

January 27, 2021

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

Bald Head Island Transportation Authority (the "Authority")
Application for Approval of Bald Head Island Transportation Authority Transportation System
Revenue Bonds (the "Bonds")

Dear Treasurer Folwell:

As the Chair of the Bald Head Island Transportation Authority (the "Authority"), I was distressed to learn that the North Carolina Local Government Commission (the "LGC") has delayed its consideration of the Authority's Application for approval of its revenue bonds for six months. Since 2017, the Bald Head Island Transportation Authority has worked on its statutorily mandated mission to issue revenue bonds to purchase the Bald Head Island Ferry Transportation System (the "System") at or below its appraised value. The last step in the process is approval by the LGC. In a letter dated January 21, 2021, the Village Council of the Village of Bald Head Island asked the Treasurer to delay LGC consideration of the Bonds for at least six months in order to allow for more public comment. LGC staff has informed the Authority that the Treasurer and LGC staff intend to honor this request and that this item will not be included on the LGC's February agenda for consideration. The Authority vigorously opposes any delay in the LGC's consideration of this transaction.

There is significant risk from delay of consideration of this transaction.

- The seller of the System is not obligated to sell the System to the Authority. The seller has made it clear that if the Authority is not willing to purchase the System as a whole, it is considering selling off the System in pieces in order to obtain a return on its investment. If that happens, any chance of obtaining operational efficiencies from operating the System as a whole for the benefit of the public, without profit motive, would be lost.
- Even if the seller is willing to wait six months, transactional costs relating to the financing will continue to accrue, and certain parts of the process (such as the feasibility study and the S&P rating) will have to be updated or repeated, all of which will increase costs.
- The uncertainty around the LGC's willingness to consider the transaction casts a shadow on the transaction and may adversely impact investors' willingness to purchase these bonds, thus further increasing the cost of operating the System through higher interest costs (thus requiring additional rate increases).

There is no reason to delay the LGC's consideration of this transaction on its February agenda.

- LGC Staff has indicated that the Authority has provided all of the information required for its application.
- NC Gen. Stat. Chapter 159, Article 5, which authorizes the issuance of revenue bonds in North Carolina, does not require a public hearing as part of the approval process.

- The valuations used to determine the purchase price for the System were performed by recognized experts in various fields; it is unclear what impact public input would have on those values.
- The proposed revenue bonds were structured based on LGC guidelines for all revenue bond issues in North Carolina, including specific staff guidance on this issue, and have an investment grade rating; it is again unclear what impact public input would have on the structure of the financing.
- Information relating to the financing has been publicly available; the Authority made a presentation to the LGC in an open meeting on December 4, and all of the information provided to the rating agencies and the LGC has been made available on the Authority's web page.

Background

The Authority was formed in 2017 under Senate Bill 391, Session Law 2017-120 (the "Act") for the express purpose, and with an express mandate, of acquiring the assets used and useful for the existing, privately owned ferry transportation service currently operating a ferry transportation system in the service area of the Authority, at or below their appraised value, such purchase to be financed by bonds or notes issued by the Authority or other financing mechanisms permitted under Article 29 of Chapter 160A of the General Statutes. Session Law 2017-120, Section 6(a). The Village Council of the Village of Bald Head Island passed a resolution endorsing the structure of the Authority before it was formed, passed a resolution authorizing its formation (as required by the Act), facilitated transfers of funds to the Authority in order to provide operating capital during the initial years of operation, and stated in its letter of January 19, 2021 that it "supported the formation of the Authority and believes it is a good structure for the long-term ownership and operation of the transportation system assets."

The Authority's work since inception has been to understand the current finances of the System as currently operated by Bald Head Island Transportation, Inc. and Bald Head Island Limited, LLC (collectively, the "Seller"), to determine the condition and value of the assets, and to negotiate an asset purchase agreement with the Seller. To accomplish those goals, it has hired a number of third party consultants and appraisers who have evaluated the condition and value of the vessels, the marina infrastructure, the real estate, environmental aspects, and the value of the system as a whole. Each of these consultants is a known expert in its field. Using the information gathered, the Authority negotiated an asset purchase agreement, and pursued bond financing. The staff of the LGC has been kept apprised of, and provided guidance to, this evaluation, negotiation, and financing structure throughout the process.

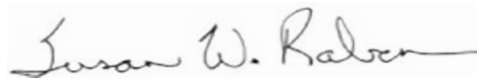
The Board of Trustees of the Authority voted 8-3 to approve the asset purchase agreement at the current proposed price, and 9-2 to proceed to obtain LGC approval for the financing. In that vote, the Authority made the findings required by the LGC that the issuance of the Bonds is necessary and expedient to finance the costs of acquiring the System (the "Project"); the Project is feasible; the amount of debt to be incurred in connection with the Project and the fees to be paid in connection therewith are sufficient but not excessive for the purpose of acquiring the System and funding the initial operation of the System; the increase in rates necessary to pay debt service on the Bonds will not be excessive; the Authority has not defaulted on any debt obligation; the Authority follows the debt management guidelines of the LGC; and the Bonds can be marketed at a reasonable interest cost to the Authority.

The two Trustees who voted against the asset purchase agreement and the issuance of the Bonds are members of the Village Council. Although a majority of the Trustees voted in favor of proceeding with the acquisition and the issuance of the Bonds, the Village Council now seeks to block the transaction and the financing by asking the Treasurer not to put the matter on the LGC agenda for approval. The reasons articulated for such a delay are essentially that (a) the public has not had sufficient input on the transaction and (b) the Village Council disagrees with the third party consultants' determinations regarding certain aspects of the operation of the System and needed capital expenditures in the future. The Village Council has asked the LGC to delay consideration of the transaction for six months in order to allow public input on the proposed transaction. In the Authority's view, such a delay will only serve to increase the cost of the System and the bond issue and could jeopardize the entire transaction.

The most compelling argument for the transfer of the System from the Sellers to the Authority is to move this essential transportation asset from the private sector, operating with a profit motive and no local input, to the public sector, which will actually permit the public to have input in its operations through the Trustees. As currently held, while ferry and tram rates cannot be changed without North Carolina Utility Commission approval, the rates for the use of the barge (which brings all freight to the Island) and parking are not regulated. The acquisition of the assets of the System by the Authority consolidates ferry, barge, tram and parking services for the Island under a single public entity, providing long-term, reliable and safe transportation for passengers and freight to and from the Island while ensuring public ownership and local management of this essential infrastructure. The transition from a privately owned transportation system to a publicly owned system addresses the Island's critical need for long-term governance and stewardship of ferry service and related logistics operations, while allowing seamless integration and interoperability between the various aspects of the transportation operation. Putting the System in the hands of the Authority ensures the efficiency, viability and stability of the System, which serves as the critical link between three local government units.

We have been working with LGC staff for more than two years on this transaction, and have followed guidance from the staff regarding fare increases, reductions in purchase price and elimination of seller financing, all of which have made for a stronger credit profile. We have been careful to follow the LGC's process and procedures. At this point, we believe this matter is ready to come before the members of the LGC, and request that this matter be placed on the LGC's agenda for consideration.

Very truly yours,



Susan Rabon
Chair, Bald Head Island Transportation Authority

cc: Members of the North Carolina Local Government Commission
Sharon Edmundson, Deputy Treasurer
Tim Romocki, Director, Debt Management
Village Council of the Village of Bald Head Island
Senator William Rabon
Representative Frank Iler
Chad Paul, CEO, Bald Head Island Limited, LLC