



The Village of Bald Head Island

December 15, 2020

The Local Government Commission
North Carolina Department of State Treasurer
Attention: Dale R. Folwell, CPA
Chairman
3200 Atlantic Avenue
Raleigh, North Carolina 27604

Re: Bald Head Island Transportation Authority ("Authority")
Application for Approval of Bald Head Island Transportation Authority
Transportation System Revenue Bond Findings ("Application")

Dear Mr. Folwell:

The Village of Bald Head Island ("Village"), acting by and through its undersigned Council Members, requests that The Local Government Commission ("LGC"), for the sufficient and compelling reasons below described, defer its consideration of the Authority's Application from the January 5, 2021 meeting of the LGC until a later date when the Village's concerns have been addressed and the Application is sufficiently sound and ready for hearing.

The public, including the Village, which represents the interests of the public, including the residents of and property owners on Bald Head Island, was just provided information concerning the scope of diligence and proposed purchase terms, including price and revenue bond financing, for the potential acquisition by the Authority of the ferry and barge system and facilities operated by Bald Head Island Limited, LLC and Bald Head Island Transportation, LLC (collectively, "Limited"). The Application seeks approval of a bonds issuance of \$56,144,303.30, including \$47,750,000.00 for purchase of the transportation system. This information was first presented at the Authority's meeting on December 8, 2020, at which meeting the Authority Board of Trustees, without any public input or substantive discussion, passed a resolution approving the Asset Purchase Agreement and Operating and Transition Services Agreement.

The Agreement passed 7-4, over the objection of the four (4) Trustees who are residents and property owners of Bald Head Island. No resident of Bald Head Island voted in favor of the resolution.

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

The Local Government Commission
North Carolina Department of State Treasurer
Attention: Dale R. Folwell, CPA
Chairman

Page 2

December 15, 2020

The Board of Trustees then passed a resolution providing for application to the LGC, over the objection of three (3) of the Trustees who are Bald Head Island residents and homeowners.¹ The undersigned Mayor and Mayor Pro Tempore, both of whom serve as *ex officio* voting members of the Authority Board of Trustees, opposed both votes.

The Village Council shares the concerns of the Bald Head Island residents, property owners and Trustees and asks that the LGC defer action on the Application until the concerns have been addressed and the LGC can be satisfied that the Application and its proposed findings are factually and financially sound. The LGC guidelines, “LGC Consideration of Unit’s Debt Management and the Proposed Project” (“LGC Guidelines”), state: “Community support for the project is important, especially for non-voted debt. Lack of community support may be evidenced by comments at meetings of the governing body or public hearings, correspondence, newspaper articles, etc.”

In explaining their “No” votes, the Trustees who are Bald Head Island residents and homeowners who use the ferry regularly commented, in substance, at the December 8 meeting:

Mayor Andy Sayre: He does not think that all transportation system costs are included in the debt and are not accounted for in due diligence.

Mayor Pro Tem Mike Brown: He is concerned about the ferry rate increases projected on July 1, 2021, including \$23.00 to \$27.00 for ferry tickets and barge rate of \$55.00 to \$60.00 per six (6) linear feet, plus projected future increases.

Dr. Rex Cowdry: The modeling assumptions were changed in the last week, further increasing fares, and we have not yet seen and evaluated that modeling. Under the earlier modeling, it would be hard to implement needed system improvements in the low growth scenario. The modeling assumes an interest rate, but we will not know whether that assumption is reasonable until we receive the indicative bond ratings, possibly before next week’s meeting of the Authority, and can determine whether our debt is likely to be investment grade or non-investment grade. Without that information, he felt he could not yet make a feasibility and affordability determination. Dr. Cowdry also made a motion to postpone the vote on the LGC resolution one week until receipt of indicative bond ratings that was denied 4-7.

As suggested by these public comments, additional diligence is required, among other things, with respect to the following:

- Insufficient cash reserves analysis or schedule for work/replacement, lacking, for example, items like a functional reservation system and a realistic tram modernization;

¹ The fourth resident Trustee, having concluded that the matter was a *fait accompli*, elected not to oppose the resolution, but continues to express concerns to the bonds issuance, as proposed.

The Local Government Commission
North Carolina Department of State Treasurer
Attention: Dale R. Folwell, CPA
Chairman

Page 3

December 15, 2020

- Lack of Authority employee compensation study or projections;
- Projected net cash flow appears insufficient to implement needed operational requirements and improvements, including, without limitation:
 - Land acquisition and construction costs for necessary additional parking, including sufficiency of storm water management infrastructure;
 - Spoil disposal sites capacity, permitting, construction and acquisition costs (e.g., 10+/- additional acres near Deep Point) for disposal of dredged material from Bald Head Island and Deep Point Marina entrance channels and basins;
 - Analysis of baggage handling and cargo conveyor equipment and systems; and
 - Costs of potential increase in Coast Guard vessel and passenger security requirements.
- Indicative bond ratings by financial rating agencies have not yet been received.
- Lack of land planning report concerning passenger and vehicle ingress and egress at projected increased passenger levels.
- It appears that substantive changes are still being made to the financial projections, proposed rates and proposed Agreements without the Trustees having an opportunity to review and consider same.

The LGC Guidelines state: “Financial projections should be presented that demonstrate feasibility and are clearly reasonable in comparison to prior financial performance. Appraisals, feasibility studies and comfort letters (if required) must be prepared by parties that are both independent to the transaction and possessing adequate expertise.” Many of the financial and performance projections are coming from Limited, as Seller, not from an independent study or industry expert. We are concerned that the buyer has relied too much on the seller for information without seeking neutral appraisals and assessments on many items. This could lead to overpayment for a system that needs improvements. The purchase price appears to assume that improvements have been made or are included, which are not.

Further, the Village requests that the public, including residents, non-resident property owners, and other system users at Bald Head Island, which is accessible only by the transportation system, be provided an opportunity for comment and input. The Village notes that no Bald Head Island resident is included on the negotiating subcommittee of the Authority’s Board of Trustees which negotiated the transaction with Limited. The Village further notes that the proposed financing would impose a \$4.00 per ferry ticket increase in six (6) months, effective July 1, 2021, plus future increases. Barge rates

The Local Government Commission
North Carolina Department of State Treasurer
Attention: Dale R. Folwell, CPA
Chairman

Page 4

December 15, 2020

would increase \$5.00 per six (6) feet from \$50.00 to \$55.00. The LGC is not merely approving a bond issuance in this instance, its actions would immediately affect thousands of individuals and businesses who depend upon the transportation system as their sole means of access to Bald Head Island and who have been provided no insight or input into the transaction.

This transaction has been under consideration since 2017. Additional time to address the diligence issues of the Village and the users of the transportation system and to ensure that the project has public support for the non-voted debt and that the Application is factual and financially sound would not cause undue hardship to the Authority or to Bald Head Island Limited. Rather, the public interest compels that such occur.

Please let us know if any additional information or action is necessary. Thank you for your consideration.

Respectfully,

Village of Bald Head Island Council

/s/ J. Andrew Sayre
Mayor

/s/ Michael Brown
Mayor Pro Tempore

/s/ Scott Gardner
Councilor

/s/ Emily Hill
Councilor

/s/ Peter Quinn
Councilor

pc: K. Christopher McCall, Village Manager
Susan Rabon, Chair, Bald Head Island Transportation Authority
Chad Paul, CEO, Bald Head Island Limited, LLC