Mr. Robert Waring

Town Of Shallotte, NC

Dear Mr. Waring:

Re: Special Assessment District Bond Structure – Response to Questions

Thank you for your continued engagement and for the thoughtful questions you have raised regarding the Special Assessment District (also referred to in certain jurisdictions as a Municipal Service District or Community Facilities District) bond structure associated with the Brunswick County development. I appreciate the care with which you have approached this review and am pleased to provide the following structured responses for your consideration.

Each of your questions is addressed individually below. Please note that the information provided herein is intended as a comprehensive overview of the district's structure and mechanics. Specific terms, obligations, and legal procedures will be set forth with greater precision in the governing formation and financing documents, draft copies of which I am prepared to make available upon your request.

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1. No Liability of the Town of Shallotte or Brunswick County

It is essential to state at the outset, unambiguously and emphatically, that **neither the Town of Shallotte nor Brunswick County bears any liability, obligation, or financial responsibility whatsoever for the repayment of the bonds, the payment of special assessments, or the satisfaction of any other district obligation.** The bonds are not general obligations of the Town of Shallotte or Brunswick County, and they are not backed by — nor do they constitute a pledge of — the taxing power, the credit, the revenues, or any asset of either municipality. Brunswick County's role in this structure is strictly ministerial and administrative in nature: limited solely to placing the district's special assessment charge on the county tax bill and remitting collected funds to the trustee in accordance with the applicable intergovernmental agreement. Brunswick County assumes no obligation to advance funds, no responsibility for any revenue shortfall, and no financial exposure in the event of non-payment by any property owner within the district. The Town of Shallotte similarly assumes no role whatsoever in the financing, administration, or obligations of the district. This non-liability is fundamental to the structure and is expressly stated in the governing bond and district documents.

2. Substantial and Perpetual Fiscal Benefits to the Town of Shallotte and Brunswick County

While the Town of Shallotte and Brunswick County bear absolutely no financial liability for the bonds or the district's obligations, both municipalities stand to realize substantial, permanent, and compounding fiscal benefits from the development enabled by this district. These benefits accrue automatically and in perpetuity — without any capital outlay, financial exposure, or risk to either municipality. The district finances its own infrastructure; the Town and County simply collect the rewards of a dramatically expanded tax base and a growing, active residential community.

Permanent Expansion of the Property Tax Base — Estimated at $450 Million

The most immediate and enduring benefit is the creation of an estimated **$450 million** in new assessed property value within the district. Upon full buildout, this new taxable value is added permanently to Brunswick County's tax rolls and, where applicable, to the Town of Shallotte's tax base. At current tax rates, this represents millions of dollars in new annual property tax revenue — revenue that will be collected year after year, in perpetuity, with no associated debt obligation, no infrastructure cost to the municipality, and no financial risk of any kind. This new tax base does not sunset, does not require renewal, and is not contingent on any bond or district obligation. It belongs to the municipality, permanently, from the moment the properties are assessed.

Deed Transfer Fees

Each real estate transaction within the district — at initial sale, resale, and every subsequent transfer — generates deed excise tax revenue for the State and county. With hundreds of homes anticipated at full buildout, the cumulative deed transfer tax revenue generated across initial sales alone is projected to be significant, with additional revenue accruing at each resale as the community matures and property values appreciate.

Water and Sewer Connection and Usage Fees

Residents of the district will be served by public water and sewer utilities, generating ongoing connection fees, tap fees, and monthly usage revenues for the applicable utility authority or county system. These revenues recur monthly, grow with the population of the district, and continue indefinitely. Infrastructure funded by the district's bonds — and conveyed to the public upon completion — enables this revenue stream at no cost to the utility authority or the county.

General Sales Tax Revenue

A thriving residential community of this scale generates substantial consumer activity. Residents shop locally, dine locally, and patronize local businesses — all of which produce general sales tax revenue for the State and for Brunswick County. North Carolina's local option sales tax distributions mean that Brunswick County receives a direct share of every taxable dollar spent by district residents within the county. This economic multiplier effect is a material and growing source of revenue that persists and expands as the community matures.

Additional Taxes, Fees, and Revenues

Beyond the headline figures above, district residents contribute to a broad array of additional municipal and county revenue streams, including but not limited to: motor vehicle registration fees, utility franchise taxes, building permit and inspection fees on future improvements and renovations, solid waste and recycling fees, and Powell Bill road funding allocations based on population. Collectively, these revenue streams represent a meaningful and ongoing contribution to the fiscal health of both the Town of Shallotte and Brunswick County.

In summary, the district represents a rare and compelling proposition for both municipalities: a fully self-financed development that adds an estimated **$450 million** in permanent taxable value — plus perpetual deed, utility, sales tax, and ancillary revenues — entirely at the developer's and bondholder's risk and expense. The Town of Shallotte and Brunswick County are positioned not as financial participants in this transaction, but as its **principal long-term beneficiaries**.

3. Issuer

The bonds are issued by a legally established special assessment district created pursuant to applicable North Carolina law. The district itself is the issuing entity — not the developer, not any private party, and not the individual property owners within the district. The district is a distinct legal and governmental instrumentality, organized and authorized under NC statute for the specific purpose of financing public infrastructure improvements through the levy of special assessments. Its authority to issue bonds is derived from its formation documents and the approvals of the applicable governmental body, subject to review and approval by the North Carolina Local Government Commission (LGC).

4. Obligor / Obligors

The obligors under the special assessment structure are the owners of the assessed parcels within the district boundaries at the time each annual assessment is levied. As a practical matter, the developer serves as the initial obligor for all undeveloped or unsold parcels, inasmuch as the developer holds title to those lots at the time of bond issuance and during the early phases of the development. As individual lots are sold to homebuilders or end-purchasers, the assessment obligation — as a lien running with the land — transfers automatically to the new property owner. Each successive owner assumes responsibility for the assessments attributable to their parcel. This structure ensures that the obligation is tied to the land rather than to any single entity, and that the district's revenue stream continues regardless of changes in ownership.

5. Bondholder

The bondholder is the bank, financial institution, or other qualified institutional lender that purchases the bonds at the time of issuance. By acquiring the bonds, the bondholder holds the right to receive periodic debt service payments — principal and interest — funded by the special assessment revenues collected within the district. The bondholder's investment is secured by the assessment lien on the benefited properties. In many privately-placed special assessment bond transactions, a single institutional lender serves as the sole bondholder, though publicly offered structures may involve multiple bondholders in the secondary market.

6. Trustee

A third-party corporate trust company or bank is appointed as trustee under the bond indenture — the controlling legal document governing the rights and obligations of the bondholder, the district, and other parties. The trustee serves as a fiduciary intermediary and is responsible for: (a) receiving assessment revenues remitted by Brunswick County; (b) administering the various funds and accounts established under the indenture, including the debt service fund, the debt service reserve fund, and any other required accounts; (c) directing disbursements in accordance with the indenture's flow-of-funds provisions; and (d) enforcing remedies on behalf of the bondholder in the event of a payment default or other event of default under the indenture. The trustee acts in a ministerial and fiduciary capacity and does not exercise managerial control over the district or its infrastructure.

7. Repayment Obligations

Repayment of the bonds is secured by, and payable from, the special assessments levied annually against benefited properties within the district. The assessments constitute a statutory lien on each assessed parcel, senior in priority to most other encumbrances, and are collected by Brunswick County through its standard tax collection process. Assessment revenues are remitted by the county to the trustee and applied first to debt service (interest and principal), then to required reserve replenishment, and thereafter to any remaining administrative costs, all in accordance with the indenture's prescribed flow of funds. The bonds are not general obligations of the State of North Carolina, Brunswick County, the Town of Shallotte, or any other municipality; neither Brunswick County nor the Town of Shallotte pledges any asset, revenue, or credit to the bonds. Repayment is limited solely to the assessment revenues and the security provided by the assessment liens on the benefited parcels within the district.

8. Tax Levy Mechanics

The special assessment is levied annually on each parcel within the district. Depending on the district's authorized structure, the assessment may be imposed as: (a) a fixed dollar amount per lot or per dwelling unit; (b) a fixed charge per acre or fraction thereof; or (c) a fixed rate per $1,000 of assessed value. The applicable methodology is established in the assessment ordinance or resolution adopted at the time the district is formed and the bonds are issued. Brunswick County incorporates the special assessment charge onto the regular property tax bill for each assessed parcel in the district solely in its ministerial, administrative capacity. Collections are administered by the Brunswick County Tax Office under its standard collection procedures, and collected assessment revenues are transmitted by the county to the trustee on a schedule prescribed by the indenture and any applicable intergovernmental agreement between the district and the county. For the avoidance of doubt, Brunswick County's role in this process is purely administrative. Brunswick County does not guarantee collection, does not advance funds in the event of non-payment by any property owner, and assumes no financial liability of any kind in connection with this function. The Town of Shallotte plays no role in the levy or collection of assessments.

9. Assessment Lien Enforcement

North Carolina law provides a well-established, orderly legal remedy for the collection of unpaid special assessments: statutory assessment lien enforcement. In the event that a property owner does not remit the special assessment when due, the district and/or the trustee (on behalf of the bondholder) is authorized under applicable NC statutes to initiate assessment lien enforcement proceedings against the subject parcel. This is a standard, routinely-utilized procedure under North Carolina law, and it is in no way punitive or extraordinary — it is the same legal framework that governs the enforcement of property tax liens statewide. The process involves court action, proper notice to the property owner, and a reasonable opportunity to satisfy the outstanding obligation. If the amount remains unpaid following that process, the parcel may be sold through a judicial proceeding, with proceeds applied to satisfy the outstanding assessment lien, accrued interest, and the reasonable costs of the enforcement proceeding, with any surplus distributed in accordance with applicable lien priority rules. This statutory remedy is a foundational credit support feature of the bond structure, providing the district and bondholder with a reliable, legally-sanctioned means of protecting the assessment revenue stream.

10. Infrastructure Ownership

Infrastructure improvements financed with bond proceeds — including, as applicable, roads, utilities, stormwater management facilities, and related public amenities — are intended to be conveyed to the appropriate public entity upon completion and acceptance. During the construction phase, title to the improvements typically remains with the developer or, in some cases, with the district. Upon satisfactory completion and inspection, the developer or district conveys the completed infrastructure to the relevant governmental or utility authority — which may be Brunswick County, a municipality, a water and sewer authority, or another public entity — by dedication, deed of conveyance, or formal acceptance procedure. From and after dedication, the improvements become public infrastructure, maintained at public expense. The bond indenture and related financing documents will specify the required timeline and procedures for infrastructure conveyance.

11. Developer Non-Performance — Protective Provisions

As is standard in all special assessment district financings of this type, the bond structure includes a comprehensive set of protective provisions designed to preserve the integrity of the assessment revenue stream and protect the bondholder's security interest independent of the developer's continued participation. These are routine structural features — not indicators of any anticipated problem — and are required as a matter of prudent bond structuring and LGC compliance. The assessment lien and the district's legal authority exist entirely independent of the developer's financial condition or continued involvement. The following protective mechanisms are in place:

1. **Assessment Lien Enforcement on Developer-Held Parcels:** Should assessment payments on the developer's unsold parcels become delinquent, the district and/or trustee may initiate the standard statutory assessment lien enforcement process against those parcels to preserve the revenue stream and protect ongoing debt service coverage.
2. **Debt Service Reserve Fund:** The indenture requires the maintenance of a fully-funded debt service reserve, sized at no less than the maximum annual debt service requirement. This reserve is available to the trustee to ensure uninterrupted debt service payments during any period of collection timing variation, providing substantial structural protection for the bondholder.
3. **Continuity of Infrastructure Completion:** The governing documents provide mechanisms — including the potential engagement of a successor developer or contractor — to ensure that infrastructure improvements are completed in an orderly manner, supporting continued lot absorption and the growth of the assessable base within the district.
4. **Realization of Parcel Value:** As a final protective measure, the trustee may, at the direction or with the consent of the bondholder, arrange for the orderly disposition of available district assets or enforced parcels in order to satisfy outstanding bond obligations.

The overarching principle — and the foundational strength of this structure — is that the bonds are secured by the real property within the district. This security is durable, asset-backed, and wholly independent of any single developer's creditworthiness or business continuity.

12. Assessment Revenue Stability

The structure is designed to produce a stable, predictable revenue stream for debt service. Where — as is common in this type of district — the assessment is structured as a flat per-parcel or per-unit charge, the annual levy is entirely independent of fluctuations in assessed property values. This flat-assessment design provides a high degree of revenue certainty for both the district and the bondholder: the annual assessment obligation does not change with market conditions, and aggregate district revenues are determined solely by the number of assessable parcels rather than by any appraisal or valuation process. In addition, the fully-funded debt service reserve provides a robust secondary layer of protection, available to supplement assessment revenues as needed and to ensure continuity of debt service payments. In structures where an ad valorem-style rate is utilized instead, the district's formation documents authorize appropriate rate adjustment procedures — subject to applicable NC statutory requirements — as an additional management tool. These structural features collectively reflect the proven resilience of the special assessment financing model and its established track record across comparable districts throughout North Carolina and nationally.

13. District Continuity

The special assessment district is a legally distinct public entity, created by governmental action under North Carolina statute. Its legal existence, authority, and obligations are entirely independent of the developer, the Town of Shallotte, and Brunswick County. Regardless of any change in the development's ownership, sponsorship, or status, the district continues to exist without interruption: the assessments remain in effect and enforceable against all assessed parcels, the trustee continues to administer the indenture, and debt service obligations remain fully operative. The district's continued existence and its authority to levy and collect assessments are governed by NC statute and the district's formation documents — not by any contractual relationship with the developer or any municipality. This structural independence is a foundational principle of the special assessment financing model, and it ensures that neither the Town of Shallotte nor Brunswick County can be called upon to assume any financial obligation of the district under any circumstance.

14. Bank Role

The bank, acting in its capacity as bondholder and lender, provides the upfront capital to the district through its purchase of the bonds at issuance. The bond proceeds are then used to finance the authorized infrastructure improvements within the district. The bank holds the bonds as a secured investment, with its repayment rights backed by the assessment lien on all assessed parcels. The bank does not assume any role in the governance, management, or operation of the district, nor does it hold any responsibility for the construction or maintenance of district infrastructure. The bank's rights and remedies — including the right to direct the trustee to pursue enforcement action upon a default — are set forth in the bond indenture and related financing documents. The bank's primary interest is in the timely receipt of debt service payments and, in the event of default, the realization of value from the assessment lien collateral through the trustee.

15. Fixed Assessment Rate

The assessment rate is established at a fixed level at the time of bond issuance and set forth in the assessment ordinance or resolution. The fixed rate is calculated to be sufficient, in the aggregate across all assessed parcels within the district, to generate annual revenues adequate to cover: (a) full annual debt service on the outstanding bonds (both interest and scheduled principal amortization); (b) the district's administrative and operational expenses; and (c) contributions to any required reserve funds. The fixed rate provides certainty and predictability for both property owners and the bondholder — property owners know their annual assessment obligation in advance, and the bondholder has a defined and quantifiable revenue stream. Any adjustment to the assessment rate following issuance would be subject to applicable NC statutory requirements and procedures, including any limitations on rate increases and any required approvals from the governing body or the LGC.

16. North Carolina Statutory References

The district structure and its associated financing authority are grounded in North Carolina statutory law. The following statutory references are directly relevant to the structure described herein:

- **N.C. Gen. Stat. Chapter 153A (County Authority):** Governs the authority of North Carolina counties, including the power to establish municipal service and special assessment districts, levy special assessments, and undertake public improvement financing.
- **N.C. Gen. Stat. Chapter 160A (City Authority):** Governs municipal authority with respect to similar district structures, special assessments, and public infrastructure financing where a municipality is the sponsoring governmental entity.
- **N.C. Local Government Commission (LGC):** All bond issuances by units of local government in North Carolina — including special assessment districts — are subject to LGC review and approval. The LGC evaluates the financial soundness of the proposed financing, the adequacy of the assessment structure, and compliance with applicable state law before authorizing issuance.
- **Applicable Special Legislation:** To the extent the district is authorized under a local act or special legislation enacted by the North Carolina General Assembly, the relevant session law will serve as an additional authorizing instrument and should be reviewed in conjunction with the general statutes cited above.

I recommend that your counsel review the applicable statutory provisions and the district's formation documents concurrently to confirm that all structural elements comply with current NC law.

17. Draft Agreement Availability

I am prepared to make available for your review draft versions of the principal transaction documents governing this structure, including the assessment agreement, the bond indenture, the district formation ordinance or resolution, and any intergovernmental agreement between the district and Brunswick County. I will coordinate with transaction counsel to compile and transmit these materials in a suitable form — whether as clean drafts or redlined versions reflecting the current state of negotiations — upon your request. Please advise me as to your preferred format and any specific provisions you wish to prioritize in your review, and I will arrange prompt delivery of the applicable documents.

18. Brunswick County Contact

For questions specifically related to assessment billing procedures, the mechanics of collection on the county tax bill, remittance schedules to the trustee, and county-side administrative matters, I encourage you to contact the Brunswick County Tax Office or the relevant county department responsible for administering the district's assessment levy. I am happy to provide you with the appropriate contact name, direct telephone number, and mailing address upon request. I can also facilitate a joint introductory communication to the county, if that would be helpful in expediting your review.

I trust that the foregoing responses address your questions in a thorough and useful manner. The structure described herein is designed with transparency and legal rigor in mind, and I welcome any further inquiry you may have as your review proceeds. Please do not hesitate to contact me directly — by telephone or by return correspondence — with any follow-up questions, requests for clarification, or requests for additional documentation. I look forward to presenting and discussing this matter with the Board at the workshop on Tuesday at 5:00 p.m.

I am also pleased to schedule a telephone conference or in-person meeting at your convenience to walk through any of the above topics in greater detail, together with counsel or other advisors as you see fit. I look forward to your continued engagement and to bringing this matter to a mutually satisfactory resolution.

Sincerely,

Glenn Taylor