

BRUNSWICK COUNTY ADMINISTRATION

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Brunswick County Board of Commissioners:

I am pleased to present the recommended FY 2012-2013 budget for Brunswick County herewith for your review and consideration. Following four consecutive budgets drafted in the midst of declining and/or uncertain economic conditions and county revenue picture, we are beginning to see some stabilization and signs of improvement. Departmental budget request were in line with the current year with some additional capital outlay additions that have been deferred in recent years. In Many cases, departmental operating budgets were reduced below the current year's departmental appropriation. Fortunately, this proposal will preserve existing service levels and employee compensation and fringe benefits although the total number of fulltime employees is slightly reduced.

One year removed from the 2011 revaluation of all real property in Brunswick County and very modest gains in the tax base the recommended ad valorem tax rate is 44.25 cents. The FY 2012-2013 budget proposal for all funds totals \$196,204,261 which represents a increase of 2.9% over the budget adopted June 20, 2011. The general fund budget is balanced by utilizing fund balance and capital reserve transfers, although much less than recent years during the recession.

The recovery from the recession continues to negatively impact individuals, businesses and corporations and all levels of government and the economy is expected to grow at a very slow pace. Nationally, new job growth fluctuates on a monthly basis and the April jobless rate was 8.1%. The average cost of a gallon of gasoline is slightly less than a year ago at \$3.75 per gallon. Looking at the leading economic indicators for North Carolina, claims for unemployment benefits are down 6.2 percent from last year, building permits are up by 10.1 percent, manufacturing hours worked are up 0.7% and average weekly earnings are up 5.1%. Locally, home sales and new home construction are at their lowest levels since the start of the recession. Brunswick County's unemployment rate is still very high at 10.9% compared to the State at 9.7% and United States at 8.1%.

Consistently ranking in the top twenty fastest growing counties in America, Brunswick County dropped out of the top 50 national reporting but continues to be 6th in the State for calendar year 2011. On a positive note the State Data Center reported Brunswick County's projected permanent population to be 112,210, up from the 107,431 decennial census figure indicating that people are still choosing Brunswick County as a place to live.



Due to the existence of substantial uncertainty surrounding the economy, I am cautiously optimistic as we embark upon a new fiscal year that local economic conditions will improve. An analysis of the preliminary State budget does not indicate any major reductions or cost shifts that would have a catastrophic impact on the County's budget. We anticipate the final phase out of the Criminal Justice Partnership grant funding to impact the budget as this will be the first year that the program will be funded with all local funds since the inception of the program.

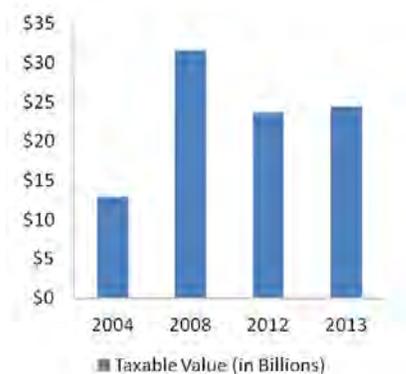
Due to some proactive measures taken recently to reduce expenses, the General Fund is better positioned and significantly less reliant on non recurring sources. These actions include the decisions to renegotiate and extend the countywide solid waste collection and disposal contract, contracting the county food services operations, refinancing debt obligations to more attractive rates, the elimination of some vacant positions and holding the line on the employee health insurance premium contributions, made possible by the decision to transition to self insure the benefit.

GOVERNMENTAL FUNDS

Revenues

The total recommended General Funds Group Budget is \$151,296,715 which represents a 2.95% increase from FY 2012. Property tax revenue is the primary source of governmental fund revenue, providing 69.5% of the total revenue. Continuing the trend of very modest years of growth in the county's tax base prior to the 2011 property reassessment, the total projected tax base, inclusive of real property and motor vehicles for FY 2012-2013, is \$24,423,023,558 up by \$755,150,070 or over 3.2% above the base of \$23,667,873,488 on which the FY 2011-2012 budget was based.

The total projected real property value for FY 2012-2013, including an estimate of net discoveries is \$23,533,023,558 which represents a 3.0% Increase over the FY 2011-2012 real property base of \$22,842,873,488. The motor vehicle base is projected to be \$890,000,000 or 7.9% more than the current year base of \$825,000,000. The projected collection rate for motor vehicles is 86.62% which should generate \$3,411,312. This small increase in the motor vehicle base can be attributed to more new cars purchased and an increase in the number of vehicles registered in the county.

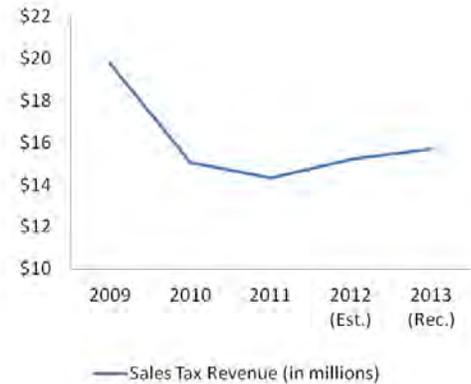


The total real property levy for FY 2012-2013 is based on a tax base of \$23,533,023,558 the tax rate of 44.25 cents and a collection rate of 94.59% and is projected to be \$98,500,000.

The total property tax revenue projection for both real property and motor vehicles is \$101,911,312 which is 2.5% or \$2,452,734 more than the original budget for FY 2011-2012.

The value of one cent on the tax rate is \$2,303,080. The County tax on a home valued at \$250,000 would be \$1,106.25 and the county tax on a vehicle with a value of \$25,000 would be \$110.63.

The second largest source of governmental fund revenue is sales tax; however it represents a smaller percentage than in previous years due to the economy and changes in population figures resulting from the census that may impact the distributions. However, the growth in sales tax revenue has exceeded current year projections and the outlook for continued growth extends into the projection for FY 2012-2013. Total county sales tax revenues for are projected to be \$11,606,809, exclusive of the portion of Articles 40 and 42 designated for schools, which is \$4,054,992 or \$907,804 more than the original budget for FY 2011-2012 of \$10,699,005.



The local portion of the sales tax is 2.25 cents and the state sales tax rate would be 4.5 cents for a total of 6.75 cents pending no other sales tax changes by the General Assembly.

After four consecutive years of revenue declines, the County’s other revenue sources continue to be suppressed. Projections for FY 2012-2013 are mixed with some sources continuing to decline and others moderate increases. Emergency Medical Services fees have been consistent in recent years due to growth in calls for service and improved collection. Total EMS charges are projected to reach \$3,165,000 due to the addition of the non-emergency transport service and the associated revenue. The Medicaid Cost Settlement revenue is projected to dip slightly to \$701,000.

The other major general fund revenue category projections include:

Revenue	FY 2010	FY 2011	FY 2012	FY 2013	% Change
Investment Earnings	\$600,000	\$200,000	\$192,000	\$56,100	-70.8%
Solid Waste Tipping Fees	\$1,200,000	\$950,000	\$1,000,000	\$1,000,000	none
Building Permits	\$875,000	\$775,000	\$610,000	\$728,500	+19.4%
Excise Tax	\$1,500,000	\$1,800,000	\$1,900,000	\$1,800,000	-5.3%

The economy continues to negatively impact many of the County's primary revenue sources. Since the total general fund revenues have declined more than it has been determined to be feasible to reduce general fund expenditures for FY 2012-2013, a fund balance appropriation in the amount of \$1,345,207 and a transfer from the capital reserve fund in the amount of \$867,300 is recommended.

The appropriation of non-recurring funds in the amount of \$2,212,507 for FY 2013 is less than the \$5,590,362 fund balance/capital reserve appropriated in FY 2011-2012. This reduction marks improvements in revenue and management of expenditures.

Expenditures

The FY 2012-2013 budget includes adequate funding to maintain existing services levels, existing personnel and fringe benefits and contractual obligations and does not include new services or enhancements to services with the exception of the non-emergency transports in Emergency Medical Services. Some of the departmental operating budgets are lower than the FY 2011-2012 adopted budget. For the fourth year some of the positions that were frozen and remained unfilled are recommended for elimination. The budget includes more capital outlay than recent years and the Five Year Capital Improvement Plan includes some smaller pay as you go projects that will not require the county to incur additional debt. Some operating expenses that are decreasing include the contract costs for solid waste collection and disposal, food services costs due to the elimination of the county department budget in favor of a contract service for jail meals, senior meals and the cafeteria retail operation, the refunding of debt obligations, and the employer contribution to the Local Government Employee Retirement System. Due to increases in the value of investments due to a higher performing investment portfolio, LGERS is implementing a 0.22% general employee and 0.27% law enforcement employer contribution decrease effective in July. The increase will take the rate for general employees from 6.96% to 6.74% and law enforcement from 7.04% to 6.77%. The contribution decrease will save the county \$88,000.

In September 2011 the County assumed ownership of the Brunswick Community Hospital property. Negotiations to sell the property are ongoing at this time. A total of \$150,000 is included to cover operation and maintenance costs for the building and grounds for approximately six months. An additional \$300,000 is included in the capital improvement plan for the demolition of the facility if the sale does not occur.

Solid Waste Management

Solid waste management, including the operation of the County's construction and demolition landfill and contracting for the countywide curbside collection of municipal solid waste, represents 8.9% of the general fund expenditures. As mentioned above the county recently renegotiated a five year extension of the countywide solid waste collection and disposal contract with Waste Industries that extends the contract through June 2019. The new contract

eliminates the fuel surcharge and retains the current annual price adjustment formula for the term of the contract and locks the current unit price of \$11.66 per month until June 30, 2013. These modifications will result in total projected savings to the county for FY 2012-2013 of \$1,270,000.

The construction and demolition tonnage being received at the County landfill continues to decrease. To preserve the existing capacity in the landfill and extend the useful life of the facility, the county has a contract for diversion of some of the waste to a South Carolina landfill and recently entered into a contract with Waste Industries to transport construction and demolition debris from the county's transfer station to a disposal facility in Sampson County. The cost of diverting waste from the landfill ranges from \$34 to \$38 per ton. The contract funding for the diversion of waste is \$350,000 which will allow the county to outsource about 60% of the anticipated waste stream. Also, due to the reduced tipping fee revenue, a transfer to the Capital Reserve Fund for landfill closure cost is not recommended.

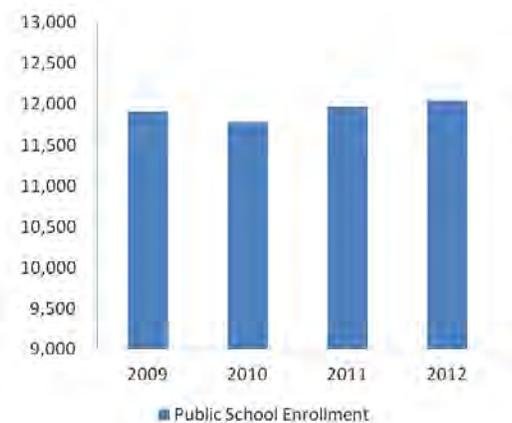
This budget includes no revenue or expenditures related to the curbside collection of recyclables. Per the above referenced solid waste contract, Waste Industries has agreed to provide curbside recycling services on a voluntary individual contract basis for which the costs would be borne by the users through direct billing with no direct fiscal impact to Brunswick County.

Brunswick County Public Schools

This is the second and final year of the current funding agreement with the Brunswick County Board of Education. The agreement requires the County to contribute 36.5% of the County ad valorem tax revenue to the schools for operating expenditures less the portion of the tax rate dedicated to pay debt service. The total recommended FY 2013 school appropriation in accordance with the revised funding agreement is \$33,018,049, which represents an increase of approximately 3.34 percent or \$1,068,329 over the FY 2011-2012 appropriation and an increase of 11.9 percent or \$3,502,332 more than the FY 2010-2011 appropriation of \$29,515,717. In accordance with the agreement, 35.75 percent, or \$32,339,596 will be used for current expense and .75 percent or \$678,453 will be used for categories 2 and 3 capital outlay.

The total General Obligation debt service for Brunswick County Schools for FY 2012-2013 is \$6,796,060 exclusive of debt service serviced by sales tax revenue. Including the debt service, 39.1% of the County ad valorem property tax revenue is appropriated for k-12 public education purposes.

In 2011 Brunswick County ranked 11th in the State of North Carolina for local funding of public schools based on per pupil expenditures.



Brunswick Community College

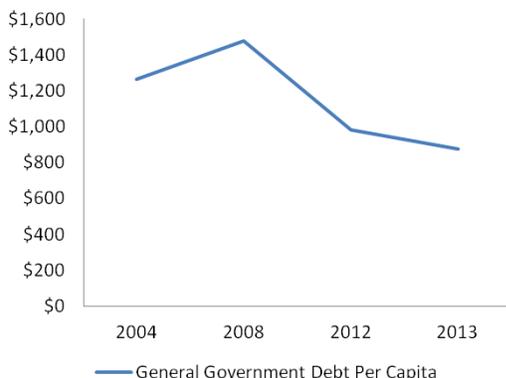
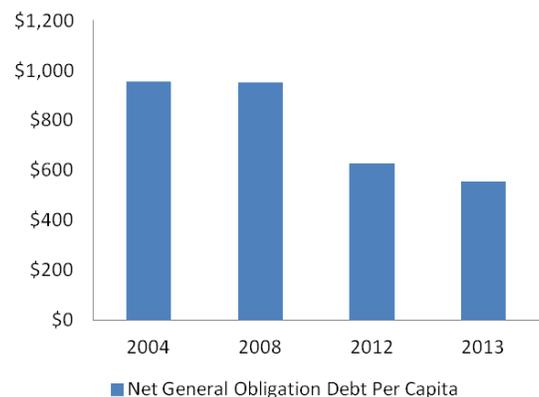
Brunswick Community College has completed the renovation to the South Brunswick satellite campus project in the Carolina Shores area that was planned as part of the General Obligation Bond funded capital projects. The Southport satellite campus improvements should be completed during FY 2013. The recommended Community College appropriation for FY 2012-2013 is \$3,657,105 which is an increase of approximately 3.34 percent over the FY 2011-2012 appropriation of \$3,538,906. The Community College appropriation was not increased for the FY 2010. The recommended increase in the College appropriation is based on the percentage increase in the Brunswick County Schools appropriation for FY 2013.

The total General Obligation debt service for Brunswick Community College is \$2,402,436 which is approximately 2.4% less due to lower interest payments.

Based on the number of full time equivalent students, Brunswick County's financial assistance to Brunswick Community College currently ranks highest in the state of North Carolina among counties that provide financial support to one of the states 58 community colleges.

Debt Service

Brunswick County government is in a good position with regard to capital facilities for general fund operations. We currently have adequate office space for a workforce that is shrinking and excess capacity in the County Detention Center. Topping the list of needs of Brunswick County include some renovations and maintenance to existing buildings, new senior citizen centers and park expansions and upgrades. Enrollment growth projections for Brunswick County Schools are projected to remain low in the near future so it is possible that new school construction can be deferred



for several years. Overall, Brunswick County's per capita debt ratio is low. The County's total outstanding Governmental funds debt is \$110,220,000. This equates to approximately \$902 per capita and current net general obligation debt is approximately \$556 per capita.

No additional general fund debt is anticipated during FY 2012-2013. The total debt

service budget will be \$14,175,190 which represents a decrease of \$685,489 or 4.6% under the debt service budget for FY 2011-2012. This reduction is realized primarily due to lower interest costs associated with the refunding of existing debt to take advantage of lower interest rates and not extending the term. The 45% RZEDB interest rebate for the Leland Library expansion project is estimated to be \$13,403 and will result in net debt service for the project of \$91,382. The reduction in total general fund debt service for FY 2012-2013 is another major factor in the improvement in the County's budgetary position compared to the current year.

The total principal payments on general fund debt are \$9,910,000 with interest payments equaling \$4,265,190.

Human Services

Changes in the costs for Human Service Departments and related organizations include a general fund contribution of \$4,143,583 to the Health Fund representing a reduction of \$334,432, over the current year appropriation.

The total contribution to the Social Services Fund of \$5,290,196 represents an increase from the current year of \$24,650.

Funding for Southeastern Mental Health is recommended to remain the same at \$692,000.

The recommended appropriation to Brunswick Senior Resources, Inc. is \$1,550,000. This is a reduction in direct funding for BSRI, Inc. of \$50,000, however as the result of the change to a contract food service, BSRI will pay the contractor directly for their meals and their savings on meal costs will exceed the reduction in direct county assistance based on the projected number of meals to be provided. This should give BSRI a net financial gain and allow them to benefit from the savings from contracting the food service.

Employee Benefits

During the recession Brunswick County has managed to avoid reductions in employee compensation and benefits and extended a one time bonus to all full-time employees in November 2011, however, again this year, it is not feasible to include employee merit or cost of living compensation adjustments in this proposed budget, however, employee salaries and fringe benefits remain at current levels for FY 2012-2013. There is no plan to artificially reduce pay through furloughs or directly through across the board percentage cuts.

Minor plan design changes to the employee group health insurance schedule of benefits have been recommended to sustain a rich health insurance schedule of benefits. As an organization we will embark on the second year of the transition to being self-insured with the group insurance. After ten months into the plan year, claims have tracked at expected levels

and the Health Insurance Fund should end the year with a small reserve. The decision has been made not to increase the employee premiums or contributions to the Health Fund this year. The sector that has experienced the highest claims is the dependent spouses where claims have exceeded contributions by 212% thru April 2012. In the first year of the self insurance plan the county obtained specific and aggregate stop loss coverage. The aggregate stop loss coverage covers the first \$1 million in claims above the expected claims total of \$9,435,542 should the total claims reach this level. After the aggregate stop loss payments of \$1 million, additional claims, if any would be the responsibility of the county to pay. Since it does not appear that the county claims will reach the expected claims threshold the county's consultant has recommended that the aggregate stop loss coverage be dropped for the second year to realize a small savings of \$65,000.

In order for the county to have the opportunity to achieve success under the self insured scenario, it is imperative that the county continue to expand opportunities for employee health awareness and actions. Therefore, this budget includes a level of funding to continue annual Health Risk Assessments for all employees and to maintain the extended hours of operation for the employee clinic. To encourage dependent spouses that are covered under the plan to participate in the wellness program and utilize the clinic, employees with a covered spouse that elects not to participate will pay the \$30.00 monthly premium for the spouse's non-participation even if the employee does participate. Additionally, all spouses and dependents that have access to health insurance benefits from another source must elect coverage under the other source and will not be legible for participation in the county health plan. These new measures should help manage claims costs in an area that has been identified as a source of concern for the plan.

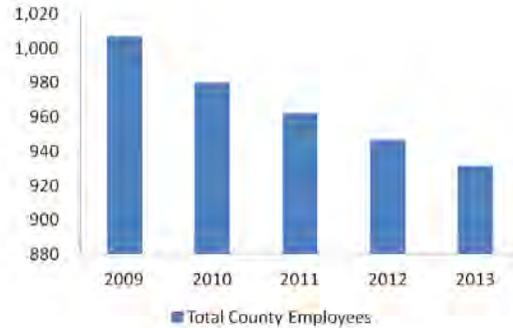
The proposed budget includes funding for all regular benefits such as the 5% 401K employer contribution and longevity pay for employees with five years or more of service.

Staffing / Positions

The economy continues to impact the service delivery and workload of County departments in different ways. Some departments, primarily those associated with development and construction permitting continue to experience reduced activity. Other departments, primarily those that provide humans services, public safety or internal and support services have seen an increase in service demands. It has been a goal of Administration and the Board to avoid a reduction in force; however elimination of vacant positions was deemed to again be an acceptable measure to balance the budget. In FY 2010 twenty-two (22) vacant positions were eliminated for a cost savings of \$971,304 including salary and benefit costs. In FY 2011 an additional sixteen (16) vacant positions were eliminated for an estimated savings of \$743,722. The FY 2012 Budget included the elimination of twenty-two (22) full-time positions for a total reduction of approximately \$1,019,467.

In an effort to reach a sustainable employee base, the FY 2013 Budget includes the elimination of 15 vacant positions representing a savings of approximately \$594,993.

A total of 8.33(FTE) new positions were requested for general government departments and external state offices. Only 2.33(FTE) of these positions are recommended for funding in the FY 2012-2013 budget. These include two full-time EMT-Intermediate for Phase II of the non emergency transport service and a Natural Resources Agent funded .33 percent by Brunswick County and the balance cost shared between N.C State University and New Hanover County. The EMT-Intermediate positions would only be filled when the non emergency calls reach the revenue threshold to fully cover the costs.



These changes would result in a net reduction of thirteen (13) full time county positions and bring the total number of positions down to 931.5, of which 814 are associated with General Fund departments and 117.5 associated with the Enterprise Fund.

Capital Improvement Plan

The list of projects recommended for funding in FY 2012-2013 includes eleven projects totaling \$5,814,055. Two of the projects included in the Economic Development Category are infrastructure projects for failed residential development projects that the county will complete using surety/performance bond proceeds. The largest is for the Avalon Project for which the County has \$3,601,170 remaining to complete the planned infrastructure.

The Central Services section of the recommended Plan includes \$90,000 for HVAC System replacements in Building B (Social Services), and \$323,300 to replace the roof on Building I. The plan includes \$100,000 for the demolition of Building J (Old Sheriff's Office and Detention Center) and \$300,000 to demolish the old Brunswick Community Hospital should the sale of the facility not come to fruition.

Related to Environmental Protection the Plan includes \$200,000 for engineering design for the Phase I of the Construction and Demolition Landfill Expansion, and \$375,000 for Phase I of the Construction and Demolition Landfill Closure. The landfill closure activities would be funded from capital reserve funds designated specifically for that purpose.

The Culture and Recreation Component of the Plan includes \$20,000 for the Master Plan for the Waccamaw Park Improvements and \$250,000 for the Brunswick River Park Boat Ramp Improvement Project. The Source of funding for these two projects is capital reserve funds.

The sole project in the Public Safety section of the plan is the Sheriff's Department Firing Range Phase I at \$280,000 also to be funded from capital reserve funds.

The FY 2012-2013 Capital Improvement Plan as presented includes no current year revenue or debt proceeds to fund projects. Since the Five-Year Capital Improvement Plan is a living document some projects originally scheduled for FY 2012-2013 have been deferred to future years. Most significantly the Town Creek Park Improvements and the Leland Area Senior Center have been moved to FY 2014 as external financing will be required to complete these projects based on costs estimates of \$5.3 million for Town Creek and \$2.7 for the Senior Center. A financing plan for these two projects will be presented for your consideration during the budget workshops.

Capital Outlay and Major Operating Expenditures

The recommended budget includes a total of \$2,008,507 in capital outlay and major operating equipment for operating purposes in the general fund, up by \$1,529,784 from the FY 2011-2012 budget capital outlay total. Capital outlay in general fund departments has been deferred for several years and consists of items in excess of \$5,000 in value. Some of the more significant capital items include (18) replacement patrol vehicles for the Sheriff's Office \$450,828, (2) new ambulances \$270,000 and (1) new Type II ambulance \$70,000, a new paging system for Emergency Communications \$125,000, Security Camera System for the Courthouse \$120,975, a Key Card Entry System for the Courthouse \$85,000, (8) replacements digital recording cameras for the Sheriff's Office \$44,000, (1) track bulldozer \$145,000, an F-250 Truck \$25,000 and a backhoe \$75,000 for Solid Waste, two Z-Trac mowers for Parks and Recreation \$26,000 and an imaging package for DSS \$292,200.

In the Emergency Telephone Fund, funding is recommended to replace (10) Call Processing CAD Computers \$40,000.

The major operating equipment recommended for the general fund totals \$435,327. Major operating equipment includes items that are less than \$5,000 in value. Some of the recommended items include 98 replacement computers for MIS and various departments \$152,000, (20) switches for MIS \$60,000, (12) Spill Kits for fueling sites \$22,200, (18) Patrol Vehicle light bars \$23,310, and (38) replacement ballistic vests \$26,600.

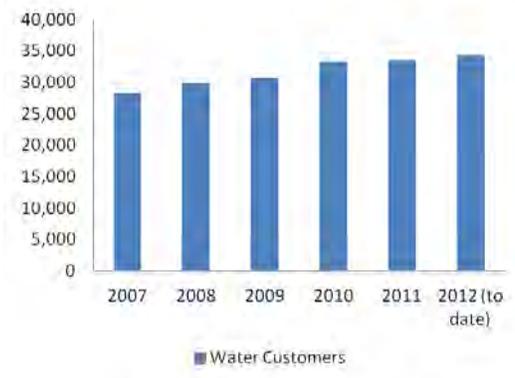
The proposed budget includes \$40,000 for a comprehensive technology assessment of all county departments and an allocation of \$250,000 for implementation of the recommendations of the study.

ENTERPRISE FUND

The County Enterprise fund continues to expand to meet the service needs of the retail and wholesale customers. Although not increasing as rapidly as before the recession the customer base is experiencing moderate growth. The county currently has 34,254 water retail

customers and 10,213 sewer retail customers. Fewer customer connections translates into lower capital recovery fee revenue, which is a source dedicated to the retirement of debt service for system expansion projects.

Since 2001, the County has aggressively pursued the development of regional wastewater systems and has made great progress in positioning the county for growth with treatment and transmission systems in place in the three distinct regional service areas. We continue to strengthen the regional concept by adding partners and establishing contractual relationships that eliminate duplication of effort and capital costs.



Developments that have occurred over the last several years that are coming to fruition to further strengthen the county’s role as the regional wastewater treatment provider in Brunswick County. With the Calabash wastewater collection system and the Brick landing collection system improvements and pump station and force main project completed the focus is on completing the Sunset Beach collection systems during the first quarter of FY 2012-2013 and starting construction on the Boiling Spring Lakes wastewater collection and transmission system projects. The Northeast Regional Wastewater Plant 825,000 gpd expansion contract has been awarded and construction scheduled to begin soon to provide the treatment capacity needed to sustain the continued growth in the northern portion of the county.

The County continues to expand the water distribution system to meet the potable water needs of the county. Projects completed within the current year include Stanley Road, Ash-Little River Road / Etheridge Road, the Brunswick Community College South Campus Main, the Roger Bacon Academy Line, and Ocean Forest and Sea Castles Subdivision.

The County continues to make strategic capital improvements that will put the utility systems in a position to meet the long term needs of our customers.

WATER FUND

Revenues

The total recommended Water Fund budget for FY 2012-2013 is \$22,033,429 which is \$2,766,296 or 14.5% higher than the original budget for FY 2012. Although the number of new taps is still somewhat suppressed compared to the years preceding the recession, approximately 600 connections are projected in the upcoming fiscal year. Six hundred connections should generate approximately \$516,000 in Capital Recovery Fee revenue and \$174,000 in Water Transmission Line Capital Recovery Fees. Tap fees are expected to generate \$220,000. The

connection incentive program that allows customers to pay \$50.00 down and finance the balance of the tap fee and capital recovery fees is becoming more popular which could lead to lower fee collections but could be offset by higher retail revenue for user consumption.

No increase is being recommended in the retail water rate of \$3.05 per 1000 gallons and the \$11.00 per month base charge. Total commercial and residential retail water sales are projected to be \$6,396,625 or \$4,786,975 for retail and \$1,609,650 for irrigation. The base fee of \$11.00 will produce \$4,587,000 and investment earnings for the Water Fund are expected to decline slightly to approximately \$40,000.

Wholesale and industrial water rates are adjusted annually based on the Producer Price Index for May of each year. Wholesale water revenue has increased consistently over the prior three years taking into consideration that the number of wholesale customers has been reduced due to the transfer of the Sunset Beach and Boiling Spring Lakes water systems being conveyed to county ownership. The new wholesale/industrial rate is estimated to increase by 3 cents this year based on the PPI Index for April. The actual rate is based on the May PPI Index. The current wholesale rate is \$2.76 per 1000 gallons. The rate cannot be finalized as the May PPI is not yet available, however an estimate would be in the \$2.79 range. Staff is recommending that the wholesale rate remain at \$2.76 unless the PPI calculation for May results in a lower rate. Assuming the current rate of \$2.76, industrial water revenue is projected to decrease slightly due to lower sales to \$2,000,200.

Included in the revenue total for the Water Fund is an appropriation of expendable net assets in the amount of \$2,049,708 for capital projects.

Operating Costs

There were two new positions requested for the Instrumentation / Electrical Division, but neither are recommended. The amount budgeted for the purchase of raw water from the Lower Cape Fear Water and Sewer Authority is increasing by \$135,600 due to increased water production and sales. The County will continue to operate and maintain the raw water pumping station at Kings Bluff for the LCFWSA on a reimbursable basis. The operating budget for the Kings Bluff Pumping Station is increased by approximately 17.7% to \$262,014 due to increases in equipment maintenance costs.

Capital Outlay

The largest capital expenditure in the Water fund is \$1,500,000 for the fourth year implementation of the automated water meter reading system and meter installation. Other large capital outlay items include (2) tank mixers for the 4MG clearwell at the Northwest Water Treatment Plant (\$105,000), a new directional boring machine (\$120,000), (2) new portable generator load bank units (\$19,000), a portable 500kw generator (\$115,000) and a mobile diesel

fuel trailer with pump (\$12,000). Five replacement trucks are included at a total cost of \$159,000. A total of nine replacement computers are recommended at \$14,800.

Debt Service

Current debt service in the Water Fund continues to be low and only one new debt issue is slated for the upcoming year. Phase I of the Northwest Water Transmission Improvement Project is included as a capital project for FY 2013. If the project is financed as planned there would be no principal and interest payments due in FY 2013. The total water fund debt service budget is \$1,620,548 for a decrease of 5.5% or \$88,785. The decrease is partially attributable to the reduced principal and interest costs related to the 2012 GO Refunding of the Boiling Spring Lakes Water System

The Northwest Water Treatment Plant Improvements and water main projects were financed as revenue bonds under a Recovery Zone Economic Development Bond allocation in 2010. The County will receive an annual interest rebate equal to 45% of the total annual interest cost. The rebate is estimated to be \$298,109.

Water Capital Improvement Plan

The Water Fund Capital Improvement Plan includes thirteen (13) projects for FY 2013 at a total estimated cost of \$17,354,044. The largest project is Northwest Water Transmission Project Phase I with an estimated cost of \$9,625,000 and it is the only project to be financed.

Other water system improvement projects to be funded on a pay as you go basis without incurring debt are the Sunset Beach Island Second Feed (\$1,050,000), the Old Shallotte Road Waterline (\$1,128,800), the US 74/76 Northwest Second Feed Phase I (\$2,148,480) the Sandpiper Bay Second Feed (\$800,000) and the Highway 211 Water Plant Sludge Handling Equipment (\$500,000).

Waterline projects that have been designed and permitted and to be funded from the Capital Reserve Fund include Old Ferry Road, Cox Road, Mulligan Way and Smithtown Road at an estimated total cost of \$962,064.

WASTEWATER FUND

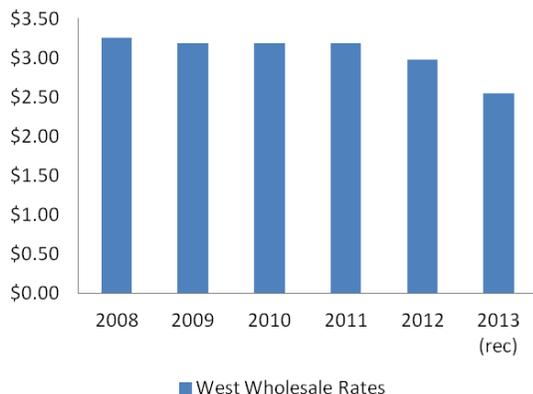
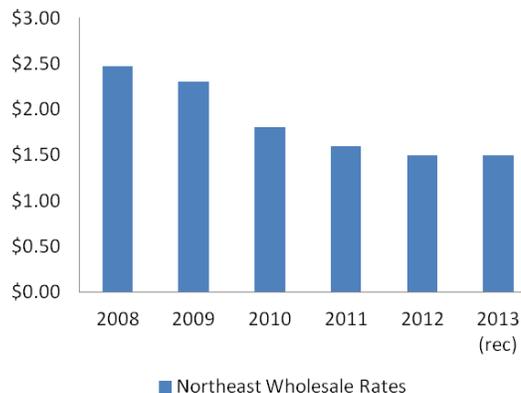
The total recommended Sewer Fund Budget for FY 2012-2013 is \$20,163,973 representing a 3.3% increase or \$643,275 over the FY 2011-2012 original budget primarily due to the additional debt service costs associated with the 2012 Enterprise Systems Revenue Bonds to fund the Northeast Brunswick Regional 825,000 gpd Wastewater Treatment Plant Expansion and Transmission System Improvements, and the first year of debt service associated with the Sunset Beach collection system, moderate increases in operating costs associated with treatment plants and more capital outlay items than in recent years.

Revenue

There is no increase in the current sewer retail rate structure that is projected to generate \$6,684,000 or \$656,624 more than the \$6,207,376 projected in the original FY 2012 budget. This increase can be attributed to proactive efforts to increase the customer base to include the addition of 1,200 in Sunset Beach many of which will connect incrementally during the upcoming year.

The number of new sewer connections is conservatively projected to be approximately 150 in addition to the customers added from the Sunset Beach project that will not pay Capital Recovery Fees if they connect within one year of system completion. Sewer Capital Recovery Fees are projected to generate \$450,000 and Sewer Transmission Capital Recovery Fees are projected to generate \$150,000. Capital Recovery Fee revenue has primarily been used for smaller pay as you go capital projects and debt service retirement. Since the Wastewater Fund still has a relatively small customer base, the slowdown in new connections and the associated decline in capital recovery fee revenue have created some budgetary challenges to pay the debt that has resulted from the County’s aggressive expansion of county and regional collection, transmission and treatment systems. All of the regional partners are current at this time on their capital and debt service payments to the County.

The regional wastewater systems operated by the County continue to be successful in that the unit operational costs continue to stabilize as the flow increases. The Northeast Regional Wastewater system has been in operation for 9 years. Based on an annual average daily flow of 1.1 MGD and an operational budget of \$750,857, the wholesale rate for the Northeast Partners will remain at \$1.50 per 1000 gallons.



The recommended operating budget for the West Brunswick Regional Wastewater System is \$1,877,996 up 8.8% due to the increased operating costs and permit requirements for the 6 MGD expanded plant and increased flow. In addition to personnel costs associated with positions added in recent years, the operating cost increase will primarily be in the areas of electricity, contractual services for sludge removal and capital outlay. Even with the increase in the West Regional Budget, the wholesale rate is recommended to be

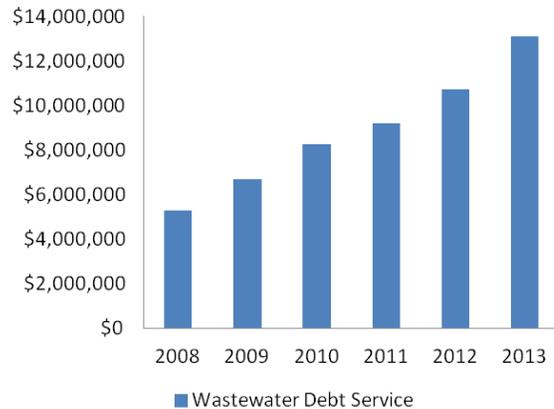
reduced to \$2.55 per 1000 gallons from the current \$2.98 per 1000 gallons due to the additional flow anticipated from the Town of Oak Island and the City of Southport.

Capital Outlay

Capital outlay for the sewer divisions includes two (2) new replacement trucks and a replacement Vacuum Truck with a net cost of \$256,000 after trade in of the existing unit for the Wastewater Collection Division and a 2-Ton Dump Truck to be shared by the regional treatment facilities. Other capital outlay includes a new GBT Transfer Pump (\$27,550) and two Upset Pond VFD's for the West Brunswick Regional Plant, UV Lamps for the Northeast Regional Plant (\$11,285). Total capital outlay for wastewater departments is \$467,825.

Sewer Fund Debt Service

The Sewer Fund debt service budget is substantial due to the development and expansion of collection systems and regional treatment and transmission infrastructure. The total debt service budget for FY 2012-2013 is \$13,525,602 a net increase of \$2,508,555 or 22.8%. The increase is due to the additional principal and interest payments associated with the 2012 B and 2012 C Enterprise Systems Revenue Bonds for the Northeast Regional Wastewater Treatment and Transmission Systems capacity expansions and the full year of debt service on the 2009 Build America Revenue Bonds. The 2009 Build America debt will be serviced from assessments from property owners in the Towns of Calabash and Sunset Beach over a ten year period. The County will receive an interest rebate equal to 35% of the total annual interest cost. The rebate is estimated to be \$418,927.



The refunding of the 2004A Revenue Bond issued for the construction of Phase I of the West Brunswick Regional Wastewater Facilities resulted in a reduction in interest cost of \$271,944.

West Regional wastewater partners are responsible for \$4,554,530 of the total sewer fund debt service that is related to the construction and expansion of the plant and associated facilities. The Town of Oak Island will contribute \$2,901,346, the Town of Holden Beach will contribute \$1,154,642, and the Town of Shallotte will contribute \$498,542. Although not a partner in the West Regional System, the City of Southport will contribute \$325,000 under the terms of an interim wastewater treatment agreement with the County.

The Northeast Regional Wastewater Partners are responsible for \$1,396,235. The Town of Leland's contribution for the State Revolving Loan Fund debt for Phase I of the Northeast Regional Plant and their portion of the new debt for the current expansion is \$919,167. Debt service reimbursements for the remaining Northeast Regional Partners for the expansion includes the Town of Navassa \$110,155, the City of Northwest \$87,509, and Brunswick Regional Water and Sewer H2Go \$279,404.

Wastewater Capital Improvements

The Wastewater Capital Improvement Plan for FY 2012-2013 includes eight (8) primary projects at a total projected cost of \$30,159,976 including Phase II of the Northeast Brunswick Regional Wastewater Plant 825,000 MGD expansion in the amount of \$9,263,934 that is being financed with revenue bond proceeds and the County's portion will be funded with capital reserve funds. The associated Northeast Transmission system improvements will also be financed with revenue bonds at an estimated cost of \$4,245,165.

The construction of the Boiling Spring Lakes collection system should be permitted and constructed at an estimated cost of \$2,994,248 and the transmission system will be constructed at an estimated cost of \$3,728,350. These projects will be financed and the collection component will be a Special Assessment District Project and assessments will be collected over multiple years to retire the debt.

The Carolina Shores Wastewater Treatment Plant Upgrade, Pump Station and Transmission Line Project and the Ocean Ridge and Angels Trace Force Main Projects are recommended FY 2013 along with the Dutchman Creek Acres Subdivision Sewer Collection System contingent upon obtaining grant assistance.

Conclusion

The outlook for FY 2012-2013 is somewhat brighter than the previous four years but the unknowns and uncertainty still exists with how the economy will perform. If the modest growth projections ranging from 1 to 3 percent are realized, we can continue to reduce the reliance on non-recurring funds to balance the General Fund. Significant progress has been made toward that goal due to some very proactive and strategic actions by the Board of Commissioners and staff to reduce expenditures. We will need to continue to identify and evaluate alternative ways of doing business that will result in cost reductions while maintain service levels.

Since personnel costs account for the largest portion of the budget, we will need to continue to strategically reduce the number of positions through attrition. In many cases this has been done without major impacts to service delivery.

I would like to thank the Board of Commissioners for providing valuable direction to the staff to assist staff in the development of this recommended budget. I look forward to working

with you over the next several weeks to develop a final budget for FY 2012-2013 that will meet the service needs and expectations of everyone we serve.

Respectfully Submitted.

A handwritten signature in blue ink, appearing to read "Marty K. Lawing". The signature is fluid and cursive, with a prominent initial "M" and a long, sweeping tail.

Marty K. Lawing
County Manager