



The Village of Bald Head Island

August 18, 2021

Dear Treasurer Folwell:

I have been made aware of a letter sent earlier this month to you from Robert Drumheller dealing with "village debt projections". There are a number of misguided assertions that may arise from a misunderstanding of municipal finance and the specifics of Village of Bald Head Island budgeting. For instance, like many municipalities, we have an independent Utilities Fund, presently debt free. Unlike many municipalities, for the past several years, and hopefully for years to come, we have raised user fees 2.0% annually to build up our reserves and fund improvements.

The "debt levels existing and projected" referenced in the letter (attached) includes \$4M in freshwater expansion and \$7M in sewer lift station improvements. Although I would have to verify the numbers, the plan is NOT to fund these upgrades through debt but rather through annual expenditures from the Utilities Fund, a 'pay as you go' plan.

Because of its large expense the Wastewater Treatment Facility expansion will have to be funded differently. Presently we are only at the design stage, so we have plenty of time to investigate various funding options: installment loans, grants, Federal infrastructure programs, etc.

Our Shoreline Stabilization Program (beach renourishment) relies on the Sand Management Plan that we have with the Corps of Engineers which assumes a Village funded placement around 2027, 2028. However, the Wilmington Port is pursuing another channel deepening project, which would produce large quantities of beach quality sand, that may negate the need for that Village placement.

Finally, the Village's projection of a 0.75% annual increase in the tax base has nothing to do with the County assessments of individual properties, but rather it is the very conservative estimate of new residential and commercial development coming online and adding to the taxable base. The 0.75% increase equates to roughly \$9M. Presently we have over \$30M of construction underway.

The debt from the \$54M Village General Obligation Bond proposal to purchase the Bald Head Island Transportation Company is projected to be paid off through revenues, not by raising property taxes. However, in the case of a crisis, having the possibility of modest tax increases is far better than runaway rates and slashed services.

Thank you for your time,

/s/ J. Andrew Sayre
Mayor

pc: Sharon Edmundson

[DRUMHELLER LETTER TRANSCRIPT BEGINS]

Subject: Fw: Drumheller Letter LGC Letter/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
Subject: village debt projections

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	Funding TBD: Low-Interest Rate Installment Loan, Grants, Federal Infrastructure Programs, Etc
new village hall	\$2mm	
wastewater expansion	\$13mm	
freshwater expansion works on this)	\$4mm (estimated as we did not get a number from public	
rebuild 38 sewer lift stations with public works)	\$7mm (estimated at \$200,000 per station per conversation	
total	\$96mm (already above the 8% cap)	

To be funded in Village Utilities Fund Annual Budget, "Pay As We Go"

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.

Possible No Cost Sand Placement From Wilmington Port Channel Deepening Project

0.75% Growth
Due To
Residential And
Commercial
Development,
Adding to The
Tax Base

NOT
Increased
Assessments On
Existing
Properties

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

[DRUMHELLER LETTER TRANSCRIPT ENDS]