



# VILLAGE OF BALD HEAD ISLAND

## **Proposed Acquisition of the Bald Head Island Transportation System**

**Friday, August 6th, 2021**



# Meeting Format And Attendee Instructions

## 1. Audio-Video Format:

- a) Meeting via Zoom virtual platform
- b) All participants will be muted automatically when entering

## 2. Question & Answer Period:

- a) Q&A period will be at the conclusion of presentation.
- b) In-person meeting attendees will be given the opportunity to ask questions during the specified time.
- c) Virtual attendees' questions can be e-mailed during the meeting directly to the Village's PIO at: [VBHITransportation@villagebhi.org](mailto:VBHITransportation@villagebhi.org).
- d) Virtual attendee questions will be placed in queue in order of receipt for responses at the end of the presentation.
- e) Questions received but not answered during the Q&A portion of the meeting will be collected for a future FAQ's.



# AGENDA

- 1. Intro & Executive Summary** *Mayor Sayre*
- 2. Background and Findings** *Scott Gardner*
- 3. Financials** *Mike Brown & David Cheatwood*
- 4. Ownership Comparison** *Peter Quinn*
- 5. Risks and next steps** *Scott Gardner*
- 6. Conclusion & Q and A** *Mayor Sayre*
- 7. Adjourn**



# The Bottom Line!

- Until December 2020, Village initially supported Authority
- Issues of sales price, due diligence, responsiveness
- Village determined path to ownership
- Borrowing less and General Obligation bonds = savings
- Savings = improvements in capital and operations and sooner
- Village has experience managing utilities
- Village has infrastructure in place



# Bald Head Island Transportation Authority

## **Board of Trustees:**

- 1 member appointed by Governor of NC
- 1 member appointed by President Pro Tempore of the Senate of NC
- 1 member appointed by Speaker of the House of Representatives of NC
- 3 members appointed by North Carolina Secretary of Transportation
  - 1 must be resident of Authority service area
  - 1 must be a member of the Board of Transportation (DOT Commissioner)
- 1 member appointed by the Brunswick County Commissioners
  - Must be a resident of Brunswick County
- 1 member appointed by City of Southport
  - Must be a resident of Southport
- 1 member appointed by Bald Head Island
  - Must be a resident of Bald Head Island
- Mayor of Bald Head Island, Ex Officio
- Mayor Pro-Tempore of Bald Head Island, Ex Officio



# Local Government Commission

## Members:

- North Carolina State Treasurer, Ex Officio (Chairman)
- Secretary of Revenue, Ex Officio
- Secretary of State, Ex Officio
- North Carolina State Auditor, Ex Officio
- 3 members appointed by Governor of NC:
  - 1 member must be current or former Mayor of a North Carolina Municipality
  - 1 member must be current or former North Carolina County Commissioner
- 1 member appointed by President Pro Tempore of the Senate of NC
- 1 member appointed by Speaker of the House of Representatives of NC

# Background

- Village supported the BHITA purchase from inception.
- Accepted in good faith the BHITA was best long-term solution.
- December 2020, many surprised at the **\$47,750,000** sales price and over **\$56,000,000** in revenue bonds to be issued.
- BHITA's proposal calls for almost **\$90,000,000** in payments over 30-year bond life.
- Issues of transparency and governance were raised.
- Village and others asked questions to better understand.
  - Early responses by the BHITA were inadequate.



# Background (February 2021 – July 2021)

- **February 2021:**

- BHITA held a public meeting in mid-February with instructions from the LGC for BHITA to answer the questions raised.
- In late February, BHITA simply posted several reports for public view.
- New information led to more questions, including appraisal of assets.
- Other concerns raised included:
  - Lack of employee compensation study or projections.
  - Projected net cash flow to cover additional parking, dredge spoils disposal, baggage handling, and potential security requirements;
  - Lack of land planning study concerning passenger and vehicle ingress and egress at projected increased passenger levels.
- ***The Village concluded that lack of transparency, lack of responsiveness and especially the proposal as presented by BHITA were not in the best interest of the users of the parking, ferry, and barge and the Island as a whole.***



# Background (February 2021 – July 2021)

- **March 2021:**

- Village announced intent to step in the shoes of BHITA, if a better proposal.

- **April/May 2021:**

- The Village obtained sufficient answers to legal issues raised regarding its ability to pursue acquisition which included:
  - Does the Village have legal authority to operate transportation assets? Yes
  - Does the Village have the legal authority to own and operate outside of the Village municipal limits? Yes
  - Whether the BHITA legislation allows Yes or prohibits No Village acquisition of Transportation?
  - Whether governmental approvals are required? Only LGC
  - Whether NC General Assembly action is required? No

- **May/June 2021:**

- Bond counsel secured - Ed Lucas of Robinson Bradshaw in Charlotte
- Financial advisor secured - David Cheatwood of First Tryon Advisors in Charlotte





# BACKGROUND - Summary

- 1. The Village supported the purchase by BHITA, until the proposal released to the public in December 2020.**
- 2. Issues of sales price, resulting debt service obligation, deferred maintenance, governance, and transparency were raised by the public.**
- 3. Lack of BHITA responsiveness and questionable appraisal of assets led to the Village announcing its intent to step in the shoes of the BHITA, if it could be determined we could present a better proposal.**
- 4. The Village has full legal authority to purchase the transportation assets with approval from the LGC, as it has achieved in the past for other projects.**



# VILLAGE'S FINDINGS

- The Village's findings have determined:
  1. General Obligation (GO) bonds versus BHITA Revenue Bonds
  2. Greatly reduced interest rate than that of BHITA Revenue Bonds
  3. Approximately \$2,000,000 less funds up front to be borrowed vs. BHITA (\$56 Million vs. Village's \$54 Million)
  4. Savings towards immediate operational improvements, such as improved luggage handling and tram service, and more timely capital improvements.
  5. Based on BHITA projections, the Village will NOT have to raise taxes to acquire, operate and improve the system.



# First Tryon Advisors – Overview of the Firm

## Overview of First Tryon Securities, LLC

- Founded twenty years ago and headquartered in Charlotte, North Carolina, First Tryon Securities, LLC is a regionally focused independent, privately owned securities firm.
- The firm is registered with both the Municipal Securities and Rulemaking Board and the Securities and Exchange Commission. First Tryon employs 25 registered representatives with an average of 21 years' experience.

## First Tryon Advisors

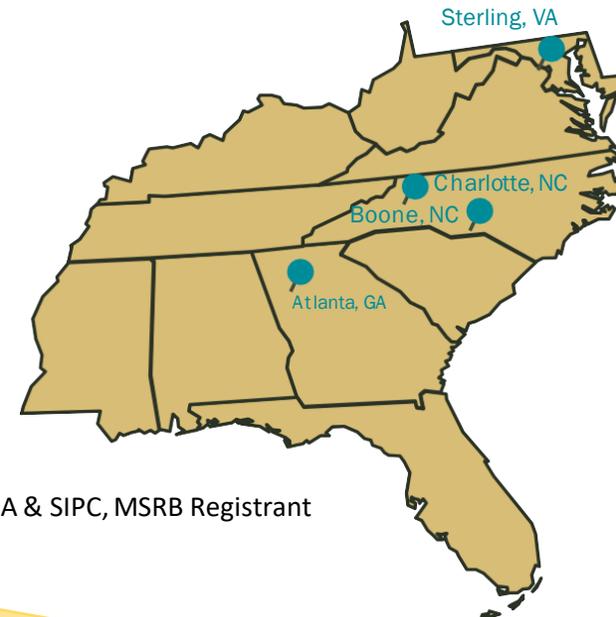
- First Tryon Advisors is a business of First Tryon Securities, LLC and operates as the Financial Advisory arm of the firm.
- First Tryon Advisors has a full service financial advisory practice serving the needs of cities, towns, school districts, counties, utilities, colleges/universities, hospitals and not-for-profits in the Southeast region.
- First Tryon does not serve as an underwriter and only provides financial advisory services to our clients.

## Municipal Sales & Trading Desk

- The financial advisory team at First Tryon has access to real-time market information for tax exempt and taxable securities through our trading platform.
- Our desk assists our clients when pricing bonds in the public markets – ensuring the proposed spreads provide the best deal for the client.
- First Tryon's annual trade volume exceeds \$2 billion in par amount.

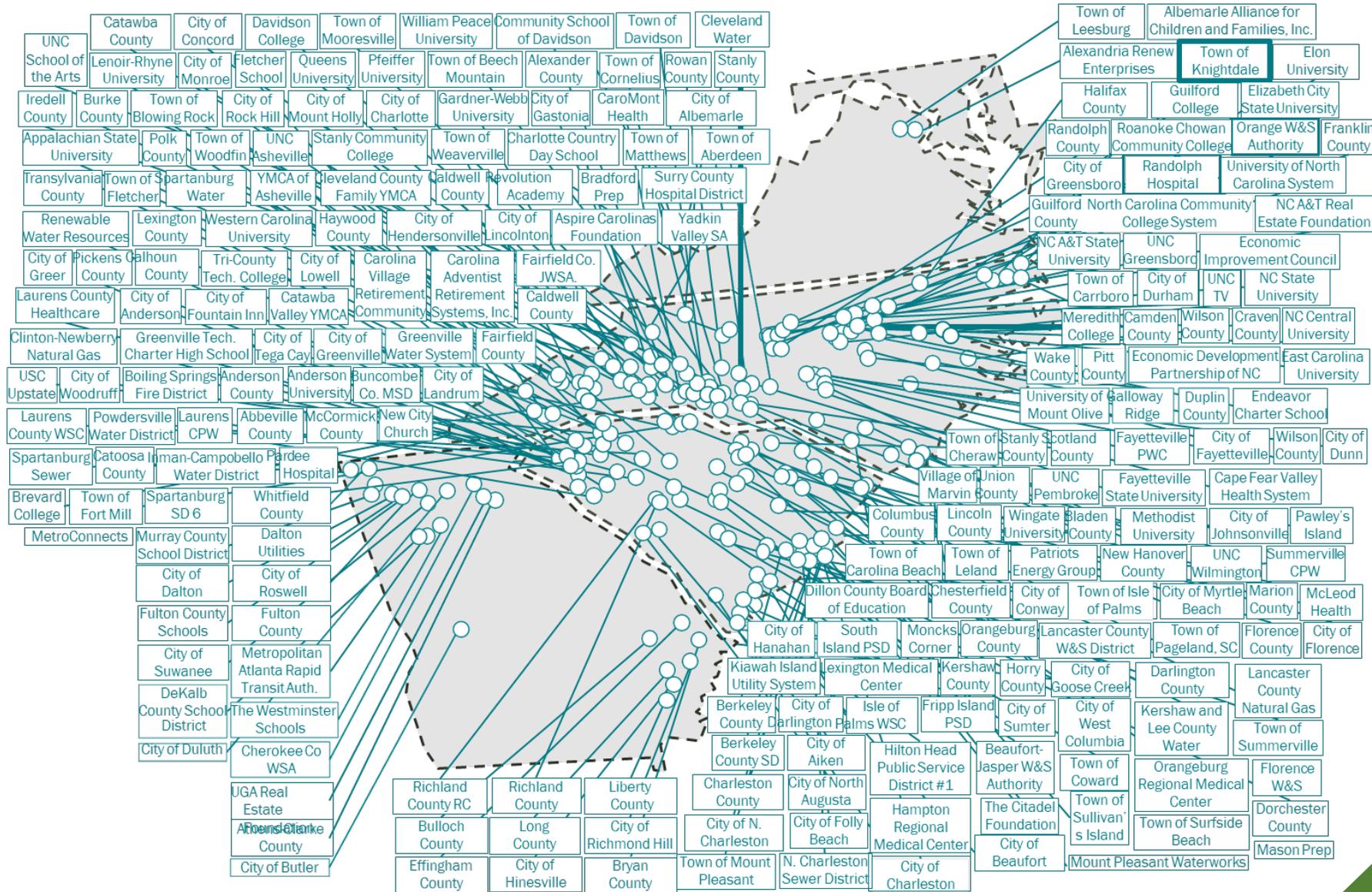
## Office Locations

- The firm has offices in Atlanta (GA), Boone (NC), Charlotte (NC), and Sterling (VA).



Member: FINRA & SIPC, MSRB Registrant

# First Tryon Advisors Experience





# REVENUE BONDS VS. GENERAL OBLIGATION BONDS

## REVENUE BONDS

- Secured by identified revenue stream (i.e., ferry system revenues).
- Strength of identified revenue stream is the primary driver of the credit rating.
- Bonds typically repaid on a level annual debt service basis for a term up to 30 years.

## GENERAL OBLIGATION BONDS

- Secured by full faith, credit and taxing power of entity but can be repaid from other available revenues (i.e., ferry system revenues).
- Most secure form of debt.
- Strength and makeup of tax base is primary driver of the credit rating.
- Bonds typically repaid on a level principal basis for a term of up to 20 years but can be structured as level debt service for a term of up to 30 years if primary repayment source is non-property tax revenue stream.



# FINANCIAL MODELING COMPARISON (1)

## TRANSPORTATION AUTHORITY

- Revenue Bonds totaling almost \$56,000,000.

## VILLAGE OF BALD HEAD ISLAND

- General Obligation Bonds totaling up to \$54,000,000.
  - No debt service reserve fund obligation
  - Less in cost of issuance and interest rate
  - Immediate capital expenditures of \$5.5 million for buildings and equipment



# FINANCIAL MODELING COMPARISON (1)

## TRANSPORTATION AUTHORITY

- Interest rate of 3.49% paid over 30 years totaling \$88,223,490.
- Pro forma calls for a 20% increase in ferry ticket prices to cover debt service and costs of improvements over time.

## VILLAGE OF BALD HEAD ISLAND

- Interest rate of 2.33% paid over 30 years generates total savings of approximately \$13,340,000, which also includes \$5.5 million of immediately available capital funds.
- Resulting in annual savings of ~\$445,000.
- Based on debt service savings, ferry rates may not have to be raised a full 20%.
- With same 20% increase, Village can make immediate capital and operational improvements.



# FINANCIAL MODELING COMPARISON (3)

## TRANSPORTATION AUTHORITY

- If revenue shortfall, Authority increases rates and or decrease services to meet their debt obligation.
- Has access to Reserve Funds.
- If unexpected expenses due to major event or equipment failure, the Authority only is limited to increasing rates or decreasing services.

## VILLAGE OF BALD HEAD ISLAND

- Revenue shortfall offset by the Village's ability to secure more advantageous financing and borrowing capability. Additional response would be met by increase in rates, adjusting tax rates as last resort.
- In the case of unexpected expenses due to equipment failure, the Village could raise rates or secure more advantageous financing loans. Adjusting tax rates would be a last resort.



# FINANCIAL MODELING

## Assumptions:

- Revenue and operating expense projections reflect those of the BHITA, with Village savings coming through lower debt service obligations
- Acquisition cost reflects BHITA cost of \$47,750,000
- Village able to include additional Capital Funding of \$5,500,000
- Bond Referendum approval in November

# Financial Modeling Comparison: VBHI at 2.33%

	BHITA (3.49%)	VBHI (2.33%)	Difference
Assumed Purchase Price	\$47,750,000	\$47,750,000	\$0
Reserve Funds ( <i>Estimated</i> )	\$5,936,421 <sup>1</sup>	\$0	-\$5,936,421
Additional Capital Funding <sup>2</sup>	\$0	\$5,500,000	\$5,500,000
Cost of Issuance/Underwriting Fees ( <i>Estimated</i> )	\$2,250,000 <sup>1</sup>	\$445,000	-\$1,805,000
Total Uses of Bond Proceeds	\$55,936,421	\$53,695,000	-\$2,241,421
True Interest Cost	3.49% <sup>3</sup>	2.33%	-1.16%
Total Debt Service Obligations (2022-2052)	\$88,223,490 <sup>3</sup>	\$74,881,969	-\$13,341,521
Average Annual Debt Service (through 2032) <sup>4</sup>	\$2,897,993 <sup>3</sup>	\$2,496,066	-\$401,927
Average Annual Debt Service (Over 30 years)	\$2,940,783 <sup>3</sup>	\$2,496,066	\$-444,717

**SUMMARY: Village pays \$13,341,521 less in debt service over 30-year term or ~\$445,000 per year.  
(13,341,521 ÷ 30 = 444,717.37)**

<sup>1</sup> Per February 17, 2021 BHITA Presentation; includes debt service reserve fund (\$3,295,125), working capital fund (\$1,000,000) and operating and maintenance reserve fund (\$1,641,296).

<sup>2</sup> Village GO Bonds save money and provides additional funding for up to \$5.5 million of upfront capital expenses.

<sup>3</sup> Per July 29, 2021 Updated BHITA analysis.

<sup>4</sup> BHITA's debt service increases slightly after the first 10 years. VBHI's debt service is held constant for 30 years.





# FINANCIAL MODELING SUMMARIES

- **Lower GO bond interest = savings**
- **\$2,000,000 less funds upfront to be borrowed than BHITA (\$56 Million vs. Village's \$54 Million)**
- **With revenue projections, no need to raise taxes.**
- **Total savings of \$13,342,000 over the BHITA debt life. These ~\$445,000 annual savings used for operational improvements.**
- **Village can immediately invest additional \$5.5 million for equipment and building enhancements.**
- ***Bond Referendum must get approved or all users of the system will face higher prices, less new investment, and higher risk to service, and ferry schedules.***



# OWNERSHIP COMPARISON: Governance/Accountability

## TRANSPORTATION AUTHORITY

- Initial BHITA proposal was opposed by the only board members who live full time on the Island and use the ferry regularly.
- Authority conducts its meetings in Southport.
- Majority of the Authority board (six of eleven) are state level appointees.
- Bald Head Island controls three of eleven seats on the Board.
- There is a proposal to establish an advisory committee constituted mainly with users of the system

## VILLAGE OF BALD HEAD ISLAND

- Transportation system incorporated into the Village organization
- Village conducts its meetings on BHI.
- Transportation to be similar to Public Safety and Utilities, a standing monthly agenda item to review financials, service/operations, project updates.
- Transportation Advisory Committee - provides input to Council on all matters related to the transportation system.
- Bald Head Island controls all five seats on the Council.



# OWNERSHIP COMPARISON: Transition

## TRANSPORTATION AUTHORITY

- BHITA has a transition agreement with Limited
- Start up activities begin at closing
- Transition occurs over 18 months

## VILLAGE OF BALD HEAD ISLAND

- Village would negotiate a transition services agreement with Limited.
- Village would seek the input of consulting services.
- Goal is to ensure a reasonable, proper and seamless transition within an appropriate timeframe.
- Focus is on stabilization and enhancement



# OWNERSHIP COMPARISON: Operations

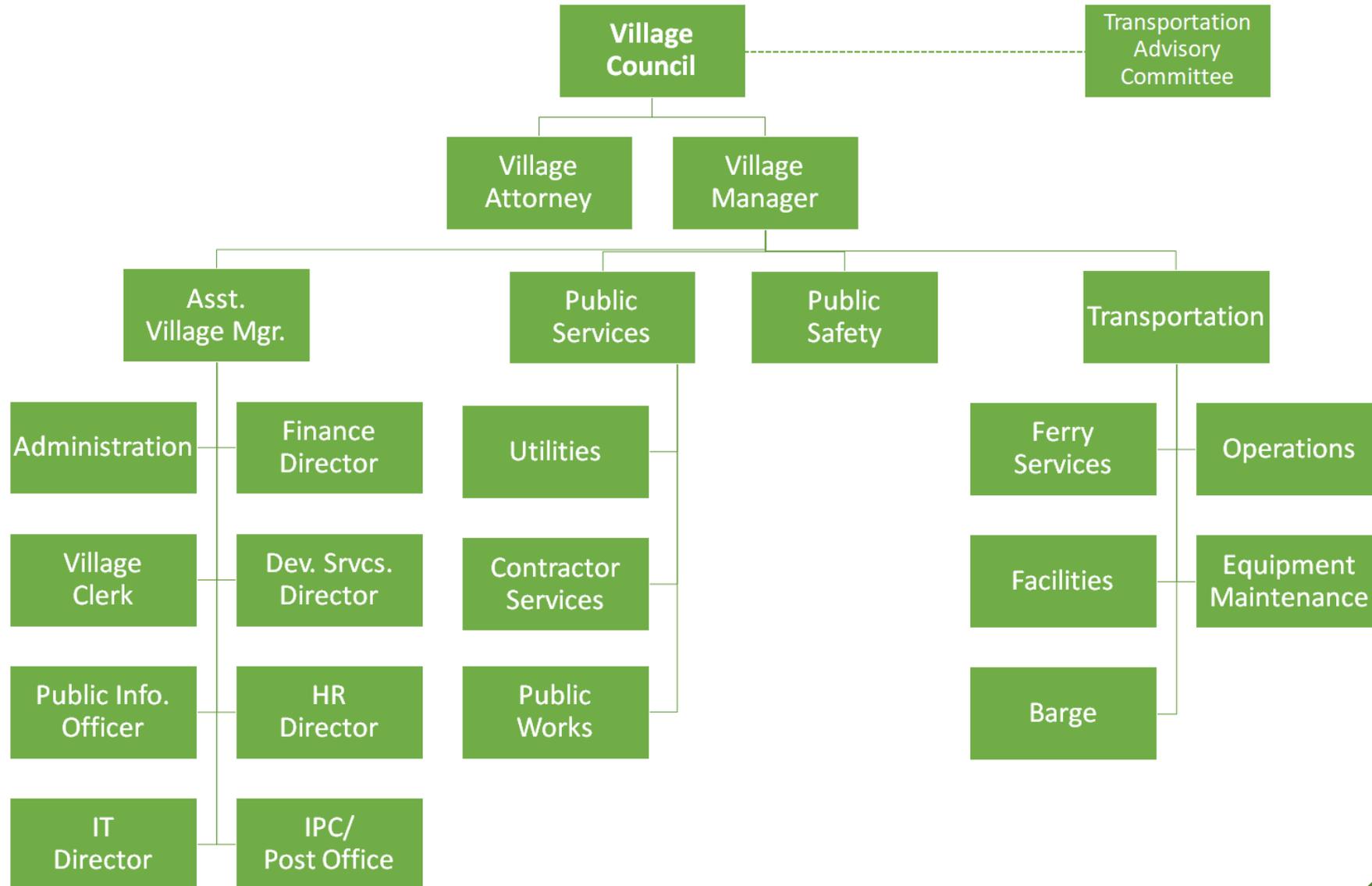
## TRANSPORTATION AUTHORITY

- The Authority is like a board of trustees.
- It would transition from the existing transportation system, hiring a general manager, creating a new start-up organization under Authority control.
- It has no experience operating a utility.

## VILLAGE OF BALD HEAD ISLAND

- The Village has experience acquiring enterprise operations, as well as operating water and wastewater utilities, waste disposal and road maintenance.
- General manager and project managers will be identified to transition existing transportation system into Village structure.
- Finance, Communications, Human Resources, and IT, all under the direction of a professional municipal government manager, currently in place

# VILLAGE ORGANIZATION CHART





# OWNERSHIP COMPARISON: Employee Compensation/Benefits

## TRANSPORTATION AUTHORITY

- No evidence of compensation study essential to determining employee compensation and benefits going forward.

## VILLAGE OF BALD HEAD ISLAND

- Village is conducting ongoing research to ensure the proper and fair transitioning of Transportation employees into Village operations.
- Village recognizes and appreciates the hard work of the captains, supervisors, and front-line employees with the intent to create a positive and stable work environment.
- Competitive compensation/benefits and appropriate staffing levels are essential to providing excellent service.



# OWNERSHIP COMPARISON: Emergency Planning/Operations

## TRANSPORTATION AUTHORITY

- In the case of natural disaster, the Authority turns to the Village for declaration of emergency and coordinates support.

## VILLAGE OF BALD HEAD ISLAND

- Transportation system incorporated into the Village Emergency Management Plan.
- Preparations for evacuation, support during and reentry after are integral to the Management Plan.



# OWNERSHIP COMPARISON: Capital Expenditures

## TRANSPORTATION AUTHORITY

- Limited monies available to immediately remedy critical current needs but does include dollars for remedies in the future.

## VILLAGE OF BALD HEAD ISLAND

- Village's interest rate advantage allows for substantial interest payment savings.
- These savings could be directed to stabilizing and enhancing the system, including **immediate** equipment replacement and building improvements sooner than in the BHITA plan.



# Necessary System Capital and Deferred Maintenance Expenditures (Deep Point)

1. Pave the new parking lots that have been stoned. \$150,000
2. Clear concrete debris, remove dead trees and rough grade recently deposited dredge spoils on 2+ acres to the right of main entry. \$40,000
3. Since there is no more land within or adjacent to Deep Point for disposal of dredge spoils in the manner that has been previously employed, identify and secure nearby land (10+/- acres) that can be purchased for future spoils disposal/staging. \$800,000
4. Engineer (with special attention to storm water management) and permit additional future parking within land to be transferred at closing. \$30,000
5. Analyze baggage handling and passenger management with emphasis on the operational status of the equipment and the viability of the underlying system, i.e., arrivals using the upper level and departures the lower level.
6. If, as the Seller has said that it is only a matter of hiring more personnel, then increase payroll in the projections: 6 PTE's for 6 months. \$160,000 first year
7. If, as some believe, the two-level configuration is unworkable, then major alterations to traffic patterns may be required involving extensive demolition, earthwork and reconstruction. \$2,000,000 - \$4,000,000
8. Or some other solution with an unknown expense.



# Necessary System Capital and Deferred Maintenance Expenditures (BHI)

1. Repair punctures in the metal bulkheads at the marina entry channel. Seller verbally committed to accomplish this prior to closing.
2. Regarding the severely compromised dredge spoils basin on a small island north of the marina, verify the status of the permits and whether the construction document supplied is viable. \$30,000
3. Engage an independent professional land planner to conduct a study to include all parcels within an expanded area around the terminal.
  - Some of the issues to be addressed:
    - Dysfunctional vehicular ingress and egress.
    - Inadequate staging of arriving and departing passengers.
    - Dysfunctional baggage handling.
    - Redesign and expansion of dockside functions and parking areas.
    - New ticketing, restrooms and indoor waiting areas.
    - Permanent protection of the dune structures between the terminal complex and the river.
      - Study \$100,000
      - Land purchase/eminent domain \$3,000,000
      - Construction/renovation \$4,000,000



# Necessary System Capital and Deferred Maintenance Expenditures (cont'd)

## Rolling Stock:

1. Replace 5 trucks and trams. \$200,000
2. Replace worn canvas covers. \$30,000

Floating Stock: (New vessel included in Year 2 but need to add a 2<sup>nd</sup> vessel much sooner than BHITA plan)

1. Refurbishment to ferry interiors. \$100,000

Total low estimate: \$8,640,000

Total high estimate: \$12,480,000



# OWNERSHIP COMPARISON: SUMMARY

- The Village is better suited to own/operate transportation, as the Council is accountable to 100% of all users of the transportation assets.
  - The BHI Transportation Authority Board is made up of 11 appointees, of which, only 3 are Island appointees.
  - A majority of the Authority Board members (six of eleven) are appointed at the state level.
- The Village only has this opportunity if the NC Local Government Commission (LGC) does NOT timely approve the BHITA proposal.
- The Village is ready to “immediately” invest an additional \$5.5 million for equipment and building replacements and enhancements which the BHITA cannot do, due to lack funds.
- Village can save ~\$13,342,000 overall or roughly ~\$445,000 annually. Savings can be used for additional capital and operational improvements.



# POTENTIAL RISKS FOR BHITA VS. VILLAGE OWNERSHIP

- BHITA has a low **BBB-** credit rating vs estimated rating in the “AA” category for Village – limited ability to raise cash when needed.
  - This means BHITA’s only options are to raise ticket prices, reduce maintenance, manpower, salaries, and reduced ferry schedules.
- ~\$445,000 less annual debt service costs creates greater annual cash security.
  - With this cash cushion, the chances of foregoing required maintenance, investments, proper staffing, are greatly reduced.
- The Village has access to additional GO Bonds.
  - This means if we the riders want to ensure schedules and staffing aren’t reduced, we have the ability to approve the needed funds.
- For those concerned about the risk of GO Bonds, note the Village has already and continually used them for beach renourishment projects.



# POTENTIAL RISKS FOR VILLAGE VS. BHITA OWNERSHIP (cont'd)

Worst Case Scenario: What if there is not enough cash flow from operations to the debt?

## TRANSPORTATION AUTHORITY

- Would evaluate services and fees.
- Access Reserve Funds.
- Limited new funding sources.
- Services and upgrades would likely suffer.
- LGC and Bondholder Trustees could step in to run system.

## VILLAGE OF BALD HEAD ISLAND

- Would evaluate services and fees.
- Potential back up funding sources include property taxes.
  - \$0.01 of Island Wide Property Tax Rate is equivalent to approximately \$115,000.
  - On \$1,000,000 home, increase would be \$100 each year per \$0.01 of tax rate.



# VILLAGE DEBT CAPACITY

- **Local Gov't Bond Act (NCGS. 159-55(c)):**
  - *Summary:* a bond order cannot be adopted if the net debt of the unit exceeds 8% of the assessed tax value of property within the unit.

Proposed Gross Debt	
Amount of Current Debt Outstanding	\$15,853,761
Unissued Bonds authorized by Orders	\$2,300,000
Proposed Transportation Bond	Not to exceed \$54,000,000
Maximum Total Proposed Gross Debt	\$72,153,761

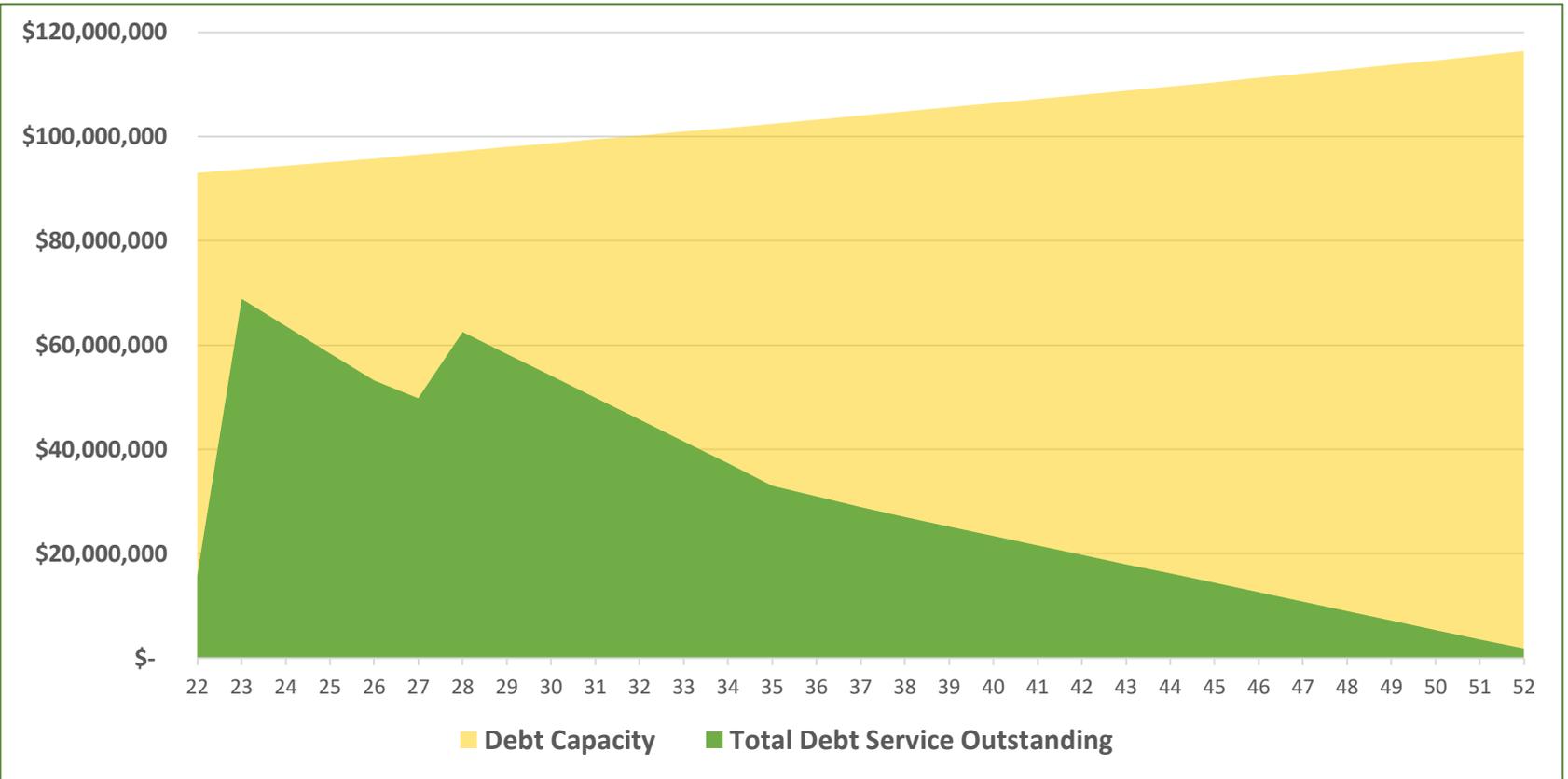
Debt Capacity (FY 23)	
Assessed Value of Property	\$1,162,277,721
8% of Property Values	\$92,982,218
Gross Debt/Prop. Values	6.21%
Est. Amount of Additional Accessible Debt (FY 23)	\$20,828,457

Proposed Future Projects Affecting Debt Capacity	
New Village Hall (FY 23)	\$2,200,000
Future Beach Renourishment (FY 28)	\$15,000,000
Wastewater Treatment Plant (if not financed by Rev. Bonds)	\$13,000,000





# VILLAGE DEBT CAPACITY (cont'd)



- Total DSO includes Current Debt Service and Proposed Debt Service for Transportation System, New Village Hall, and 2028 Beach Renourishment Project
  - WWTP Upgrade Project not included; Proposed financing with grant funds, possible revenue bonds.
- Debt Capacity assumes **0.75%** annual growth in property values due to new construction.





# IF LGC APPROVES VILLAGE FINANCING TO PURCHASE TRANSPORTATION SYSTEM

- The LGC Staff has received the Village's GO Bond application to move forward to hearing.
- If LGC does not timely approve BHITA proposal, the Village is ready to fund the acquisition.
- Negotiation with BHI Limited on sales price and transition agreement
- November 2 bond referendum
- Closing of the transaction and Bond issuance within approximately 3 months

# CONCLUSION

- 1. The Village has made every effort to require the BHITA to run a transparent process and inform the public of the transaction details and address the many concerns raised.***
- 2. The Village is prepared to acquire and be a good steward of the transportation assets and the public interest.***
- 3. The Village has the financial resources to operate a first-class transportation system.***
- 4. The Village has the political make-up to be responsive and responsible to the system users, including the Island property owners, residents, visitors, businesses, non-profits and others.***
- 5. Using General Obligation Bonds, the Village would save users of the transportation system approximately \$13,342,000 over the 30-year financing term.***

