

## Citizen/Island Entity Correspondence from January 2021 through September 2021

*(Click on the text to view the letter)*

January 27, 2021	<a href="#">BHI Club Letter to Treasurer Folwell</a>
January 27, 2021	<a href="#">BHI Citizen Letter to Treasurer Folwell</a>
April 26, 2021	<a href="#">BHI Citizen Letter to State Auditor</a>
April 26, 2021	<a href="#">BHI Citizen Letter to Support 4/26/2021 Letter to State Auditor</a>
May 2, 2021	<a href="#">BHI Citizen Letter to State Auditor</a>
May 4, 2021	<a href="#">BHI Citizen Emails to Treasurer &amp; State Auditor</a>
May 25, 2021	<a href="#">BHI Citizen Letter to Treasurer Folwell</a>
July 21, 2021	<a href="#">BHI Citizen Letter to State Treasurer &amp; State Auditor</a>
September 30, 2021	<a href="#">BHI Citizen Letter to State Treasurer &amp; State Auditor</a>



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

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 Bald Head Island Club Board of Governors ("Club"), acting by and through its undersigned Executive Committee, is writing you in support of the Bald Head Island Village Council's January 19<sup>th</sup> request to defer The Local Government Commission's (LGC) consideration of the Application for a period of not less than six (6) months. The Club's Board of Governors is in unanimous agreement with the requested delay by the Village as reviewed during our January 24, 2021, Club Board meeting.

The Club is responding as an Island employer, representing both the Bald Head Island Club and Shoals Club. The Club has over 1,200 member families, employs approximately 200 employees from the local area, and is one of the largest users of the transportation system (ferry, parking, barge, and warehouse). Our employees' and vendors' future livelihoods rely on a vibrant and growing Club membership. As such, the transportation system is a critical component of the Club's daily operations. As one of the transportation system's largest single users, we have concerns over the lack of operational plans and transparency with the Application as it impacts the Club and its future success for its members, guests, employees, and vendors.

With the minimal public information provided to date, we cannot comment on whether the current Application is good or bad for the future of the Club. We would hope that the underlying fundamentals, valuations and appraisals, are objective, independent, represent multiple professional assessments, and are fair and reasonable. We support the formation of the Authority and believe the structure is good for the long-term ownership and operation of the transportation system. However, the Club does have concerns over the composition of the Authority with its lack of a majority of full-time island residents and/or Island businesses for policy setting and major financial decisions impacting the Island. Based on the 7-4 vote in favor of moving forward with all four island representatives voting "no", it appears that the concerns of those closest to the island's needs might not be heard by the Authority in the future.

*P.O. Box 3070 | Bald Head Island, NC 28461 | [www.Bhiclub.net](http://www.Bhiclub.net) | 910.457.7300*

In addition to the items outlined in the Village's January 19<sup>th</sup> letter, the Club has the following concerns:

- We understand the need to increase rates based on underlying operational cost increases; however, if future price increases are to meet overly burdensome financing objectives then this places additional and undue cost burdens on our employees, vendors, and members. If the price paid for the transportation system is above what the market and economic analysis deem as fair, then the only recourse for the Authority is to raise rates/fees, or reduce services (costs), which will have a significant negative impact on the Island. Not all businesses and vendors can pass along these price increases which will result in the need to reduce headcount/local employment and limit options for viable vendors and contractors to service the Island and its businesses.
- Significant transportation system cost increases also have a negative flow through impact on Bald Head Island home construction, real estate values, and vacation rentals as compared to other beach communities. A decrease in the rate of new homes and real estate transactions has a negative impact on the Club's new members and resulting financials. We also rely heavily on the rental vacation market, so a slowdown and/or downturn with this activity also places additional financial hardship on the Club. Vacation rentals also provide the Club with our pool of new future members. Since the current proposal relies on island growing faster than it has over the past several years, increased ferry costs may actually jeopardize the ability of the Ferry Authority to meet its debt obligations.
- Today, the NC Utilities Commission governs ferry rates and schedules. This governance provides a backstop in support of the public's interests, as well as, those of the operator. The Club would like to understand how the Authority plans to incorporate citizen, business, and village input in its decisions over rates, schedules, and other aspects of ferry operations. As mentioned above, the transportation system is the lifeblood for our operations. So, not only to provide input, but for us to also understand the escalation, mediation, and resolution process to address differences in viewpoints as the Authority in essence will operate as a monopoly serving the Island.
- The Village outlines a number of concerns around cash reserves and cash flows for capital and operational improvements. Again, the Club cannot comment on whether the current Authority deal is sufficient, and affordable, to meet these needs. But, we can provide comment on the current operations, such as:
  - Ferries: The need to update an aged fleet of ferries. The overall appearance of the ferries is the first impression to potential new island residents and new Club members, as well as, an impactful part of the daily life of our employees. Ferries that looked aged and have excessive wear and tear negatively impact our pool of new members and makes it difficult to attract and retain a talented and motivated workforce.
  - Boarding: The need for a "smart" ferry boarding process at both Deep Point and Bald Head Marina to help eliminate significant wait times in long lines (many times in inclement weather).
  - Terminals: Both ferry terminals need changes to accommodate the better flow of traffic (ingress / egress), capital improvements to address high tide flooding at the Bald Head Marina ferry dock, as well as improvements to baggage handling systems and processes at both terminals for members and rental guests.
  - Parking: Ensure there is adequate and affordable parking for employees, members, guests, and vendors to meet current Island needs and future growth.

Today, the general parking lot is overflowing, and cars scattered onto non-paved areas during the peak summer months.

The above includes the Club's primary current concerns, but others may arise as more information becomes available. We hope this provides you and the LGC additional support for the Village's request to defer consideration of the Application. The desire is to allow Island residents, businesses, employees, and vendors time to consider the details of the Application and to provide input to help ensure the future success of the transportation system.

Thank you for your consideration.

Respectfully,

Bald Head Island Club – Board of Governors, Executive Committee

*Michael T. Brown*

Michael T. Brown – President

*Slaughter Fitz-Hugh*

Slaughter Fitz-Hugh – Vice President

*Gene Ramm*

Gene Ramm – Secretary

*Robert Carter*

Robert Carter – Treasurer

Copy:

Sharon Edmundson, Deputy Treasurer

Tim Romocki, Director, Debt Management

Susan Rabon, Chair, Bald Head Island Transportation Authority

Village of Bald Head Island Council

K. Christopher McCall, Bald Head Island Village Manager

Chad Paul, CEO, Bald Head Island Limited, LLC

David F. Sawyer, CEO Bald Head Island Club and Shoals Club

Rick Anderson – Bald Head Island Board of Governors

Miriam Leonard – Bald Head Island Board of Governors

Robert Nixon – Bald Head Island Board of Governors

Claude E. Pope, Jr – Bald Head Island Board of Governors

Kathy Virtue – Bald Head Island Board of Governors

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

Re: Bald Head Island Transportation Authority ("Authority")

Dear Mr. Folwell:

We write this letter as concerned homeowners, residents, business owners and, most of all, taxpayers of Bald Head Island. We have great concern about the potential adverse impact the sale of the Bald Head Island Ferry to the Bald Head Island Transportation Authority (BHITA). In the nearly three years the BHITA has existed property owners have received little or no information about the process or deliberations. This is troubling. The ferry's affordability and service levels are critical to the island.

We do not represent any organization in particular, we are just highly concerned Bald Head Island stakeholders. It is unfortunate that the largest homeowner's association on the island does not believe advocacy for homeowners is their responsibility and that the seller of the ferry system has seen fit to exclude virtually all the BHI property owners from knowledge and information of this transaction. We write this letter of request as concerned ferry system customers.

We request that the transaction be delayed by six months and require during this extension, the BHITA have a series of public meetings disclosing the details of the transaction, the projections for the future in terms of ferry rates, parking fees and operating schedules. Additional information on ferry replacement schedule and capital improvements to the ferry landings in Southport and Bald Head Island would be needed as the current structures are insufficient at busy periods now. These facilities will need significant capital improvements in the next five years, especially given current projections of rising sea level and navigation channel deepening. The information shared with the public by the BHITA is non-existent. The BHITA is a public entity created by the State and should be providing information to the public and seeking public input.

We support the concept of the transaction. The BHITA, as a state entity, is a better long-term solution to own and operate the ferry than the Texas based Mitchell family. The BHITA will have greater interest in the residents and visitors to the state than a non-resident owner. We understand that the ferry system is valuable and a fair value must be paid. However, from our perspective, the BHITA has been more focused on maximizing the amount paid to the Mitchells rather than ensuring a long term, viable transportation system for the island, Brunswick County and the state.

Currently, the ferry system is operated under the oversight of the North Carolina Utilities Commission (NCUC) and service level changes and fare increases are reviewed and approved by that entity. The parking fees and barge fees are not controlled by the NCUC and have risen substantially since operations were relocated to Deep Point. Although not perfect, it allows for changes to ferry ticket price increases to go through a process with customer input as well as input from the Mitchell family. The current price control system has proven to be a good check on the cost and operations of the ferry to keep prices fair and provide a profit that has been acceptable to the owner. We would like to understand how the service levels, schedule and prices will be determined in the future. The scant information provided so far gives us no comfort.

Again, we request a delay of six months of the pending transaction to allow for public education and input. A series of presentations from the BHITA and allowing for stakeholder input would be a positive step in making the transaction effective for all parties. In the attached we outline some of our concerns.

Thank you,

Al Buzzard	Doug Anderson	Lisa Way
Andrea Taylor	Drew Ann Cook	Lori Carey
Antoinette Powell	Elyse Armitage	Louis Welmore
Barbara McQuaide	Gene Douglas	Marlene Carter
Beth Kapil	Gordon Davis	Marty Gaunt
Betsy Barr	Hayler Osborn	Meredith Jeffries
Betsy Carr	James Henderson	Miriam Leonard
Bill Morton	Jason Ainsworth	Missy Anderson
Bill Way	Joan Guilkey	Norman Armitage
Bob Carter	Joe Brawner	Pam Ridings
Brett Belch	Johanna Ainsworth	Patricia Barnard
Browse Barnard	John Day	Patrick Smithey
Carmen Mugge	John Jeffries	Paul Carey
Cathy Sigal	John Register	Paul Mugge
Chris Taylor	Joseph Elphick	Richard Beavers
Chuck Hunter	Joyce Douglas	Richard Nelson
Cindy Belch	Joyce Lambert	Richard Swaim
Cindy Gaunt	Joyce Nelson	Rick Anderson
Cindy Swaim	Judith Osborn	Robert Nixon
Claude Pope III	Judy Brawner	Robert White
Courtney Callihan	Jules Showalter	Sean Callihan
Cynthia Henderson	Kathey Anderson	Shari Beavers
Dale Krapf	Kay Carwile	Stephen Cook
David Guilkey	Kay Murphy-Brown	Susan Nance
David Hunter	Ken Ridings	Suzi Buzzard
David Showalter	Larry Leonard	Virginia White
Dennis Carwile	Leigh Day	Watts Carr
		Wayne Lambert

Copy:

Sharon Edmundson, Deputy Treasurer  
Tim Romocki, Director Debt Management  
Susan Rabon, Chair, Bald Head Island Transportation Authority  
Village of Bald Head Island Council  
K. Christopher McCall, Village Manager  
Chad Paul, CEO, Bald Head Island Limited, LLC

## **Some Bald Head Island Ferry Concerns**

### **Cost and schedule:**

Apparently the BHITA will increase fares immediately upon acquisition of the assets. Cost increases at this point will all be built into the price paid to the Mitchell's and does not increase available cash flow for the authority to spend on operations and capital improvements. Will the schedule be that same as it has been for years? The island has thrived on a set schedule of the ferry system overseen by the NCUC.

### **Capital improvements (boats):**

What is the schedule for replacing and/or maintaining the ferry vessels? The vessels have recently had sporadic performance issues and have had to be pulled out of service a number of times in the past year. Is there capital available to support improved ferry schedule performance?

### **Capital improvements (ferry terminals):**

How much capital is available for needed improvements at the terminals. Deep Point needs to have the baggage handling system replaced as it has not been used as was designed originally for years because of design flaws. New parking has to be built as the parking lot is overflowing in the busy summer months. The Bald Head terminal is woefully inadequate. Issues including one of the docks is under water at monthly high tides (and tides are projected to continue to increase even more rapidly as a result of global warming and increased dredging of the shipping channel) and is un-useable at those times. The baggage handling and vehicle service areas are too small and poorly designed resulting in failure at busy times. Bags piled on top of bags as they are loaded and off loaded. This building should be completely rebuilt. The BHI terminal area available for trams, tram parking, arriving and departing passengers, and baggage drop-off and pick-up is not currently adequate and requires redesign, improvement, and possibly relocation.

### **Management:**

Who is going to manage the ferry system going forward? As the Mitchell family has sold off a number of businesses and real estate in the past few years the ferry service levels have deteriorated culminating in an unusually poor 2020 service levels. In addition to the abandoned baggage handling system at Deep Point the ticket system utilizes paper tickets purchased only at the Deep Point terminal and there is no reservation system to allow for planning by travelers. Frankly, it is hard to believe that these antiquated systems are still in place in 2020. The process for deciding the management structure and company should solicit and fully consider user input.

### **Operating capital:**

How much operating capital is available to the authority in the event of lower-than-expected demand or unforeseen capital needs? From the available information it appears that there is little cushion for those possibilities. With the bond rating of BBB- it would be fair to assume that any additional capital would be difficult to find and, if found, likely very expensive. In that event it is likely the authority would have to increase fares dramatically or decrease service which would further reduce demand. Since the ferry and the island's economic viability are closely linked it could create a downward economic spiral for both entities.

**Additional signatures January 28, 2020**

Andrew Aronson  
Ann Elder  
Anna Hattaway  
Anne Berry  
Annemarie Marinelli  
Ashley Jones  
Beth Fordham-Meier  
Betsy Nelson  
Betty Lawrence  
Bill Linebarger  
Bob Price  
Bob Vaughan  
Braden Holloway  
Buddy Lawrence  
Buddy Reger  
Chip Berry  
Chris Hoke  
Chris Parrish  
Colleen Parrish  
Dan Boyce  
Dan Nelson  
Dave Stuver  
David Elder  
Deborah L Wildgoose  
Douglas B. Eberle  
Elizabeth Bellucci  
Gail Liesegang  
Garnett Kelsoe  
Gordon Holmes  
Hobart Corwin  
Hollis King  
James A. Koch  
Jerry Maggio

Jim Bourdon  
Joan Maggio  
Joe Barnard  
Joe Snee  
Joep van Huystee  
John Marinelli  
John Richter  
Joseph Novia  
Judy Richter  
June Beasley  
June Beasley  
Karen Stuver  
Kate King  
Kathleen T. Koch  
Kathy Linebarger  
Kim Scagnelli  
Kris Clark Aronson  
Kris Riley  
L. Darryl Quarles  
Lee Gutshall  
Lee Weaver  
Lewis Beasley  
Linda St Jean Carlow  
Lynn Barnard  
Marcella Kelsoe  
Marijke van Huystee  
Mark King  
Mark Scagnelli  
Mary Beth Snee  
Mary Holloway  
Mary Mears  
Mary Taylor

Melanie Robbins  
Merry Vaughan  
Michael Caufield  
Michael Jones  
Mike Becker  
Mike Stevens  
Mitch Boyd  
Natalie Boyd  
Patricia J Miller  
Paula Corwin  
Phil Ross  
Prudy Weaver  
Randy Novia  
Randy Riley  
Robert B Liesegang JR  
Robert B Liesegang Sr  
Robert Iseman  
Robert Taylor  
Robert Vaughan  
Roger Mustian  
Roxann Mustian  
Sandy Hattaway  
Scott Mears  
Sherry Becker  
Stephen M Cobb  
Steve Smalley  
Sue Stevens  
Suzanne Price  
Tammy Holmes  
Terry Reger  
Theresa Bourdon  
Wyndham E. Eberle



**Additional signatures January 29-31, 2020**

Abby Brotherton

Ainsley Moyer

Ann Cathcart

Ann Haglund

Anne Gardner

Ben Bonifant

Bill Grantmyre

Bill Michels

Brian Geraghty

Cam McIntyre

Carmen Mugge

Carolyn Bell

Catherine McIntyre

Charles Gaukel

Christine Osborne

Chuck Ruland

Claire Bonifant

Clinton Young

Conn Sharp

Dan Golwyn

David Bennington

Deb Geraghty

Debra Drumheller

Delores O'Callaghan

Dixon McLeod

Drew Bullard

Erica Grantmyre

FA McLeod

Frank Klaine

Gage Bennington

Gail Gaukel

Gene O'Callaghan

Gene Ramm

Heather Ruland

Jane Mago

Jeanmarie Dellosso

Jennifer Golwyn

Jim Roese

Joe Snee

John Jeffries

Karen Klaine

Kelly Pruett

Kurt Haglund

Kurtis Moyer

Lisa Zelina

Mark Dellosso

Marvin Neuwirth

Mary Beth Snee

Mary Michels

Mary Sue Smith

Maryann Ingersoll

Mike Stocum

Palmer Sugg

Paul Mugge

Phil Ross

Rex Osborne

Richard Allison

Rick Zelina

Robert Blau

Robert Drumheller

Ruth Young

Ryland Pruett

Sandra Yancey

Sarah Neuwirth

Scott Ingersoll

Scott Yancey

Sharon McCoy

Sherry Roese

Steve Kennedy

Steve Terrio

Sue Kennedy

Susan Allison

Susan Terrio

Susan Weaver

Suzanne Whitmeyer

Tim Bell

Tim Brotherton

Tim Smith

Tina Bullard

Wendy Stocum

The Honorable Beth A. Wood, CPA  
North Carolina State Auditor  
20601 Mail Service Center  
Raleigh, NC 27669-0600

Dear Ms. Woods:

We are writing on behalf of Bald Head Island (BHI) property owners to request that your office conduct a financial audit of procedures that the Bald Head Island Transportation Authority (BHITA) followed in developing its proposal to acquire the Bald Head Island transportation system (System) from Bald Head Limited (Limited). We are concerned that the proposed \$47.7M acquisition price is excessive. If implemented, along with a \$56.M revenue bond issue needed to finance the acquisition, the BHI economy will be harmed, unnecessarily, along with individual BHI property owners, hundreds of workers who ride the ferry and depend on the Island for their livelihood, as well as thousands of tourists and vacationers that visit BHI annually.

In an April 23, 2021 letter, the Village of Bald Head Island (Village) formally requested that the NC Local Government Commission (LGC) delay consideration of the BHITA's revenue bond application until apparent problems with BHITA's valuation of the System are addressed. The Village also recently voted unanimously to acquire the System from Limited and operate it going forward. If BHITA's current bond application is approved by the LCG "as is," we intend to urge the Village to ask an appropriate state court to stop BHITA from proceeding with its revenue bond issue until the entire matter has been adjudicated. We regret that circumstances have brought us to this point, but for reasons highlighted below, we feel we have no other choice.

### **Background**

In 1983, Bald Head Island was purchased out of bankruptcy by George P. Mitchell, a Texas billionaire. Mr. Mitchell's BHI properties, including the BHI transportation System, were organized under the ownership of Limited which was wholly owned by the Mitchell Family, and after the death of Mr. Mitchell in 2013, by the Mitchell family trust. In 2015, following a boating accident involving the BHI ferry, Limited opted to sell the System.

Limited had difficulty finding a suitable commercial buyer reportedly because the System is a local monopoly and has long been regulated by the NC Utilities Commission. As an alternative, Limited conceived and helped write what became the Ferry Transportation Authority Act (Act) which was enacted by the NC legislature in 2017. The Act created the BHITA, along with an 11-member Board of Trustees that would be appointed by the Governor, the legislature, various state agencies, and effected local government entities. Of the 11 Board members, only three, including the Village Mayor and Mayor *Pro Tem*, were required to be BHI residents or property owners.

The Act authorized, but did not require, the BHITA to appraise and purchase the BHI transportation System from Limited "at or below" its appraised market value, and to finance the purchase through the issuance of non-recourse revenue bonds. Importantly, the Act also: 1) deregulated the System once BHITA acquired it from Limited, and 2) purposefully avoided appropriating any state funds that the

BHITA would need to appraise the value of Limited's transportation assets, and develop an extensive revenue bond application to the LGC.

### **Problems with BHITA's Valuation of Limited's Transportation System**

There are three fundamental problems with procedures that the BHITA followed in arriving at its \$47.75M acquisition price for Limited's transportation System, and its subsequent \$56M revenue bond application. 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. 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. 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.

Regrettably, all three of the aforementioned problems clearly encumber two real estate appraisals that BHITA heavily relied on in valuing the System. Both were done for BHITA by the Worsley Real Estate Company. Like all of BHITA's consultants, the Worsley appraisals were paid for by Limited. As it turned out, Worsley's appraisals of real estate parcels at the ferry terminals on BHI and at the Deep Point landing (on the mainland in Southport) came to \$42,395,000 and Deep Point. As such, they formed the basis (i.e., 88 percent) of BHITA's proposed \$47.75M purchase price for Limited's transportation assets. While both appraisals were completed in April 2019, they not released to the public until mid-February 2021.

Once released to the public, Worsley's appraisals immediately raised two key concerns among BHI stakeholders that BHITA has yet to address or explain. First, the Worsley reports valued real estate parcels at the Deep Point and BHI ferry terminal sites that BHITA would acquire from Limited at more than twice what the Brunswick County tax assessor estimates those same parcels are worth -- \$42,395,000 versus \$17,734,810. There is no explanation of this difference in the Worsley reports; only a brief reference that the difference exists. This is surprising and concerning since under state law, the Brunswick County property tax assessor is required appraise a commercial property for tax purposes at its fair market value.

A second concern with the Worsley appraisals is that they are based on only one of three approaches or methods that are commonly used to estimate values of commercial real estate. The three-method practice is routinely used in appraising commercial properties in order to reduce the risk that any one method might produce inaccurate valuations. Worsley used only the Cost Approach. This too is unusual since the Income Approach is generally regarded to be the most accurate of the three methods when appraising income producing properties. Worsley's appraisal reports state further that the Income Approach was not used on explicit instructions from BHITA's Business Valuation Consultant. That consultant also was paid by Limited.

We do not know why the Income Approach was purposefully excluded from the Worsley appraisals. We do know, however, that had Worsley been permitted to use the Income Approach he would have been

required to review prior-year financial statements for the System, and explicitly factor those data into his appraisal of the Deep Point and BHI ferry terminal parcels. We also know that these prior-year financial statements exist because they were provided to members of the BHITA Board of Trustees, but only on the condition that each board member sign a binding non-disclosure agreement (NDA). For all practical purposes, the Board's decision to sign the NDAs precluded the use of prior-year financial operating results in determining the fair market value of Limited's transportation System.

We also know that Limited continues to make every effort to keep the System's prior-year financial performance data completely under wraps, and that BHITA has acquiesced in keeping these data proprietary and out of its valuation process. In our view, this is very problematic precisely because including the data would have resulted in a significantly lower valuation than \$47.75M. Why?

Very simply because Section 160A-686(b) of the Act provides that once the transportation System has been acquired by BHITA, it will no longer be regulated by the Utilities Commission. Instead, BHITA will have unilateral discretion to set rates. 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 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. Absent the legislation, there is no reason to believe that the Utility Commission would have allowed BHI ferry rates to immediately increase at all, much less by 20 percent.

Looking at the Mercator study a little differently, one could conclude that Limited's transportation assets might be worth the \$47.75M "negotiated" price but only if BHITA raised rates by 20 percent or so once the System is deregulated. Again, deregulation will occur under the terms of the Act that Limited, by its own admission, had a major hand in writing. Conversely, had Worsley appraised the value of the System using the Income Approach -- based on prior-year financial results when the System was regulated -- its cash flow estimates and appraised market value would have been considerably lower than the \$47.75M the BHITA eventually agreed to pay Limited.

In effect then, by agreeing to the \$47.75M purchase price, BHITA is proposing to give Limited, and by extension the Mitchell family estate, the lion's share of the increase in the System's value that results from deregulation. We believe it would be far better if the purchaser of the System were to retain any such increase in market value and use it to pay for much needed System improvements, or mitigate the need for future rate increases. Should the Village succeed in acquiring the System, we and certainly many other BHI property owners will urge the Village Council to do just that.

Finally, it is noteworthy that, had prior-year financial data been explicitly factored into BHITA's valuation of Limited's transportation assets along with Mercator's *Bond Feasibility Study*, as the historical data should have been, BHITA's proposed revenue bond issue also would be significantly reduced. A smaller bond issue, in turn, would moderate risk to the state and NC taxpayers that BHITA could end up defaulting on its revenue bonds due to unforeseen shortfalls in the System's revenues and/or increases in its operating expenses or capital requirements that could result, for instance, from damage caused by an unusually strong hurricane.

Under moderately favorable revenue and cost projections (e.g., no costly storms) developed in the Mercator study, BHITA's non-recourse revenue bonds would tentatively be rated at BBB- or slightly above junk. As you are aware, a BBB- rating is considerably below the ratings of general obligation bonds that the LGC typically approves and subsequently sells to investors on behalf of local government entities in North Carolina. As such, were BHITA to default on its bonds due, in part, to BHITA's excessive valuation of the System in the first place, that default could have the unintended effect of raising the cost of debt that other NC local government entities, including the Village, will need to raise in the future. A default also would very likely leave the state, and NC taxpayers responsible for paying off BHITA revenue bond holders.

### **The Need for an Independent State Audit**

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. 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.

We do know, however, that these negotiations were done completely behind closed doors with absolutely no meaningful public input from interested stakeholders, certainly including BHI property owners. The Worsley appraisals were completed in April 2019 but were not made public until mid-February 2021. This was only a few days before the BHITA was forced to hold a public hearing on February 17 at which the Board Chair attempted to explain the proposed acquisition price and the \$56M revenue bond application that had already been submitted to the LGC.

Had the Worsley appraisals been released shortly after they were completed in 2019, as they should have been, public input very likely would have helped the BHITA negotiate a more reasonable acquisition price with Limited. The same is true of the System's prior-year financial data. Making these data publicly available, rather than requiring BHITA Board members to see the data only after signing a binding NDA would not have harmed anyone other than Limited. But its release, no doubt, would have rendered BHITA's valuation of the System more transparent and a good deal more reasonable.

How many more mistakes BHITA may have made in dealing with Limited and various consultants that Limited hired on BHITA's behalf is unclear. It is unclear because the entire valuation process that BHITA followed remains cloaked in secrecy. In our view, this is unwise, unnecessary and very much at odds with good governance. Thus, we are urging you to undertake an independent financial audit of the entire valuation process before the LGC formally considers BHITA's revenue bond application. For all of the reasons cited above, we believe that an independent audit is clearly needed and will very much serve the best interests of the state, NC taxpayers and certainly those that depend on the transportation System to travel to and from Bald Head Island.

Respectfully yours,

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

J. Paul Carey  
611 Currituck Way, Bald Head Island

cc: Honorable Dale R. Folwell, CPA, NC State Treasurer and Chair, Local Government Commission  
Timothy Romocki, Director, Debt Management, NC Department of State Treasurer  
Susan Rabon, Chair, Bald Head Island Transportation Authority  
J. Andrew Sayre, Mayor, Village of Bald Head Island

Beth A. Wood, CPA  
North Carolina State Auditor

Dale Folwell, CPA  
North Carolina State Treasurer

Ms. Wood and Mr. Folwell,

We are users of the Bald Head Island Ferry and are residents, property owners, business owners and workers on Bald Head Island. We have read the attached letter and support the investigation of the processes that determined the value of the Ferry System. We are concerned that overpaying for the Ferry System will result in lower service levels, less capital investment in needed equipment and no money for unforeseen events. We also request that the questions that were raised in the February 17th public meeting be appropriately answered.

Respectfully submitted,

Alexander Hattaway  
Anna Hattaway  
Anne Quarles  
Annemarie Sherlock  
Betsy Carr  
Betty Lawrence  
Bill Bourne  
Bill Michels  
Bill Morton  
Bob Vaughan  
Bob White  
Brent Belch  
Buddy Lawrence  
Carmen Mugge  
Carol Caufield  
Cathy Sigal  
Cindy Belch  
Craig Bendoroff  
Craig Bendoroff  
Cynthia Henderson  
Dan Boyce  
Darryl Quarles  
David Guilkey  
Debbie Ward  
Deborah Wildgoose  
Drew Bullard  
Elizabeth Bellucci  
Frank Klaine  
Gary D. Melchionni

Gene Ramm  
Gerald Maggio  
Ginny Hunt  
Gretchen Meyer  
Holly Bendoroff  
James Henderson  
James Hunt  
Jane Mago  
Jim Borudon  
Jim Roese  
Joan Guilkey  
Joan Maggio  
Joe Barnard  
Joyce Nelson  
Kaden Watts  
Karen Klaine  
Kay Brown  
Kenan Hunt  
Keri Cobb  
Kirby Ward  
Larry Leonard  
Lori Carey  
Lou Meyer  
Lynn Barnard  
Marilyn O'C. Dimling  
Mary Lucille Feins  
Mary Mears  
Mary Taylor

Meredith Bourne  
Merry Vaughan  
Mike Becker  
Mike Caufield  
Miriam Leanord  
Paul Mugge  
Randall Jones  
Richard Beavers  
Richard Nelson  
Rick Feins  
Rob Taylor  
Robert B Liesegang Jr  
Robert B Liesegang Sr  
Robert Iseman  
Sandy Yancey  
Scott Mears  
Scott Yancey  
Shari Beavers  
Sharon McCoy  
Sherry Becker  
Sherry Roese  
Steve Cobb  
Steven McCoy, M.D.  
Theresa Bourdon  
Tina Bullard  
Toni Powell  
Virginia White  
Watts Carr

May 2, 2021

Honorable Beth A. Wood, CPA  
North Carolina State Auditor  
20601 Mail Service Center  
Raleigh, NC 27669-0600

Dear Auditor Wood:

We are writing in response to an April 30 letter sent to you by Ms. Susan Rabon, Chair of the Bald Head Island Transportation Authority (BHITA). Her letter concerns the Local Government Commission's (LGC) consideration of BHITA's \$56M revenue bond application. These bonds would be used to finance the purchase of the Bald Head Island (BHI) transportation system (System) from its owner, Bald Head Limited (Limited) for \$47.75M. It is our understanding that the LGC will consider BHITA's bond application at its scheduled May 4, 2021 meeting.

We strongly oppose the bond application for reasons discussed in our April 26, 2021 letter to you requesting an independent financial audit of BHITA's valuation of Limited's transportation assets. We believe Ms. Rabon's April 30 letter underscores the need to conduct such an audit. Nothing in her letter refutes fundamental problems we identified in our prior letter: (1) BHITA's valuation and bond application for the transportation System are excessive; (2) the proposed acquisition will unreasonably benefit Limited, at the expense of people who ride the BHI ferry; and (3) it will subject the state and NC taxpayers to unnecessary financial risk and costs should BHITA default on its revenue bonds due, for instance, to unanticipated damage caused by an unusually strong hurricane.

Nothing in Ms. Rabon's letter lessens our concerns. All three of the aforementioned problems stem from the fact that Limited, the seller, paid various consultants that BHITA relied on to value Limited's transportation assets, and subsequently develop its revenue bond application that is now before the LGC. This created and continues to create an inherent conflict of interest. By putting itself in the position of paying all BHITA consultants, Limited also appears to have used its control of BHITA's valuation process to maximize the sales price of Limited's transportation System. How do we know this?

By its own admission, BHITA apparently reached a tentative agreement with Limited on an acquisition price, or possible price range, in 2019 following real estate appraisals that were done for BHITA by the Worsley Real Estate Company and paid for by Limited. We do not know what the initial negotiated price or price range turned out to be because none of this information was disclosed the time, and is still being kept under wraps.

Importantly, however, the "negotiated" acquisition price was constrained by the amount of debt that BHITA would need to issue, in order to pay Limited. This amount could not exceed what the LGC would subsequently approve. And since it is highly unlikely that the LGC would approve a bond issue rated below investment grade, a BBB- bond rating effectively became the lowest that BHITA's prospective bond issue could receive from the bond rating agencies and still get LGC approval.

In 2020, the Mercator consulting group was hired to estimate what BHITA would need to do with the transportation System's rates for ferry, parking and barge use going forward in to order to pay for a revenue bond issue large enough to finance the acquisition price, while maintaining an investment grade bond rating. After going through several iterations of its "forward looking" financial model,



Mercator concluded that BHITA could service a \$56M bond issue needed to finance the \$47.75M acquisition price it would agree to pay Limited -- provided BHITA increased ferry, barge and parking rates by roughly 20 percent, immediately after acquiring the System. BHITA's bond consultants, also paid by Limited, then determined, based on Mercator's cashflow projections, that BHITA's proposed revenue bond issue would tentatively be rated BBB- or one notch above junk, and, thus, acceptable to the LGC.

All of this no doubt involved a balancing act of sorts which would explain why Mercator went through several iterations of its model. Had BHITA and Limited agreed to a higher purchase price, the size of the bond issue also would have increased, along with projected rate increases needed to boost the System's cashflow enough to handle the added debt. A larger debt issue, however, would have made it more difficult to maintain an investment grade BBB- bond rating since adding debt would raise the risk of default, *ceteris paribus*. Conversely, had BHITA insisted on a lower price, the bond issue would have been smaller which, in turn, would have resulted in a higher bond rating. The fact that the \$56M bond issue was tentatively rated BBB- by BHITA's bond consultants, or one notch above junk, is prima facie evidence that Limited succeeded in persuading BHITA to accept the highest possible purchase price that it could get while maintaining an investment grade bond rating.

Even so, as explained in our April 26 letter to you, had BHITA released Limited's prior-year financial operating results for its transportation System, as it should have, the availability of these data would have made it virtually impossible to justify a \$47.75M purchase price or anything approaching that price. The reason is that Limited's transportation System is a local monopoly, currently regulated by the NC Utilities Commission. As such, in the absence of the legislation, the Utilities Commission very likely would not have allowed BHI ferry rates to increase at all, much less by the 20 percent or so that would be needed to service BHITA's proposed \$56M bond issue.

In view of all of this, it was especially unfortunate that the Worsley Real Estate Company was expressly precluded by BHITA's Business Valuation consultant (no less) from using Limited's prior-year financial statements to appraise the market value of the transportation System. Again, as we explained in our prior letter, had Worsley appraised the System using the standard Income Approach, he would have been required to use these prior-year financial data which, in turn, would have led to a significantly lower appraisal of the value of the ferry terminal sites at Deep Point (in Southport) and on BHI. The appraisal would have been lower simply because it would have been based on the System's recent financial performance which, unlike the Mercator study, would not have included or reflected BHITA's planned 20 percent rate hikes once it acquired the System from Limited and ferry rates were deregulated.

In her April 30 letter to you, Ms. Rabon noted that:

Worsley was expressly directed not to use the income approach, as that value could not be determined separate from the operation of the ferry and barge operations. *See Worsley Report (Deep Point)*: "in order to insure the opinion of value herein accounts only for the real property, the Sales Comparison and Income Approach is not utilized."

In our opinion, excluding the use of prior-year financial data from BHITA's appraisals on this basis makes no sense precisely because BHITA is proposing to purchase the entire transportation system which includes the ferry, barge and parking operation. If Worsley was not qualified to appraise the System as a

whole, not just the real property attributed to various piece parts, the BHITA Board should have at least insisted that Limited hire a business valuation consultant that was qualified and further insist that the appraisal include and explicitly reflect the System's prior-year financial performance. Had it done so, the appraised value of the transportation System that BHITA used to settle on an acceptable purchase price with Limited would have been much lower.

Are there legitimate business reasons why Limited should have been allowed to shield its prior-year financial data for the transportation System from public review and, more importantly, from being used in BHITA's appraisals? Not to our knowledge. Because the transportation System is a local monopoly, it is regulated by the Utilities Commission and operates under a certificate of public convenience and necessity that is granted by the Commission. While businesses that are not regulated are often permitted to withhold competitively sensitive financial information from public review, that rationale doesn't apply here because Limited's transportation System has no competitors.

In our view, exclusion of the prior-year financial data, coupled with serious conflicts of interest issues that resulted from various consultants who were supposedly working on BHITA's behalf, but paid by Limited, also represents ample cause for your office to conduct an independent financial audit of BHITA's entire valuation process. We do not make this request lightly. However, because the terms of the legislation that created BHITA gives BHI stakeholders no recourse to contest decisions made by BHITA that will unduly harm BHI, we feel we have no choice. Thank you for considering our request.

Respectfully yours,

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

J. Paul Carey  
611 Currituck Way, Bald Head Island

cc: Honorable Dale R. Folwell, CPA, NC State Treasurer and Chair, Local Government Commission  
Timothy Romocki, Director, Debt Management, NC Department of State Treasurer  
Susan Rabon, Chair, Bald Head Island Transportation Authority  
J. Andrew Sayer, Mayor, Village of Bald Head Island

**Date:** May 3, 2021 at 11:56:16 AM EDT

**To:** [Beth\\_wood@ncauditor.net](mailto:Beth_wood@ncauditor.net), [Dale@nctreasurer.com](mailto:Dale@nctreasurer.com),  
[Tim.romocki@nctreasurer.com](mailto:Tim.romocki@nctreasurer.com), [ronald.penny@ncdor.gov](mailto:ronald.penny@ncdor.gov),  
[Cindy.Aiken@nctreasurer.com](mailto:Cindy.Aiken@nctreasurer.com), [emum@carolina.rr.com](mailto:emum@carolina.rr.com),  
[scottpaggett693@gmail.com](mailto:scottpaggett693@gmail.com), [violaharris39@yahoo.com](mailto:violaharris39@yahoo.com), Andy Sayre  
<[andy@wwpbaldhead.com](mailto:andy@wwpbaldhead.com)>, [SharonEdmundson@nctreasurer.com](mailto:SharonEdmundson@nctreasurer.com)

**Subject:** Bond Issuance Bald Head Island

Dear Ms. Wood and Mr. Folwell

The purpose of this letter is to express my strong opposition to the issuance of the bonds by the BHITA to purchase the Bald Head Island ferry system.

My wife and I have been owners of property on Bald Head Island since 1997. We have watched the Island grow as well as watched the transportation system struggle to meet the needs of the Island, its residents, visitors, contractors and their employees.

I am a retired attorney who for over 30 years represented municipalities and school districts in Cincinnati Ohio as well as maintaining a substantial practice representing property owners and school districts in tax assessment valuation matters involving appraisals before the local county Boards of Review,

Courts of Common Pleas, as well as before the Supreme Court of Ohio. such representation required the review and analysis of competing appraisals and administrative hearings and litigation of major and substantial million dollar office complexes, hotels, shopping centers, industrial properties, and other types of properties.

I have reviewed the Worsley cost approach appraisal. A cost approach appraisal is seldom if ever used in the valuation of older operating properties, and is use primarily in the valuation of newly constructed buildings where actual cost figures are available for land and building values.

A cost analysis of older operating facilities such as the Bald Head Island transportation system requires too many assumptions as to construction, age, depreciation, and obsolescence to create a reliable valuation. A facility such as the transportation system would not be bought or sold on the basis of a cost appraisal.

The most frequently used methods of appraisal for an operating facility are a sales comparison approach and an income and expense analysis and utilization of a cap rate to the then determined net operating income.

In additions in the existing Worsely valuation there appears to be no adjustment for functional obsolescence which clearly should have addressed the inadequacies of both the parking facility and most critically the baggage delivery operation both at Deep Point and on the Island.

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.

In reviewing the Mercator income analysis it appears that the actual historical operating income and expense statements usage was restricted for some reason. Was it because such figures were unfavorable to the seller. Certainly at this late date in BHITA's analysis all financial records of the seller as to the transportation system should have been made available for review.

Such figures would normally be used in appraising and valuing an operating 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.

the lack of transparency in this process is very concerning as is the closed door negotiations, the requirement of confidentiality as to seller's financial information all leading up to BHITA's decision on bonding.

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.

The Bald Head Island transportation system is a key element to the operation of Bald Head Island. It is critical to us as property owners, to our visitors and to all the contractors and their employees who depend on the ferry system.

As home owners we ask that the bond sale not be approved and a truly independent and transparent analysis be made to arrive at an arm's length sale so that the Island not be saddled with an unreasonable financial commitment that will burden the Island and all its benefits.

This is a matter of such importance and demands a judicious, independent review. Time is not an issue when so much is at stake for so many and not just the wealthy seller pushing for, by its own designed structure, for a sale for its benefit and not the benefit of those who are dependent on a financially stable transportation system.

Respectfully submitted. Karen and Frank Klaine

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**Sent:** Tuesday, May 4, 2021 3:08 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** Appraisals for bond offerings

**My name is Mary Decker. My husband and I own property on Dogwood Trail and have been island owners since the 1990s. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.**

**Thanks**

**Tom and Mary DeCker**

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**Sent:** Tuesday, May 4, 2021 2:39 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.co  
<Dale@nctreasurer.co>; Timromocki@nctreasurer.com <Timromocki@nctreasurer.com>;  
ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com  
<Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>;  
scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com  
<violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>;  
SharonEdmundson@nctreaurer.com <SharonEdmundson@nctreaurer.com>

**Subject:** Bald Head Island Ferry

Hello Everyone,

My name is THYRA EASLEY. My husband Richard and I have owned a home we built on BHI since 1999. I support Frank Klaine's letter requesting the rejection, or at the very least the postponement, of a bond sale of the subject until a truly independent and transparent analysis can be made and made public in language that is understandable to all.

Thank you for your attention to and understanding of, this request. Thyra Easley



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**Sent:** Tuesday, May 4, 2021 2:50 PM

**To:** Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; sharonedmundson@nctreasurer.com <sharonedmundson@nctreasurer.com>; beth\_wood@ncauditor.net <beth\_wood@ncauditor.net>; dale@nctreasurer.com <dale@nctreasurer.com>; tim.romocki@nctreasurer.com <tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>

**Cc:** melanie robbins <mwg.robbins@icloud.com>; Wendy Wilmot <wendy@wwpbaldhead.com>

**Subject:** Bald Head Island Ferry hearing

Dear All,

My name is Holly Bendoroff and I have been a property owner on Bald Head since 2016. I am writing to express my concern about the ferry situation and to add my voice in support of Mr Klain's letter to the committee.

Thank you for your consideration

Sincerely

Holly Bendoroff  
17 Sandspur Trail  
Bald Head Island, NC

Sent from my iPhone

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**Sent:** Tuesday, May 4, 2021 3:37 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; Andy Sayre <andy@wwpbaldhead.com>; emum@carolina.rr.com <emum@carolina.rr.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>

**Subject:** Bald Head Island Ferry System

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**We are Randy and Vicki Jensen. We own 9 Keeper's Landing, Bald Head Island, NC and have been an island owner since 2004. We support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.**

**Sincerely,**

**Randy and Vicki Jensen**

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**Sent:** Tuesday, May 4, 2021 3:43 PM  
**To:** Andy Sayre <andy@wwpbaldhead.com>  
**Subject:** Bald Head Island Ferry System

My name is Alan Norton. My wife and I own the following properties on Bald Head Island:

25 Keeper's Landing  
200 Row Boat Row  
53 Transom Row  
3713 Federal Road  
Slip A-13  
Slip F-28  
Slip E-30

We have been property owners on Bald Head Island since 2001.

We are in support of Frank Klaine's Letter in which he requested the rejection or postponement of the bond sale. An independent analysis / valuation should be performed. The Ferry System is vital to the economy of this coastal community and the Brunswick County tax base. An excessive valuation would make it impossible to support a reasonable ferry rate. This would escalate all costs of doing business on the island and negatively impact property values.

The Mitchell Family has been a good steward of Bald Head Island and they deserve a fair price. However, they should realize that the ferry system and property was built for a single use purpose and should be valued accordingly.

Thank you for this consideration.

Alan Norton  
Lisa Norton

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**Sent:** Tuesday, May 4, 2021 2:48 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** Bald Head Island Ferry

All-

My name is Mark King. I own 46 Transom Row on Bald Head Island and have been an island owner since March 2020. I am a real estate professional with substantial real estate experience in both large commercial real estate transactions and related valuations. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made with the appropriate valuation methods.

Mark

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**Sent:** Tuesday, May 4, 2021 2:45 PM

**To:** beth.wood@ncauditor.net <beth.wood@ncauditor.net>; Dale Folwell <Dale@Nctreasurer.com>

**Cc:** tim.romocki@nctreasurer.com <tim.romocki@nctreasurer.com>; ronald.penny@ncddor.gov <ronald.penny@ncddor.gov>; cindy.aiken@nctreasurer.com <cindy.aiken@nctreasurer.com>; emem@carolina.rr.com <emem@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; sharonEdmundson@nctreasurer.com <sharonEdmundson@nctreasurer.com>

**Subject:** Bald Head Island Transportation

Dear Beth, Dale et al.

I hope you both are doing well. I have meant to write you about this topic but didn't realize it was coming forward today so I apologize for the haste.

I am writing about the Bald Head Island bond issue, which will be voted on later today. I want to add my support to the letter below by Frank Klaine. The property owners at BHI and other interested parties did not have detailed information about the valuation of assets that would underlie the proposed bond. When it was finally revealed a few weeks ago ppl were very surprised.

I support Frank's letter below so that there can be a good assessment of value for these assets that will back the bonds.

I have two properties on Bald Head Island — at 4 Ballantrae Court and 6 Ballantrae Court. I have a property owner on Bald Head since 2000 and have seen many changes. It is important that this transaction be assessed correctly, but also in a way that prevents the current owner from simply walking away from this deal and selling it to private investors who care nothing about BHI. There is no other way to get to BHI other than by ferry so its operations really should be part of the town's operations and not that of private investors.

One final point, I know you both care about the citizens of Brunswick County and surrounding areas that work on BHI. They have to take the ferry every day for work. If the ferry system is not in the right hands these people's livelihoods will be affected. So this issue is not only about the property owners of BHI; it is also about supporting the workers of Brunswick and New Hanover Counties.

Many thanks for your consideration.  
Sallie

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**Sent:** Tuesday, May 4, 2021 3:01 PM

**To:** 'Beth\_wood@ncauditor.net' <Beth\_wood@ncauditor.net>; 'Dale@nctreasurer.com' <Dale@nctreasurer.com>; 'Tim.romocki@nctreasurer.com' <Tim.romocki@nctreasurer.com>; 'ronald.penny@ncdor.gov' <ronald.penny@ncdor.gov>; 'Cindy.Aiken@nctreasurer.com' <Cindy.Aiken@nctreasurer.com>; 'emum@carolina.rr.com' <emum@carolina.rr.com>; 'scottpaggett693@gmail.com' <scottpaggett693@gmail.com>; 'violaharris39@yahoo.com' <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; 'SharonEdmundson@nctreasurer.com' <SharonEdmundson@nctreasurer.com>

**Cc:** 'Kathleen Dantonio' <kedantonio1@gmail.com>

**Subject:** Bald Head Island Transportation Bond Issuance

Good afternoon. We own a home at 332 Stede Bonnet Wynd, and have been an island owner since 2014. I understand that you are reviewing the options related to a potential transaction related to the Bald Head Island ferry service. It appears to us that there has been limited review of the options, the cost and the potential long term impact on the Island and its homeowners. We also are concerned about the need for a truly transparent process that considers the best interest of all taxpayers and owners. We urge the postponement of any bond issuance pending a true independent and transparent analysis, which analysis is made available to all. Thank you for your consideration. Kathleen and Thomas D'Antonio

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**Sent:** Tuesday, May 4, 2021 3:13 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** Bald Head Island Transportation Bond Issuance

Ladies and Gentlemen,

I am writing you to register my support for Frank Klaine's email to you of May 3, 2021.

My wife and I have owned a lot and residence on Bald Head since 1985. Our property is located at 15 Silversides Trail.

Frank Klaine's email is well stated, and well reasoned. BHIT's bond issuance proposal should be rejected for the reasons outlined by Frank Klaine. We, too, are very familiar with the transportation system. We believe the valuation of the system as currently presented is far from being transparent, or at arms length.

We sincerely believe that the proposal under consideration should be rejected.

Thank you,

Joseph E. Elrod III, Esq.

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**Sent:** Tuesday, May 4, 2021 2:58 PM

**To:** emum@carolina.rr.com <emum@carolina.rr.com>

**Cc:** ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; dale@nctreasurer.com <dale@nctreasurer.com>; Andy Sayre <andy@wwpbaldhead.com>

**Subject:** FW: Bald head island transportation/ Larsen family - 28 East Beach

Dear Sir/Madam-

My name is Katherine Larsen and my family owns property at 28 East Beach, BHI, NC 28461. We have been property owners since 2011. I support Mr. Klaine's letter requesting the postponement of the Bond sale until a truly independent and transparent analysis can be conducted. For heaven's sake – let's get this right, please.

Best,  
Katie



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**Sent:** Tuesday, May 4, 2021 2:37 PM

**To:** SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>; Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>

**Subject:** BHI ferry sale

Good afternoon,

My name is Pamela S Douglas and I own 4 Coquina Trail on BHI. I have been an island owner since 2016 and came to island yearly before that, beginning in 2005. I request that the proposed ferry bond sale be rejected or postponed until a true independent and transparent analysis can be made and the issue fully and openly discussed among stakeholders.

Pamela S Douglas

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**Sent:** Tuesday, May 4, 2021 2:55 PM

**To:** SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Cc:** Andy Sayre <andy@wwpbaldhead.com>; violaharris39@yahoo.com  
<violaharris39@yahoo.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>;  
emum@carolina.rr.com <emum@carolina.rr.com>; Cindy.Aiken@nctreasurer.com  
<Cindy.Aiken@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>;  
Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; Dale@nctreasurer.com  
<Dale@nctreasurer.com>; Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>

**Subject:** BHI Ferry system

**My name is Renee Liverman and I own 4 Bufflehead Ct and have been coming to Bald Head Island for years. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.**

**Respectfully,  
Renee Liverman**

Sent from my iPhone

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**Sent:** Tuesday, May 4, 2021 2:38 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** BHI ferry system

**My name is Ron Peele. I own a lot on Shoals Watch purchased in February 2005. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made. Thank you considering this request.**

**Ron Peele**

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**Sent:** Tuesday, May 4, 2021 3:34 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** bhi ferry system

All

My name is Mark Roemer, i own 605 Kinnakeet way and a lot on Starrush, we have been coming to the island for 14 years. I support Frank Klaine's letter requesting the rejection or postponement of the bond sale and the a try independent and transparent analysis be made on this matter.

Respectfully

--

Mark Roemer

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**Sent:** Tuesday, May 4, 2021 2:47 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** BHI ferry

**"My name is Buddy and Betty Lawrence. We own 503 South Bald Head Wyndham and have been an island owner since 1998. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made."**

Respectfully,  
Buddy and Betty Lawrence  
Sent from my iPad

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**Sent:** Tuesday, May 4, 2021 2:51 PM

**To:** Beth\_wood@ncauditor.net <beth\_wood@ncauditor.net>; Dale@nctreasurer.com <dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <cindy.aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <sharonedmundson@nctreasurer.com>

**Subject:** BHI Transportation Bond Issuance

Our names are Robert and Meredith Vaughan. We own 28 Mourning Warbler Trail and have been an island owner since 1988. We support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.  
Thank you,  
Robert and Meredith Vaughan

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**Sent:** Tuesday, May 4, 2021 3:12 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** BHI Transportation Bond Issuance

Realize this is happening now, but after receiving further information just now, I believe this matter be postponed until more information is considered. I am the former Mayor of Biltmore Forest, N.C and my husband and large family have been coming to Bald Head since the late '80's . We have a home on Middle Island constructed in 1999. Transparency is of utmost important, especially now.

There should be no rush to judgement. Please delay any decision ASAP.

Sincerely,

Dr and Mrs Charles t. Rowe  
Biltmore Forest, N.C.

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**Sent:** Tuesday, May 4, 2021 3:25 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** BHI transportation bond issue

Thank you for your hard work and efforts to help keep BHI the gem that it is. My family and I have owned various homes on the island for 20 years. I share the concern of others that a critical piece of infrastructure like the transportation system must be carefully and transparently evaluated prior to its sale/purchase so that a cost that is fair and reasonable to all parties can be ascertained. It sounds like there are multiple evaluations that must be performed by both sides to reach this critical number. Please do whatever is required to achieve this goal. Thank you again for your hard work.  
H. Richard Allen, Jr., MD



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**Sent:** Tuesday, May 4, 2021 3:26 PM

**To:** SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>; Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; Dale@nctreasurer.com <Dale@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** BHI Transportation Bond Transparency

While I support Frank Klaine's letter requesting the rejection or postponement of bond sale until a transparent analysis be made, **I also would like to see the time-line of the negotiated prices since the concept of purchasing BHI Transportation was initially floated.** Such a time line with dollar figures would enable me and others to see just how effect the negotiations were.

My wife (Carol Shumate) and I (Ed Samulski) have been an island owner since 1994; we current own a Harbour home (Keelson Row 1B) and a lot on Middle Island.

Thanks you,  
Ed & Carol

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**Sent:** Tuesday, May 4, 2021 4:20 PM  
**To:** Andy Sayre <andy@wwpbaldhead.com>  
**Subject:** BHI Transportation Bond

**"My name is Mark Sherburne. I own two properties and have been an island owner since 2002. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.**

**MARK SHERBURNE**

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**Sent:** Tuesday, May 4, 2021 3:16 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** BHIT Bond Issue

My wife and I own two properties on Bald Head Island, and we have had a home there since 2003. Given how the ultimate resolution of this matter will impact us, I am writing to let you know that we support Frank Klaine's letter requesting the rejection or postponement of the proposed bond sale and that a true independent and transparent analysis be made. Based on my work before the Utilities Commission over the years, I agree with Frank's analysis and support his request.

Thank you in advance for your sincere consideration of Frank's letter and the underlying issues.

**Daniel C. Higgins**

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**Sent:** Tuesday, May 4, 2021 3:10 PM

**To:** Andy Sayre <andy@wwpbaldhead.com>

**Subject:** BHITA

My name is Ralph Hutton. I own 8 Royal Tern and have been an island owner since 1995. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.

Ralph Hutton

Bryan Hutton

**Sent:** Tuesday, May 4, 2021 3:33 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** Bond Issuance Bald Head Island

**From:** James A. And Kathleen Koch <[james@baldhead.com](mailto:james@baldhead.com)>

**Date:** May 3, 2021 at 11:56:16 AM EDT

**To:** Beth\_wood@ncauditor.net, Dale@nctreasurer.com, Tim.romocki@nctreasurer.com, ronald.penny@ncdor.gov, Cindy.Aiken@nctreasurer.com, emum@carolina.rr.com, scottpaggett693@gmail.com, violaharris39@yahoo.com, Andy Sayre <[andy@wwpbaldhead.com](mailto:andy@wwpbaldhead.com)>, SharonEdmundson@nctreasurer.com

**Subject:** Bond Issuance Bald Head Island

Dear Ms. Wood and Mr. Folwell

The purpose of this letter is to express my strong opposition to the issuance of the bonds by the BHITA to purchase the Bald Head Island ferry system.

My wife and I have been owners of property on Bald Head Island since 1997. We have watched the Island grow as well as watched the transportation system struggle to meet the needs of the Island, its residents, visitors, contractors and their employees.

I am a retired attorney who for over 30 years represented municipalities and school districts in Cincinnati Ohio as well as maintaining a substantial practice representing property owners and school districts in tax assessment valuation matters involving appraisals before the local county Boards of Review, Courts of Common Pleas, as well as before the Supreme Court of Ohio. Such representation required the review and analysis of competing appraisals and administrative hearings and litigation of major and substantial million dollar office complexes, hotels, shopping centers, industrial properties, and other types of properties.

I have reviewed the Worsley cost approach appraisal. A cost approach appraisal is seldom if ever used in the valuation of older operating properties, and is used primarily in the valuation of newly constructed buildings where actual cost figures are available for land and building values.

A cost analysis of older operating facilities such as the Bald Head Island transportation system requires too many assumptions as to construction, age, depreciation, and obsolescence to create a reliable valuation. A facility such as the transportation system would not be bought or sold on the basis of a cost appraisal.

The most frequently used methods of appraisal for an operating facility are a sales comparison approach and an income and expense analysis and utilization of a cap rate to the then determined net operating income.

In additions in the existing Worsley valuation there appears to be no adjustment for functional obsolescence which clearly should have addressed the inadequacies of both the parking facility and most critically the baggage delivery operation both at Deep Point and on the Island.

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.

In reviewing the Mercator income analysis it appears that the actual historical operating income and expense statements usage was restricted for some reason. Was it because such figures were unfavorable to the seller. Certainly at this late date in BHITA's analysis all financial records of the seller as to the transportation system should have been made available for review. Such figures would normally be used in appraising and valuing an operating 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.

The lack of transparency in this process is very concerning as is the closed door negotiations, the requirement of confidentiality as to seller's financial information all leading up to BHITA's decision on bonding.

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.

The Bald Head Island transportation system is a key element to the operation of Bald Head Island. It is critical to us as property owners, to our visitors and to all the contractors and their employees who depend on the ferry system.

As home owners we ask that the bond sale not be approved and a truly independent and transparent analysis be made to arrive at an arm's length sale so that the Island not be saddled with an unreasonable financial commitment that will burden the Island and all its benefits.

This is a matter of such importance and demands a judicious, independent review. Time is not an issue when so much is at stake for so many and not just the wealthy seller pushing for, by its own designed structure, for a sale for its benefit and not the benefit of those who are dependent on a financially stable transportation system.

Respectfully submitted. James A. And Kathleen Koch

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**Sent:** Tuesday, May 4, 2021 4:00 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** Bond Issuance BHI

To all concerned parties,

We, Kenneth and Jana Sloneker, own 5 Dogwood Trail BHI we have been an island owners since December 2020. We support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made."

Sincerely,

Kenneth Sloneker, Engineering Services

Jana Sloneker

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**Sent:** Tuesday, May 4, 2021 2:49 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** Bond Sale for BHI Ferry System

**My name is Ron Unger. We own 14 Keepers Landing and have been an island owner since November 2017. If what Frank Klaine is purporting in his letter dated May 3, 2021 is true, then I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.**



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**Sent:** Tuesday, May 4, 2021 4:27 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** ferry sale

**My name is Michael p. Dieter. I own (Hammocks#20 +crofter) and have been an island owner since 1998). I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made."**

Sent from my iPad

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**Sent:** Tuesday, May 4, 2021 3:00 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** FW: Immediate Attention Requested: BHI Transportation Bond Issuance

My name Dale Sandler. I co-own own 845A Killegray Ridge, BHI and have been an island owner since 1999. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.

Dale P. Sandler

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**Sent:** Tuesday, May 4, 2021 2:54 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** May 4 BHI bond meeting

Dear Ladies and Gentlemen:

Our names are Mark and Rebecca Chilton and we became Bald Head Island property owners this year, in February 2021. We support Frank Klaine's letter requesting the rejection or postponement of BHI ferry bond sale and that an objective and transparent analysis of this financial transaction be made by a truly independent and experienced professional before proceeding further.

Best regards,

Mark and Rebecca Chilton  
Bald Head Island

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**Sent:** Tuesday, May 4, 2021 3:38 PM

**To:** RICHARD ALLEN <tricountygastro@aol.com>; Wendy Wilmot <wendy@wwpbaldhead.com>; Andy Sayer <jasayre@bellsouth.net>

**Subject:** Re: Not sure, who, if anyone, at WWP would want a copy.

John Munroe  
(910) 471-4005

On May 4, 2021, at 3:26 PM, RICHARD ALLEN <tricountygastro@aol.com> wrote:

Begin forwarded message:

**From:** RICHARD ALLEN <tricountygastro@aol.com>

**Date:** May 4, 2021 at 3:25:15 PM EDT

**To:** Beth\_wood@ncauditor.net, Dale@nctreasurer.com, Tim.romocki@nctreasurer.com, ronald.penny@ncdor.gov, Cindy.Aiken@nctreasurer.com, emum@carolina.rr.com, scottpaggett693@gmail.com, violaharris39@yahoo.com, andy@wwpbaldhead.com, SharonEdmundson@nctreasurer.com

**Subject: BHI transportation bond issue**

Thank you for your hard work and efforts to help keep BHI the gem that it is. My family and I have owned various homes on the island for 20 years. I share the concern of others that a critical piece of infrastructure like the transportation system must be carefully and transparently evaluated prior to its sale/purchase so that a cost that is fair and reasonable to all parties can be ascertained. It sounds like there are multiple evaluations that must be performed by both sides to reach this critical number. Please do whatever is required to achieve this goal. Thank you again for your hard work.

H. Richard Allen, Jr., MD

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**Sent:** Tuesday, May 4, 2021 2:53 PM

**To:** Andy Sayre <andy@wwpbaldhead.com>

**Subject:** Please Postpone Bond Sale

**My name is Scott Mueller. I own 6 Keepers Landing and have been an island owner since 2016. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.**

**Thank you.**

---

**Sent:** Tuesday, May 4, 2021 3:07 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Cc:** Jim Riff <JRiff@enablx.com>

**Subject:** Re; Frank Klaine's Leter of May 3 2021

**To Whom It May Concern;**

**My name is James Riff. I own 27 Silversides Trail and have been an island owner since 1998. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.**

**Regards,**

Jim Riff

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**Sent:** Tuesday, May 4, 2021 3:09 PM

**To:** Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>; Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>

**Subject:** REJECTION OF BOND

My name is Kay Brown. I own 319 Stede Bonnet Wynd. I have been an island owner since 2001. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.

Thank you,

Kay Brown



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**Sent:** Tuesday, May 4, 2021 2:49 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Cc:** S. Jean Chai <sjeanchai@me.com>

**Subject:** rejection of the bond sale

**My name is Janie Chai. I own a house on Bald Head Island at 212 Portsmouth Way. I have been an island owner since 2014-2017 and again in 2020 with the current property. We have come to Bald Head since 2005. I support Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.**

Sincerely,

**S. Jean and Janie Chai**

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**Sent:** Tuesday, May 4, 2021 3:05 PM

**To:** Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>; Beth\_wood@ncauditor.net <Beth\_wood@ncauditor.net>; Dale@nctreasurer.com <Dale@nctreasurer.com>; Tim.romocki@nctreasurer.com <Tim.romocki@nctreasurer.com>; ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>; Cindy.Aiken@nctreasurer.com <Cindy.Aiken@nctreasurer.com>; emum@carolina.rr.com <emum@carolina.rr.com>; scottpaggett693@gmail.com <scottpaggett693@gmail.com>; violaharris39@yahoo.com <violaharris39@yahoo.com>; Andy Sayre <andy@wwpbaldhead.com>; SharonEdmundson@nctreasurer.com <SharonEdmundson@nctreasurer.com>

**Subject:** stop bond sale

**My name is Claudia Jones. I own 6 Killegray Ridge and have been an island owner for over 20 years.. I support Karen and Frank Klaine's letter requesting the rejection or postponement of bond sale and that a true independent and transparent analysis be made.**  
**Claudia Jones**

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**Sent:** Tuesday, May 4, 2021 3:18 PM

**To:** Andy Sayre <andy@wwpbaldhead.com>; Cindy.Aiken@nctreasurer.com  
<Cindy.Aiken@nctreasurer.com>; Dale@nctreasurer.com <Dale@nctreasurer.com>; MICHAEL T.  
BROWN <mtbrown45@msn.com>; Tim.Romocki@nctreasurer.com  
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ronald.penny@ncdor.gov <ronald.penny@ncdor.gov>

**Subject:** Support of Frank Klaine's letter

Bill and I are BHI residents since 2012. We purchased our house on Bald Head in 1995. We wish to reject the bond sale and request a true transparent analysis be made as to the worth of the BHI ferry system.

Sincerely,

Elayne Bennett  
William Bennett ( former US Secretary of Education)

May 25, 2021

Dale R. Folwell, CPA  
State Treasurer and Chairman, Local Government Commission  
North Carolina Department of State Treasurer  
3200 Atlantic Ave, Raleigh NC 27604

Dear Treasurer Folwell:

We are writing to reiterate concerns about the Bald Head Island Transportation Authority's (BHITA) non-recourse revenue bond application of \$56.1M which the Local Government Commission (LGC) is scheduled to reconsider on June 1. We urge you to hold the matter in abeyance pending resolution of major concerns surrounding the bond application, and BHITA's proposal to use the bond proceeds to acquire the Bald Head Island transportation system (System) from its current owner, Bald Head Limited (Limited), for \$47.75M.

Our letter is in two parts. The first explains why BHITA's proposed purchase price is unreasonably excessive, and, if paid to Limited, will unfairly harm BHI ferry riders who have no choice but to use the System. BHITA's proposed revenue bond issue is also excessive and, if approved, will subject the state and NC taxpayers to unnecessary credit risk. The second part outlines what BHITA should do to arrive at a reasonable valuation of the System, a lower acquisition price, and a smaller, less risky bond issue.

#### **Why BHITA's Proposed \$47.75M Purchase Price and Its \$56.1M Bond Issue Are Excessive**

BHITA agreed to a very high purchase price for Limited's transportation assets (\$47.75M) because its view, and Limited's view, of what the System is worth is inflated by the fact that two of its three components – the parking and barge operations – are unregulated monopolies that currently produce exceedingly high monopoly profits. Both are profitable enough to render the System as a whole – including the regulated BHI ferry – highly profitable.

In 2019, for instance, 102% of the System's total operating income came from Limited's parking (69%) and barge (33%) operations. That same year, the operating income margin (i.e., operating income/revenues) for the System's combined operations (i.e., parking, barge, and ferry) came to 26%, or 3.25 times the U.S industry median of 8% for all publicly traded firms; while the System's net income margin came to 25%, or 6.25 times the U.S. industry median of 4%. (See Table 1 below).

When appraised, highly profitable businesses routinely produce high valuations which this one certainly did. In 2017, Mercator International was hired by Limited to appraise the System, and subsequently estimated its enterprise value at \$55.8M. BHITA apparently accepted that valuation as a legitimate "starting point" and proceeded to negotiate against itself, with predictable results. (See page 34 of BHITA's Credit Presentation made to the LGC on December 3 & 4, 2020)

Second, as stipulated by the Ferry Transportation Authority Act, BHITA would have to finance whatever amount it eventually agreed to pay for the System by issuing non-recourse revenue bonds. In 2020, BHITA asked Mercator International to estimate how much ferry, barge and parking rates would have to increase in order to boost the System's prospective cashflow enough to service the amount of debt needed to finance the acquisition. In its *Bond Feasibility Study*, Mercator estimated that a 20 percent rate hike would be required to service a \$56.1M revenue bond issue that would be needed, pretty much

in its entirety, to pay Limited \$47.75M -- while maintaining an investment grade bond rating (i.e., BBB-). The BBB- bond rating was important because the LGC may have balked at approving a BHITA bond application that fell below investment grade.

Third, since the System's appraised value is as high as it is but only because users are already paying (unregulated) monopoly prices for parking and barge service, BHITA's proposal to raise rates by an additional 20 percent -- in order to service \$56.1M in new debt needed to pay Limited \$47.75M -- would effectively penalize System users twice. Once by being charged monopoly prices for parking and barge services in the first place; and a second time by requiring System users to pay for a bond issue that is as large as it is only because the appraised value of the System has been inflated by monopoly profits that Limited currently earns on its unregulated parking and barge operations, and that BHITA would need to continue earning in order to service the debt that it incurs to pay Limited. (See Tables 15-18 of the *Mercator Bond Feasibility Study*) In our view, this "double whammy" would constitute a highly questionable and patently unfair transfer of wealth from System users to Limited, and by extension, the Mitchell family estate that owns Limited. It is highly doubtful that this is what the NC legislature, and Senator Bill Rabon, had in mind when the Ferry Transportation Authority Act was enacted in 2017.

Fourth, since its bond issue is tentatively rated BBB-, or one notch above junk, BHITA will have very little borrowing capacity to raise additional capital should the System encounter unanticipated costs or revenue shortfalls that might result from damage done by a hurricane, or from capital improvements that need to be made to the System but currently are not reflected in *Mercator's Bond Feasibility Study* or BHITA's cashflow forecasts. Should either occur, BHITA may have no choice but to raise rates that much more. If a significant number of System users eventually refused to pay ever higher rates, BHITA could be forced to default on its revenue bonds given unnecessarily high levels of debt that it would be carrying relative to projected cashflows. Should default occur, the state and NC taxpayers would very likely be required to step in and keep the System financially afloat since BHITA is a state entity.

### **Where BHITA Needs to Go from Here**

As part of its review of BHITA's bond application, the LGC should ask BHITA to undertake a couple of specific analyses that would encourage Limited and BHITA to agree on a lower, more reasonable acquisition price for the System as well as a smaller, less risky bond issue. One analysis would involve BHITA asking Mercator to evaluate how much debt BHITA could raise under Mercator's three growth scenarios subject to the following constraints: 1) user rates for the ferry, parking and barge service remain where they were at year-end 2020 through 2028, and then allowed to increase at the rate of inflation, and 2) BHITA's bond issue must be kept at a level that would produce a single A rating, or higher.

This analysis should help BHITA evaluate how much of its proposed \$47.75M acquisition price would constitute the difference between the market value of the System's parking and barge operations when operated as unregulated monopolies as they are today vs. monopolies subject to the same type of rate-of-return regulation that currently governs the BHI ferry. While this analysis represents an indirect and imperfect way of evaluating this difference, it should constitute a step in that direction which could be done quickly and at very little cost.

Keeping rates at current levels, adjusted only for inflation, would give BHITA a rough indication of how much new debt it could assume in order to purchase Limited's transportation assets at a price that at

least limits the premium that BHITA is currently proposing to pay for future monopoly profits and related cashflows generated by the System's unregulated parking and barge operations going forward. Similarly, stipulating a single A bond rating (or better) would give BHITA a better understanding of how much it would need to limit its acquisition price and initial bond issue in order to retain at least some flexibility to borrow capital near term that might be needed to deal with unanticipated costs or revenue shortfalls.

A second, more direct analysis would involve estimating how much the System would be worth if the underlying appraisal assumed that user rates and earnings for its parking and barge operation would be subject to the same type of rate-of-return regulation that currently governs the BHI ferry. This would involve estimating a regulated revenue requirement for the System as a whole which would constrain rates to levels that would generate enough revenue to allow the System to recover its operating costs, plus a fair rate-of-return on the System's rate base. The rate base would reflect the accounting value of the System's assets less depreciation on those assets. The fair rate-of-return could be stipulated at 10% which is what most regulated utilities are allowed to earn given that they operate with relatively lower financial risks than do businesses in competitive markets.

The Chair of the BHITA Board of Trustees is a former member of the NC Utilities Commission and hopefully could elicit help from the NCUC staff to go through these calculations on a rough basis, which should be sufficient. It would require, however, that Limited agree to release its prior-year statements for the System, preferably for each of the past ten years. Given that System users will be asked to pay off whatever amount of debt BHITA ends up borrowing to purchase the System from Limited, we continue to see no legitimate reason why these historical financial data should remain confidential.

If the data provide further evidence that the System's appraised value is as high as it is due to monopoly profits derived from Limited's unregulated parking and barge operations, BHITA needs to factor that into what it should reasonably pay for the System. To this point, it clearly hasn't done this.

Respectfully yours,

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

J. Paul Carey  
611 Currituck Way, Bald Head Island

cc: Honorable Beth A. Wood, CPA, NC State Auditor  
Honorable Ronald Penny, NC Secretary of Revenue  
Honorable Elaine Marshall, NC Secretary of State  
Mr. Joshua Bass  
Ms. Viola Harris  
Mr. Scott Padgett  
Mr. Edward Munn  
Honorable Mike Philbeck, NC Speaker of House  
Honorable Bill Rabon, NC State Senator  
Ms. Sharon Edmundson, NC Deputy Treasurer  
Mr. Timothy Romocki, Director, Debt Management, NC Department of State Treasurer  
Ms. Susan Rabon, Chair, Bald Head Island Transportation Authority  
Mr. J. Andrew Sayre, Mayor, Village of Bald Head Island

Table 1												
Bald Head Island Transportation System												
Financial Results Year Ending 12/31												
	Barge Operations			Parking Operations			Transportation			System Total		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Revenues	1,499,415	1,153,905	1,132,700	2,749,700	2,548,577	2,493,714	6,277,198	5,543,542	5,989,737	10,526,313	9,246,024	9,616,151
Expenses	685,761	598,174	461,248	1,068,119	1,232,336	1,205,258	6,005,709	5,677,291	5,488,981	7,759,589	7,507,801	7,155,487
Operating Income	813,654	555,731	671,452	1,681,581	1,316,241	1,288,456	271,489	(133,749)	500,756	2,766,724	1,738,223	2,460,664
Depreciation	227,100	201,320	107,720	472,197	677,794	677,387	247,787	208,940	166,365	947,084	1,088,054	951,472
EBITDA	1,040,754	757,051	779,172	2,153,778	1,994,035	1,965,843	519,276	75,191	667,121	3,713,808	2,826,277	3,412,136
Other Expenses	230,681	224,690	117,368	473,127	497,103	478,980	365,469	437,295	366,612	1,069,277	1,159,088	962,960
Net Income	810,073	532,361	661,804	1,680,651	1,496,932	1,486,863	153,807	(362,104)	300,509	2,644,531	1,667,189	2,449,176
Operating Income Margin	54%	48%	59%	61%	52%	52%	4%	-2%	8%	26%	19%	26%
EBITDA Margin	69%	66%	69%	78%	78%	79%	8%	1%	11%	35%	31%	35%
Net Income Margin	54%	46%	58%	61%	59%	60%	2%	-7%	5%	25%	18%	25%
(Source: BHITA Draft Bond Prospectus, 12/14/2020)												
Median Operating Income Margin -- All U.S. Industries										8%	7%	6%
Median Net Income Margin -- All U.S. Industries										4%	3%	3%
(Source: ReadyRatios)												

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.**<sup>1</sup> 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.<sup>2</sup>

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.,

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

<sup>2</sup> 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.<sup>3</sup> Mercator's 2017 study is consequential for a

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<sup>3</sup> 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.<sup>4</sup> 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.<sup>5</sup> 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.

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

<sup>4</sup> 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.

<sup>5</sup> 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).<sup>6</sup>

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.<sup>7</sup> 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.<sup>8</sup> 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

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

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

<sup>8</sup> 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.<sup>9</sup>

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**

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<sup>9</sup> 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 renting-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



September 30, 2021

The Honorable Dale R. Folwell, CPA  
North Carolina State Treasurer

The Honorable Beth A. Wood, CPA  
North Carolina State Auditor

Dear Treasurer Folwell and Auditor Wood:

We are writing with a modest proposal for resolving the on-going dispute over the Bald Head Island Transportation Authority's (BHITA) proposal to acquire the BHI ferry transportation system (System) from its current owner, Bald Head Limited (BHL) for \$47.75M, and to finance the deal through a \$56.1M revenue bond issue. For reasons highlighted in our July 21 letter, and subsequent developments including a second highly flawed real estate appraisal conducted for the BHITA, we continue to believe that LGC approval of BHITA's revenue bond issue will result in BHITA over-paying for the System, thereby harming System users who will bear the cost of servicing that debt through significantly higher ferry, parking, and barge fees (e.g., **20% higher according to BHITA's bond application**), and by subjecting Bald Head Island and the State to unnecessary default risk.

As you know, the Village of Bald Head Island (Village) has voiced similar concerns about BHITA's proposed deal with BHL, and has asked the LGC to approve a \$52M general obligation (GO) bond issue that it would use to acquire the System and operate it as a municipally-owned, unregulated public utility going forward. The Village's bond application does not explicitly indicate how much of its \$52M bond issue would be used to pay BHL, in part because the Village believes that some of that debt capital may be needed to pay for capital improvements to the System that BHL has neglected in recent years.

Like BHITA, the Village does not know what the System would likely sell for if placed on the open market. Figuring that out would require that independent business valuation experts be given access to prior-year financial statements for the System which BHL has refused to disclose publicly. As a consequence, both BHITA and the Village have focused on how much public debt either could borrow, in order to pay BHL, and obtain LGC approval of their respective bond applications. The Village notes further that because it would borrow less capital than BHITA (i.e., \$52M vs. \$56.1M) at a lower interest rate (i.e., by issuing GO bonds vs. BHITA's revenue bonds), its annual debt service costs also would be significantly lower which, of course, would be paid for through smaller increases in ferry, barge, and parking fees.

Under North Carolina law, the Village's GO bond issue must be approved by a majority of BHI voters. They will have that opportunity in the upcoming municipal election on November 2.

Recently, members of the LGC were copied on coordinated, back-to-back letters from the Mitchell Family Corporation, which owns BHL, and the Bald Head Association (BHA) Board of Directors to the Mayor of Bald Head Island opposing the sale of the System to the Village. Since the Village's purchase price may end up being less than BHITA's \$47.75M offer, depending on immediate capital spending needs and, hopefully, a better understanding of what the transportation System might actually be worth, BHL and the Mitchell Family Corporation understandably favor BHITA's bond proposal over the Village's.

In an effort to curry support on the island for BHITA's offer, BHL has stated, at least publicly, that it will not sell the System to the Village. And that if the LGC does not immediately approve BHITA's \$56.1M revenue bond issue, the Mitchell Family Corporation will "pursue a competitive sale process for the disposition of the

remaining operation that we have relating to Bald Head Island, to include ferry, parking, and barge and transportation-related real estate assets.”<sup>1</sup>

BHA’s Board of Directors apparently interprets this to mean that if BHITA’s bond application is not approved soon, the System will be broken up and BHL’s ferry, parking and barge operations would be sold to the highest commercial bidder. An outcome the BHA Board asserts would be “a disaster for our members,” and unfair to the Mitchell Family Corporation who current BHA Board members expressly regard as “the owners, financial providers, and developers of our island paradise.”<sup>2</sup>

Remarkably, the BHA Board of Directors letter goes on to note:

In a business world situation, people may negotiate for months, or years, litigate, appeal and treat it like a chess game or business as usual. That is not what this is. Bald Head Island is where we live. This is our little paradise that we have worked for all our lives to reach. This is where we come to get away from the business games and hassles. We are surrounded here by friends and family. We want to live here in peace with all.<sup>3</sup>

Apparently, the BHA Board does not care that BHITA is asking the LGC to approve a bond issue that, including interest paid on \$56.1M of public debt, will cost the 2,000 or so property owners on BHI upwards of \$100M over the next 30 years. \$100M that will be in addition to what it will cost to keep the transportation System running, in good working order. Similarly, were the System to fall into the financial tank, and further disrepair, because either BHITA or the Village borrowed more debt than the System can comfortably handle, the BHA Board apparently doesn’t care what might happen to property values on the island, or to BHI as a resort community more generally.

While somewhat embarrassing, all of this, in our view, is nothing more than thinly veiled posturing designed to: 1) frighten BHI voters into opposing the Village’s bond referendum; and 2) pressure the LGC into approving BHITA’s bond application, thereby effectuating BHL’s rent-seeking, sales-price-maximization scheme that we detailed in our July 21 letter to you.

Accordingly, we would like to offer the following modest suggestion that, we believe, would help break through this current turtle jam. **Given circumstances surrounding the disposition of BHL’s transportation assets, certainly including the need to find a new owner/operator, the LGC should inform BHITA and the Village that it will finalize its review of their respective bond applications if, but only after, BHL has publicly disclosed prior-year financial statements that are essential to determining how much the transportation System might actually be worth.**

A very basic problem underlying this entire process has to do with the fact that after nearly five years of deliberation between BHL, BHITA and, more recently, the Village, the transportation System’s fair market value remains a mystery. This is unfortunate since the mystery has bred a considerable amount of fear and mistrust among BHI property owners -- all because BHL has not been required to disclose prior-year financial data that are essential to estimating the System’s fair market value as a going concern which, for the sake of BHI, it better be. As a consequence, the LGC is now being asked to approve one of two bond applications that ostensibly are based on two highly flawed real estate appraisals done for BHITA, and two detailed cash flow

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<sup>1</sup> See September 15, 2021 letter from the Mitchell Family Corporation to J. Andrew Sayre, Mayor, Village of Bald Head Island, p. 1.

<sup>2</sup> See September 24, 2021 letter from Bald Head Association Board of Directors to The Honorable J. Andrew Sayre, Mayor, Village of Bald Head Island, p. 2.

<sup>3</sup> *Ibid*

projections that estimate how much public debt either BHITA or the Village could conceivably borrow, in order to pay BHL, while maintaining an investment grade bond rating.

We continue to believe this is an inexcusable situation, particularly given that either BHITA or Village would finance the acquisition of BHL's transportation assets – in their entirety -- using tax-exempt public debt; public debt that would be: a) paid for by raising unregulated user fees for monopoly ferry, parking and barge services, and b) backed, or effectively guaranteed, by the State in the case of BHITA's revenue bonds, or some combination of the State and local property taxpayers in the case of the Village's GO bonds.

In our view, the use of tax-exempt public debt for this purpose should come with conditions. One of those conditions should involve protecting taxpayers against unnecessary default risk. Because default risk underlying either BHITA's or the Village's proposed bond issues will necessarily go up with the amount of debt that either BHITA or the Village ends up borrowing, in order to pay BHL, the LGC should insist that BHL's prior-year financial data for the System be publicly disclosed and vetted as a condition for the LGC reviewing either of the bond applications. Failing that, either BHITA's or the Village's bond issues will likely be significantly higher than they need to be and, thus, will carry unnecessary default risk.

If BHL prefers not to disclose its financial data publicly, it would remain perfectly free to sell the System to another commercial operator who, no doubt, would insist on reviewing these same data. BHL would make that data available subject to the would-be buyer's willingness to sign the same type of non-disclosure agreement (NDA) that members of the BHITA Board of Trustees erroneously agreed to sign.

Unlike a commercial buyer, however, BHITA Board members should not have signed BHL's NDA precisely because in acquiring BHL's System with 100 percent public debt financing, they were putting taxpayer money at risk, not their own. Similarly, once they did sign the NDA, BHL's prior-year financials and the System's actual financial performance were effectively excluded from BHITA's valuation process simply because those data could not be used in BHITA's real estate appraisals or its bond application since that would have resulted in the data being disclosed. Instead, and by its own admission, BHITA and its financial advisors were left to focus exclusively on how much public debt it could borrow to pay BHL and obtain LGC approval.<sup>4</sup>

Were BHITA to end up defaulting on its bond payments, because it borrowed more than the System could handle, members of the BHITA Board of Trustees also knew that they could simply walk away, knowing that the LGC would step in and clean up the mess. Similarly, were the Village to over pay for the System and get into financial trouble as a result, elected members of the BHI Village Council might get tossed out of office, but they too would be held financially harmless. If, on the other hand, a commercial buyer purchased the system and subsequently defaulted on debt used to finance its deal with BHL, a bankruptcy judge would take whatever was left of the owner's equity and give it to the owner's creditors.

The latter difference is obviously very significant to any price negotiation between a buyer and a seller. In this instance, the difference also is of considerable potential value to BHL. Claims to the contrary, BHL will not refuse to disclose its prior-year financials should the LGC insist on it. BHL may object, but it will comply. It will do so simply because it understands that either BHITA or the Village will pay a significantly higher price for the System than BHL could obtain from a commercial buyer. This would be true if the System were sold as a going concern, or broken up, as BHL has threaten to do, and its ferry, parking and barge operations were sold separately to one or more commercial operators.

There are two basic reasons why either BHITA or the Village could and would pay considerably more for the System than a commercial buy(s). First, if either BHITA or the Village acquires the System, the BHI passenger

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<sup>4</sup> See BHITA response to LGC "must answer" Question 10 in BHITA's July 6, 2021 letter to LGC.

ferry, which accounts for roughly 60 percent of the System's annual operating revenues, would no longer be regulated. If sold to another commercial operator, the passenger ferry would remain regulated by the NC Utilities Commission and the price of ferry tickets would remain pretty much where they are today. Were that to occur, the System as a whole would generate far less cash flow going forward and, thus, would be worth less to any would-be commercial operator(s). Second, because neither BHITA or the Village would be putting their own investment capital at risk, their incentives or insistence in getting the System's purchase price down to its fair market value would be considerably less acute or focused than those of a commercial operator who would be putting his/her own capital at risk.

BHL, and the Mitchell Family Corporation, understand this perfectly well and will sell the System, as a going concern, to the Village should the LGC favor the Village's bond application's over BHITA's. It will do so simply because the Village could and would outbid any commercial buyer(s).

For its part, BHITA has expressed no willingness to reconsider its \$47.75M offer price to BHL, or its proposed \$56.1M bond issue. As explained in our July 21 letter, BHITA's offer represents the highest price it could possibly pay BHL, and finance through an investment grade, state-backed revenue bond issue. The practical consequences of the LGC approving BHITA's current bond application, therefore, would be twofold: 1) privatize the transportation System's future unregulated monopoly profits that would immediately accrue to BHL, and the Mitchell Family Company, pretty much in their entirety, thru an inflated \$47.75M purchase price; and 2) socialize the added financial/default risk that would result from BHITA borrowing \$56.1M through a bond issue rated BBB- (one notch above junk) and, in doing so, tapping out its ability to raise more debt capital should unanticipated capital spending requirements arise, which they likely will.

As a matter of public policy, there is absolutely nothing fair, economically efficient, or, in our view, responsible about this type of wealth transfer. Quite to the contrary. Economists refer to it as a dead weight loss for a reason. It would be far better if either BHITA or the Village figured out the System's fair market value, borrowed only what is needed to pay BHL that amount, and got on with making much needed improvements to the BHI transportation System.

Respectfully yours,

Robert T. Blau, CFA  
5 Starrush Trail, BHI

J. Paul Carey  
611 Currituck Way, BHI

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