for the 2.77 acres, exclude from sale and let the owner retain or sell to someone else.

The above analysis does not concede nor indicate any acceptance nor agreement with the appraisal's underlying analysis for the land at \$1,091,854 per acre.

The land values generated by NKF use substantially smaller tracts of land for comparison purposes, and does not explain why properties are comparable. Interesting is that the most recent sale of the largest tract in Charleston is 3.7 acres and sold for \$675,675 per acre.

A close review and analysis of the comparable land sales on Page 50 raises numerous questions as to their use and the lack of land sales in the immediate vicinity of Bald Head Island.

Additional questions arise as to why NKF in Pages 18-38 of the appraisal used Myrtle Beach as a comparison area; why NKF included so much information of marinas and boating usage, when NKF is appraising a ferry terminal and tram parking area and not a marina.

Cost / Building and Site Improvements.

The appraisal after valuing the land, now attempts to establish a cost value for the Buildings and Site Improvements.. These are not actual cost figures but figures created and derived from charts and building valuation manuals such as Marshall and Swift.

On Pages 53 to 55 NKF analyzes the Building and Site Improvements and arrives at a valuation of \$1,200,000. Again this value is a created value, not based on real figures and is subject to the many assumptions that NKF made as to cost, depreciation, indirect costs, and entrepreneurial profit.

Income Analysis

Since actual income and expense figures are apparently not available, NKF had no ability to do a traditional appraisal with an examination of the income and expenses, and was therefore unable to arrive at a Net Operating Income figure that could be capitalized.

That said, NKF could have at least tried to create a Pro Forma Income and Expense analysis based on industry standards for income and expenses.

Rather, NKF used its derived Cost figures as stated above and circuitously then used a 7.5% return backing into an income figure of \$562,500 and a rental figure on a triple net basis of \$63.80 per square foot.

This means that the tenant in addition to paying rent of \$562,500 a year also has to pay all expenses: insurance, utilities, labor, medical, pension, transportation, accounting, legal, as well as All repairs and maintenance.

Since the new owner, be it BHITA or the Village of Bald Head Island; either, would receive all income and be responsible for all expenses.

The then bottom line would be the true NOI for the Bald Head Island property.

Having only what has been presented by NKF in arriving at a valuation of \$6,500,000 and using their method of valuation by making critical adjustments the value of the property on BHI can change dramatically.

Assuming the value of the building and site improvements to be \$1,200,000 as established by NKF; then adding 2.8 acres at \$1,091,854, and no value for the excess land and a deduction for deferred Maintenance of \$1,000,000 we arrive at a value of \$3,257,191. This figure is significantly less than NKF's value of \$6,500,000. With carefully analyzed comps for acreage valuation the \$1,091,854 per acre valuation could result in an even lower valuation on the property.

Deep Point

There appear to be two major problems with the Deep Poin appraisal.

The first is the allocation of land to the Terminal Site; and secondly, the cost analysis by NKF.

Cost /Land

NKF has appraised the land at \$10,800,000 or \$197,080 per acre. The Terminal building footprint certainly is not 11.54

NKF without reference, explanation, delineation or appraisal support assigns 11.54 acres of the Deep Point site as Terminal property and assigns a value of \$653,379 per acre for the Terminal site, with the remaining parking acreage of 43.26 acres being valued at \$2,540,000 or \$58,714 per acre.

The Terminal building footprint certainly is not 11.54 acres.

Presumably and without explanation NKF believes that the adjoining land occupied by the warehouse, and other support building and presumably the soil area should all be valued at \$653,379 per acre.

This decision by NKF to create this delineation creates a huge value increase for the subject property. An arbitrary reduction of 5 acres from the Terminal site would reduce the land valuation by \$3,266,895, and result in a total land value of for the 54.80 acres of \$7,533,105 or \$137,465 per acre.

Cost / Buildings and Site Improvements

On Page 59 NKF in "Replacement Cost New" creates a grid for valuing "Building and Site Improvements-Cost Summary". This grid establishes costs for Site Improvement, Ferry Terminal, Marine Maintenance, Shipping and Receiving, IT Data Center, Barge Equipment and Storage and assigns a total value for these assets of \$17,243,422.

This grid of values that totals \$17,243,422 includes an adjusted base cost for the Site Improvements of \$8,780,004, Ferry Terminal at \$5,126,224 and other values for the other items on the grid with a grand total of \$14,369,518 to these figures is added \$2,873,904 for Indirect Costs and thus totalling \$17,243,422.

To this Cost approach is then added 15% "Entrepreneurial Profit" of \$2,586,513 and deferred maintenance is stated to be \$175,000.

At the bottom of page 60 NKF created a "Age / Life Depreciation Summary" which showed "Site Improvements to be 49.62% depreciated, and lesser depreciation for the Ferry Terminal and other buildings.

On Page 61 "Site Improvements-Depreciation" is stated to be \$17,763,980. (This figure appears to be incorrect as the Total Replacement Cost New from that chart totals \$13,215,066 and not \$17,763,980.)

The figure of \$17,763,980 on Page 59 showed "Replacement Cost New" for all assets to be \$17,243,422 including Site Improvement of \$8,780,004 and not the \$13,215,066 figure stated above nor the \$17,763,980 figure. This appears to be in direct contradiction to the "Site Improvements-Replacement Cost New" at the bottom of Page 59.

NKF on Page 61 in their final calculation of "Depreciated Replacement Cost" arrived at a top line figure of \$30,134,976 and includes the Ferry Terminal Building at \$11,438,354. A figure which is nowhere to be found in Pages 59 to 61, and is specifically contrary to the Page 59 "Replacement Cost New" "Building and Site Improvements-Cost Summary" which valued the Terminal Building at \$5,126,224.

NKF then depreciates the \$30,134,976 by \$6,770,560 to arrive at its Depreciated Cost Value of \$23,964,416 when in fact it appears that NKF should have applied a depreciation factor to the Replacement Cost New Figure of \$17,243,422 or if "Entrepreneurial Profit" from Page 60 is used a figure of \$19,829,935.

NKF under its "Age Life Depreciation Summary" on Page 60 shows Site Improvement to be 49.62% depreciated and the Ferry Terminal to be 14% depreciated, but then at the top of Page 61 NKF comes up with an overall depreciation rate of 24.90%, but the averages of the percentages actually comes to 29.73%.

Since the figures used by NKF appear to be in error and or incomplete it is extremely difficult to determine what depreciation should be used.

Even so, if NKF's figure of 24.90% is used, and with no functional obsolescence calculated, it should be applied to either the \$17,243,422 figure resulting in a final value of \$12,949,810, or the \$19,829,935 figure resulting in a final value of \$14,892.

The above when totalled with a land value of \$7,533,105 would then produce final values of \$20,482,915 or \$22,425,387.

As addressed in the Bald Head Island review and following the circuitous income analysis with a 7.25% return on cost would create a rental income figure between \$1,485,011 (\$29.50 per square foot) or \$1,625,840 (\$32.30 per square foot).

NKF has assumed a triple net lease with all expenses paid by the tenant. An owner occupied property would receive all the income and be responsible for all expenses, which expenses are charged against income to arrive at Net Operating Income, which figure is then capitalized.

Since no actual income and expense figures are available and no pro forma figures are available for the overall operations of the ferry and tram service, the parking lot, nor the barge operations, a true income analysis cannot be made and the income analysis generated by NKF requires close review and analysis.

Conclusion

In conclusion, in reviewing these appraisal it is apparent that there are no actual real figures used to establish the cost analysis. There are no sales comparisons used as they were deemed to be "not applicable", and no income and expense figures are available.

It is extremely doubtful that anyone would buy a piece of property with an operating business based on a cost analysis or without income and expense figures.

In summary, thes

Cindy Aiken

From: SLGFD
Sent: Thursday, August 19, 2021 8:02 AM
To: Tim Romocki; Cindy Aiken; Sharon Edmundson
Subject: FW: Submission to Mayor and Council for August 20, 2021 meetingt
Attachments: BHITA letter.docx

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Debbie Tomasko

Director of Business Operations
State and Local Government Finance Division
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NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



Yale R. Brant, CPA
TREASURER

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From: jenrusselbhi@gmail.com <jenrusselbhi@gmail.com>
Sent: Wednesday, August 18, 2021 8:37 PM
To: village.clerk@villagebhi.org
Cc: SLGFD <SLGFD@nctreasurer.com>
Subject: Submission to Mayor and Council for August 20, 2021 meetingt

Please distribute attached.

Dear Mayor Sayre and Members of the Village Council,

As non-voting property owners on Bald Head Island for over 20 years, we remain concerned about the future of the ferry system which is integral to the stability of this island. In that context we are opposed to the Village assuming control of the ferry system through the issuance of \$54 million in general obligation bonds. Of particular significance is the potential that further property tax revenues might be required to support this general obligation debt. If that were to occur, we would potentially be subject to taxation without representation.

Given the current fragility of the ferry system, we oppose any steps that would further delay the proposed transfer of the ferry system to BHITA. This would include, but is not limited to, the securing of additional appraisals beyond those which have been completed to date. We encourage the Mayor and the members of the Council to assist the transfer process which has been underway with all deliberate speed.

Jennifer Russel and Joel Michaels

307 Whalehead Way

Bald Head Island, North Carolina 28461

Cindy Aiken

From: SLGFD
Sent: Thursday, August 19, 2021 8:02 AM
To: Tim Romocki; Sharon Edmundson; Cindy Aiken
Subject: FW: Bald Head Island Transportation System

Visit the LGC Staff Blog to stay up to date on deadlines, news, and announcements.

Debbie Tomasko
Director of Business Operations
State and Local Government Finance Division
Office: (919) 814-4296

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-----Original Message-----

From: Jennifer Lucas <demondeacs@icloud.com>
Sent: Wednesday, August 18, 2021 9:18 PM
To: SLGFD <SLGFD@nctreasurer.com>
Subject: Bald Head Island Transportation System

I am a property owner on Bald Head Island. I support the purchase of the system by the Authority. I oppose the purchase (and bond issuance) by the Village for numerous reasons: possible tax liabilities, inconsistency in management and enforcement of rules on the island, inconsistent track record of municipal operations (trash, maintenance, commercial property upkeep), and potential debt load.

Jennifer Lucas

Sent from my iPhone

Cindy Aiken

From: SLGFD
Sent: Thursday, August 19, 2021 8:02 AM
To: Tim Romocki; Sharon Edmundson; Cindy Aiken
Subject: FW: Bald Head Island-financing for Transportation Assets
Attachments: letter to LGC.docx

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Yale R. Brann, CPA
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From: Alan Briggs <alanbriggs1@icloud.com>
Sent: Wednesday, August 18, 2021 9:20 PM
To: SLGFD <SLGFD@nctreasurer.com>
Cc: village.clerk@villagebhi.org
Subject: Bald Head Island-financing for Transportation Assets

To the North Carolina Local Government Commission:

My name is Alan Briggs.

I live on Bald Head Island at 6 Dunedin Ct. I have owned my home on Bald Head Island for twenty years.

I write to encourage you to vote in favor of approving the debt financing for purchase of the Transportation Assets by the Transportation Authority.

My opinion is my personal opinion. I am not writing on behalf of any organization to which I belong.

I believe it is in the best interests of the future of Bald Head Island and its residents that the sale of these Transportation Assets goes to the Transportation Authority.

If the debt financing for the Transportation Authority is not approved by you BHI, Ltd. will either sell those assets off piecemeal or sell them to the Village of Bald Head Island.

I believe sale of those assets piecemeal would not serve BHI and its residents well. This piecemeal sale I believe would be the worst possible result as it most likely would result in a lack of necessary coordination among and between the operations of the ferry, the parking and the barge.

I believe the sale to the Village would be a big mistake. The single overriding issue to me is the amount of debt the Village would have to incur to finance this purchase. It is too much for the Village to incur and still be able to properly and effectively carry out its normal duties.

The amount of the proposed debt is in excess of \$50 million. I believe if the Village were to take on this debt financing it operationally would be crippling for the Village. In addition, it would significantly reduce its ability to get needed financing for the known and unknown usual responsibilities of the Village.

I am not addressing whether or not it is a fair price for the Transportation Assets. I am just stating my opinion is given the size and financial sources of income for the Village of Bald Head Island, the size of this debt is too much for the Village of Bald Head Island to borrow.

I also believe it is unfair and unreasonable for the Village to put the real property owners in the position of having the contingent liability for any revenue shortfall in its operation of the Transportation System. This kind of

potential liability is unfair and unreasonable to place on the homeowners. The amount of contingent liability is far in excess of what any reasonable homeowner would expect the Village to incur.

I do not believe there to be any justifiable reason for the Village of Bald Head Island to expose its property owners to this potential liability when there is the very reasonable alternative of a sale to the Transportation Authority.

While the Village is optimistic the revenue from the operation of the ferry, parking and barge will be sufficient and it will not be necessary to increase the real property taxes for the homeowners, there is no guaranty of this result. As a trial lawyer for forty-seven years I prosecuted and defended failed financing plans for business projects that failed despite original optimistic projections. There is no reason

here for the Village to expose the property owners to that risk.

Accordingly I respectfully request you approve the debt financing for the Transportation Authority.

Alan Briggs
6 Dunedin Ct.-3406
Bald Head Island, NC 28461

202-320-9519
alanbriggs1@icloud.com

Cindy Aiken

From: SLGFD
Sent: Thursday, August 19, 2021 8:03 AM
To: Tim Romocki; Sharon Edmundson; Cindy Aiken
Subject: FW: VBHI request for GO bonds

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Debbie Tomasko

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John T. Finner, CPA
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From: Karen Hoeve <hoeve@bellsouth.net>
Sent: Wednesday, August 18, 2021 11:16 PM
To: village.clerk@villagebhi.org
Cc: SLGFD <SLGFD@nctreasurer.com>
Subject: VBHI request for GO bonds

Dear Village Council and Local Governance Commission,

As a concerned property owner and taxpayer on Bald Head Island, I am writing to express my **strong opposition** to the Village of Bald Head Island request for \$54 million in general obligation bonds for the purchase of the Bald Head Island Ferry system.

Karen Hoeve
1312 Glencastle Way
Raleigh NC 27606

Bald Head Island property address:
104 West Bald Head Wynd