

BRUNSWICK COUNTY ADMINISTRATION

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May 16, 2016

Brunswick County Board of Commissioners:

I am pleased to present the recommended FY 2016-2017 budget for Brunswick County for your review and consideration. County revenues are continuing to improve in all major categories producing adequate funding to maintain existing service levels and much needed program and service enhancements. Department heads submitted conservative and thoughtful budget requests that reflects the service priorities of the Board of Commissioners and the citizens of Brunswick County. This proposal, as a priority, focuses on employee retention and succession planning, public safety, and the needs of a growing county with changing demographics.

January 1, 2015 is the most recent countywide revaluation of all real property and resulted in a 10% decrease in total county values. As required by NC General Statutes, the county calculated a revenue neutral tax rate of 48.50 cents for FY 2015-2016. The recommended budget includes no ad valorem tax rate change from the current 48.50 cents. The FY 2016-2017 budget proposal for all funds totals \$224,470,371 which represents an increase of 4.5% over the budget adopted June 15, 2015. The general fund budget is balanced by utilizing a prudent fund balance appropriation of \$3,316,255 for non-recurring capital appropriations as compared to \$2,973,100 in FY 2015-2016.

The economic recovery continues to impact individuals, businesses and corporations, and all levels of government as the economy is expected to modestly grow. Nationally, new job growth fluctuates on a monthly basis and the March jobless rate was 5.1%. The average cost of a gallon of gasoline in North Carolina is lower than a year ago at \$2.15 per gallon. Statewide leading economic indicators for March are unemployment is unchanged to last year, building permits are down 6.3%, manufacturing hours worked is down 4.1% and average weekly earnings are up 1.6%. Locally, in March of 2016 home sales rose more than 20% compared to one year ago and sales dollars increased 18% in the first quarter of 2016 over first quarter of 2015 as reported by the Brunswick County Association of Realtors. In the current fiscal year through March 2016, countywide building permits issued for single family homes increased 9% and commercial permits issued increased 52.5% over the same time last fiscal year. Brunswick County's unemployment rate is 6.8% compared to the State at 5.4% and United States at 5.1%.



Consistently ranking as one of the top fastest growing counties in America, Brunswick County ranked 38th for national reporting and 2nd in the State for calendar year 2015. The State Data Center reported Brunswick County projected permanent population to be 122,765, up from the 107,431 decennial census figure indicating that people are still choosing Brunswick County as a place to live.

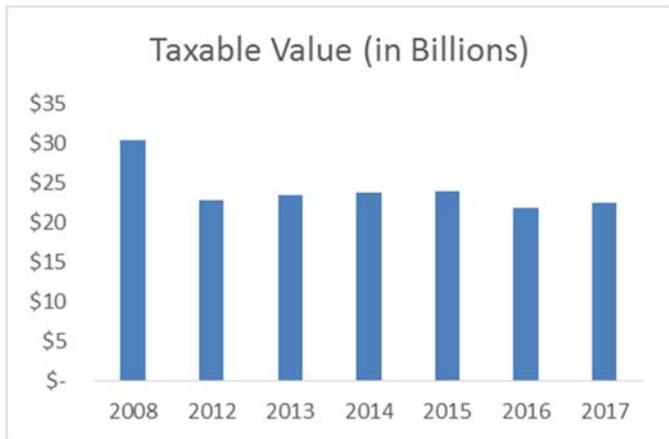
GOVERNMENTAL FUNDS

Revenues

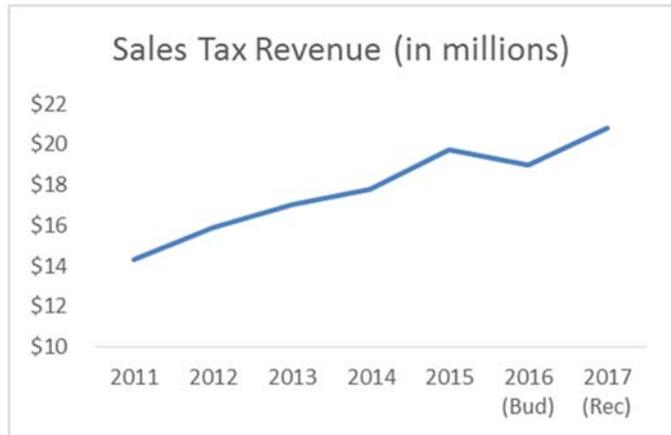
Revenues projections are the most favorable since 2008. The total recommended general government budget is \$176,154,925 which represents a 4.8% increase from FY 2015-2016. Property tax revenue is the primary source of governmental fund revenue, providing \$113,415,587 or 64.7% of the total revenue. The total projected tax base, inclusive of real property and motor vehicles for FY 2016-2017, is \$23,653,088,217 up by \$732,636,551 or 3.10% above the base of \$22,920,451,666 on which the FY 2015-2016 budget was based.

The total projected real property value for FY 2016-2017 is \$22,553,088,217, which represents a 2.8% increase over the FY 2015-2016 real property base of \$21,920,451,666. The motor vehicle base is projected to be \$1,100,000,000 with an increase of 9.1% from the prior year base of \$1,000,000,000. The projected collection rate for motor vehicles is close to 100%, which will generate revenue of \$5,335,000.

The total real property levy for FY 2016-2017 is calculated on a tax base of \$22,553,088,217, the recommended tax rate of 48.50 cents, the FY 2014-2015 audited collection rate of 95.61%, and is projected to provide \$104,580,587 in revenue. The total property tax revenue projection for both real property and motor vehicles is \$109,915,587, which is \$4,067,106 or 3.8% more than the original budget for FY 2015-2016. The value of one cent on the tax rate is \$2,266,301 as compared to \$2,182,443 in the prior year. The county tax on a home valued at \$250,000 would be \$1,212.50 and the county tax on a vehicle with a value of \$25,000 would be \$121.25.



A major source of general governmental revenue is local option sales tax. The growth in sales tax revenue is greater than current year projections and the outlook for continued growth extends into the projection for FY 2016-2017. Total county sales tax revenues, exclusive of the portion of Articles 40 and 42 designated for school capital needs, are projected to be \$15,684,038, which is \$1,204,483 or 8.3% higher than the original budget of \$14,479,555 for FY 2015-16. The portion of Articles 40 and 42 designated for schools is \$5,081,975, which is \$555,334 or 12.3% more than the current budget of \$4,526,641. The increased sales tax is attributable to the general economic conditions within the county and the increase in the number of retail businesses locating within the county. The local portion of the sales tax is 2.00 cents and the state sales tax rate is 4.75 cents for a total of 6.75.



Projections for other revenue sources for FY 2016-2017 are indicate moderate increases. Emergency Medical Services fee revenues will increase due to growth in transport services. Total EMS charges are projected to reach \$3,710,000 with an additional \$450,000 from Medicaid Cost Settlement revenue.

There is continued stability or improvements projected for other major general government revenue categories projections as follows:

Revenue	FY 2014	FY 2015	FY 2016	FY 2017	% Change
Solid Waste Tipping Fees	\$1,180,000	\$1,600,000	\$1,600,000	\$1,800,000	+12.50%
Building Permits	\$873,966	\$1,206,000	\$1,708,000	\$1,750,000	+2.46%
Deed Stamp Excise Tax	\$1,850,000	\$2,000,000	\$2,200,000	\$2,300,000	+4.55%

The Sheriff has aggressively sought new revenues to offset the costs of serving civil warrants and detention center operations. The recommended budget includes no increase in revenue associated with federal inmates. State misdemeanor reimbursements are growing and projected to increase into the next year. The state misdemeanor projection for state inmates is

\$200,000, which is \$122,720 or 158.8% more than the original budget for FY 2015-2016. There are no planned reimbursement revenues from other counties for housing inmates.

The restricted intergovernmental funds from the state and federal governments projected to total \$18,525,014, which is increased \$203,296 or 1.1% from the prior fiscal year original budget of \$18,321,718. The recommended budget includes in the health fund an estimate of \$635,000 of Medicaid Maximization funds to provide current year eligible services and utilizes \$166,000 of the health reserve and vehicle funds.

The recommended budget includes a fund balance appropriation for non-recurring capital expenditures of \$3,316,255 for an increase of \$343,155. This level of fund balance appropriation is consistent with the County's level prior to the great recession and is considered reasonable due to the County's FY 2014-2015 unassigned fund balance of \$54.4 million that is 32.7% of expenditures. In 2015, the County appropriated \$6,146,200 of fund balance for the funding of pay as you go capital projects at Smithville Park, Waccamaw Park, Ocean Isle Beach Park, the Sheriff's Firing Range, reserve for shoreline protection, and an additional \$710,000 in November for the purchase of a building for the District 1 Senior Center. The County ended fiscal year 2014 with actual revenues in excess of expenditures before transfers for projects of \$10,796,908 and \$10,116,279 in fiscal year 2015.

Expenditures

The recommended budget took into consideration three major focus areas:

1. Employee Retention, Recruitment and Succession Planning

- Scale adjustment recommendation of 0.75% to new hires and employees meeting standard performance.
- Recommendation of additional 1.75% merit to employees who exceeded performance expectations for a total of 2.5%.
- Recommendation of additional 0.25% merit to the county's highest performers in 2015-2016 who consistently exceeded expectations for a total of 2.75%.
- Maintain county employee, eligible dependent children and retiree health plan with no increase in employee premiums or reduction of benefits.
- Addition of Deputy MIS Director to insure stability and security of county's network and applications.
- Realignment of vacant volunteer coordinator to serve the risk manager with volunteer, safety and workers' compensation program.

2. Public Safety

- Improve Emergency Medical Services Response times with an additional paramedic shift and ambulance during peak periods.
- Provide deputies and detention officers with vests, equipment and training.
- Phase one of the replacement of the detention center security cameras.
- Recruit an Accreditation Manager for the Sheriff to enable becoming an accredited agency under national standards of achievement.
- Countywide fire study to explore how best to fund and provide fire services while training our fire services providers to meet the need of a growing population. For FY17 provide additional funds over the base fire funding level to assist departments experiencing significant operational challenges.

3. Meet the needs of a growing county with changing demographics

- Increase of 4.79% to under the funding agreement with Brunswick County Schools for the operating budget resulting from growth in ad valorem and sales taxes.
- Increase of 4.80% to Brunswick Community College to support existing programs and expansion of program support services at the Southport and Leland campuses.
- Increase of 5.43% to Brunswick Senior Resources to support program expansion related to new centers.
- Provide four park assistant staff members to support new park facilities and programs.
- Continue the county's commitment of \$200,000 per year to shoreline protection.
- Appropriate 50% of dues to Cape Fear RC&D to reestablish membership.
- Provide funding of \$5,000 to COGS TriCounty homelessness initiative.
- Plan new senior centers in Districts 1 and 4.
- Continue to set aside reserve funds for future landfill closure.
- Continue to improve existing parks and plan for park renovations as funds become available.
- Provide employees training, resources, and equipment to facilitate high service levels to citizens.
- Replace obsolete county phone system.
- Replace vehicles utilized beyond end of life.
- Maintain computer replacement program.
- Addition of Elections computer technician to meet growing demands of high voter turnout and technical election processes.

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 8.3% of the general government expenditures. The County has a countywide solid waste collection and disposal contract with Waste Industries through June 2023. The contract includes an annual price adjustment formula. The FY 2016-2017 per unit increased \$.08 to \$11.99. Based on 84,971 units with a projected average increase in service locations of 1,725 the budget for countywide solid waste collection is \$12,601,889 for an increase over the prior year of \$356,311.

The construction and demolition tonnage received at the county landfill had an increase as of June 30, 2015 of 20.5% compared to the previous year. To preserve the existing capacity in the landfill and extend the useful life of the facility, the County contracts with Waste Industries for diversion of waste to a landfill in Sampson County, North Carolina. The cost of diverting 50% of the waste from the landfill is currently \$38 per ton or \$640,000 per year. A transfer to the Capital Reserve Fund for landfill closure cost of \$750,000 is recommended. The current reserve balance accumulated is \$5.96 million and the total cost of closure is estimated at \$8.8 million.

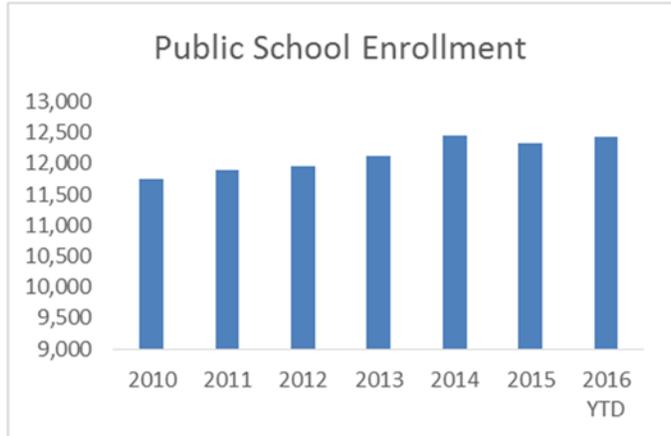
Waste Industries is providing curbside recycling services on a voluntary individual contract basis for which the costs are borne by the users through direct billing with no direct fiscal impact to Brunswick County. Waste Industries reports there are 27,327 county households using curbside recycling either voluntary or through their municipal services.

Brunswick County Public Schools

The County has a funding agreement with the Brunswick County Board of Education through June 30, 2017. The terms of the agreement are substantially identical to prior agreements. The requirements are for the County to provide 36.5% of the 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 2016-2017 school appropriation, in accordance with the funding agreement, is \$36,153,806, which represents an increase of approximately 4.79 percent or \$1,654,044 over the FY 2015-2016 approved budget. Under the terms of the agreement, 35.75%, or \$35,410,920 will be used for current expense and 0.75% or \$742,886 will be used for category 2 (furniture, fixtures and equipment) and category 3 capital outlay (vehicles and rolling stock). The schools are projected to receive \$2,436,430 of local option sales tax proceeds, after subtracting \$2,646,545 dedicated for school debt service, to be utilized for category 1 (improvements to buildings and grounds) annual needs. The estimated State lottery proceeds of \$800,000 will be used for debt service in lieu of local option sales tax proceeds increasing the amount to be utilized for category 1 annual needs. The school's capital improvement plan includes the utilization of prior year ad valorem collections received pursuant to the funding agreement of \$1,022,000 to aid in funding additional category 1 system improvements.

The total general obligation debt service for Brunswick County Schools for FY 2016-2017 is \$5,883,938. An additional \$3,445,545 of limited obligation debt associated with Town Creek Elementary School, Cedar Grove Middle School, North Brunswick High School Additions, and Waccamaw Multi-Purpose Facility is funded from sales tax revenue dedicated to school capital under statute and lottery proceeds. Including the debt service, 38.2% or \$42,037,744 of the County current year ad valorem property tax revenue is appropriated for k-12 public education purposes.

In FY 2014-2015, Brunswick County ranked 14th in the State of North Carolina for local funding of public schools based on per pupil expenditures. With State provided funding rank of 86th, federal funding rank of 63rd and local per pupil expenditures combined, Brunswick County ranked 48th in the State in total for \$8,859.42 expended per pupil.



Brunswick Community College

Brunswick Community College completed the Southport satellite campus improvements concluding all of the college bond projects of the general obligation bond funded capital projects. The total General Obligation debt service for Brunswick Community College is \$2,992,578.

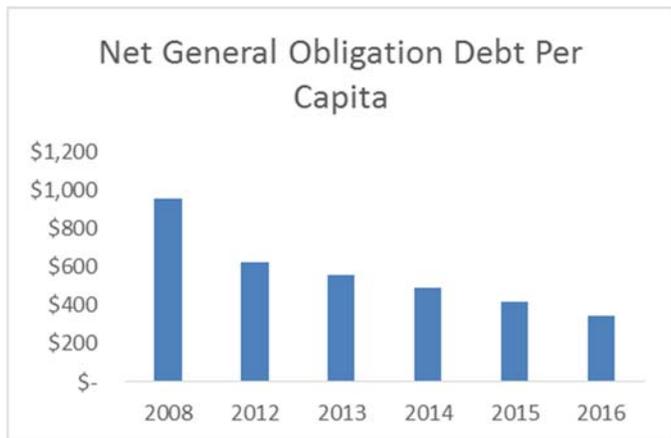
The recommended community college appropriation for FY 2016-2017 is \$3,823,761 for the operating budget which includes \$206,594 for county facility usage and interagency adult transportation and the k-12 school system use of facilities of \$224,000. It is recommended to continue the college appropriation to funding at the purpose level and by reimbursement with any annual budget surplus to be placed in a reserve for college capital needs. The combined recommended change to the support for the community college totals an increase of \$175,024 or 4.8%.

Debt Service

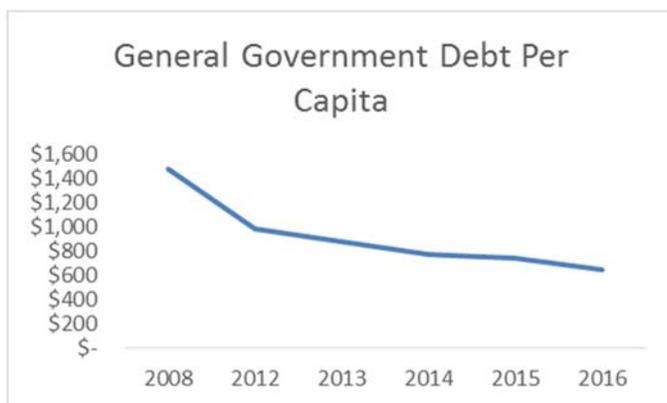
Brunswick County government is in a good position with regard to capital facilities for general fund operations. There is adequate office space for the workforce, and excess capacity in the County Detention Center. Topping the list of needs include renovations and maintenance to existing buildings, park expansions and upgrades, and senior centers.

Brunswick County Schools officials report district wide deferred maintenance and improvements and the need for a new Town Creek Middle School, classroom additions for Lincoln Elementary School, West Brunswick High School, North Brunswick High School and Town Creek Elementary, Waccamaw K-1-2 replacement building, and the addition of a STEM/CTE Program, totaling \$152 million. The schools requested a general obligation bond referendum planned for November of 2016 to address the school capital needs.

Overall, Brunswick County's per capita debt ratio is low. The County's total outstanding Governmental funds debt will decline from \$91,465,000 to \$79,995,000 as of June 30, 2016. This equates to approximately \$642 per capita and current net general obligation debt is approximately \$343 per capita.



The total general government debt service budget will be \$14,315,608, which represents a decrease of \$566,265 or 3.8% more than the debt service budget for the prior year. This decrease is mainly due to decreases in the annual amortization schedule.



The total principal payments on general fund debt are \$11,295,001 with interest and service fee payments equaling \$3,020,607.

Human Services

Changes in the costs for Human Service Departments and related organizations include a general government local funding contribution of \$3,887,299 to the health fund programs representing a slight increase of \$121,264 mainly due to employee salary and benefits increases and the addition of an environmental health position.

The total contribution to the social services fund of \$6,348,603 represents an increase from the current year appropriation of \$535,187 mainly due to increases in employee costs and a portion of replacement vehicle and equipment costs.

Funding of \$250,443 is recommended for county dedicated substance abuse and mental health services with the state agency Trillium through a fee for services agreement.

The recommended appropriation to Brunswick Senior Resources, Inc. is \$1,650,000, which is the 5.43% greater than the prior year. Upon completion of the senior center in Leland and improvements at the Lockwood Folly and District 1 centers, additional resources will be required to support senior activities in the county.

Employee Benefits

The FY 2016-2017 budget recommendation includes a pay scale market adjust of 0.75 % related to the CPI index change from the prior year at a cost of approximately \$416,600 and the funding of employee merit raises up to 2% at an estimated cost of \$986,055.

County contributions to the Health Insurance Fund will increase 7.6% or \$841,700 mainly due to cost trends for healthcare. Trending makes up approximately 6.5% to include inflation, new more advanced/more expensive medical technology, aging population and pharmaceutical advances. It is recommended that there will be no plan design changes. Employee coverage will continue to be no cost to the employee. Health coverage will be available to employees' eligible dependent children but will exclude employee spouses. County contribution to the health fund per employee increases to \$8,820 from \$8,400 in FY 2016-2017. The self-insured health plan is operating at close to 100.00% utilization with expected \$800,000 in reserves accumulated as of June 30, 2016. The sector that has experienced the highest claims is pre-65 retirees where claims have exceeded contributions. Specific stop loss insurance for individual claims exceeding \$150,000 is in place to manage the risk associated with a self-insured plan.

In order for the County to have the opportunity to achieve success under the self-insured plan, it is important for the County to expand opportunities for employee health awareness and lifestyle changes. Therefore, this budget includes a level of funding to continue the employee wellness clinic for all employees. As an employee benefit, spouses are eligible to receive services at the wellness clinic.

The Local Government Employee Retirement System Board recommended contribution rates for general employees 7.25% and law enforcement 8.00%.

The proposed budget includes funding for all currently provided employee benefits, including the 5% 401K employer contribution and longevity pay for employees with five years or more of service.

Staffing / Positions

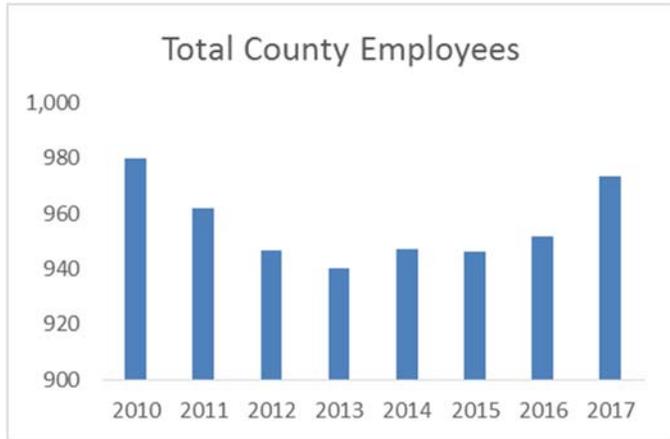
Departments, associated with development and construction permitting, are experiencing increased activity due to the continued moderate growth in the county. Other departments, primarily those that provide human services, public safety or internal and support services have continued to experience an increase in service demands.

Thirteen new positions are recommended for general government. The recommended budget includes the net transfer of six Detention Center positions to the Sheriff's Office, and the transfer of a Volunteer Center Coordinator from Social Services to Administration as a Risk Management Assistant. The general government recommended FTE increase is the addition of one Computer Technician in Board of Elections, one Deputy Director in Management Information Services, one Accreditation Manager in the Sheriff's Office, four Paramedics in Emergency Medical Services, one Custodial Assistant I in Central Communication, four Park Assistants in Parks and Recreation Maintenance, and one Specialist I in Environmental Health. The total cost of new positions added is \$691,486. The position eliminated was one Medical Office Assistant in WIC Client Services for a total savings of \$44,758 due to decreases in funding related to decreasing caseloads.

As part of the County's goal to maintain a competitive pay plan per policy, 25% of budgeted positions were analyzed resulting in proposed reclassifications at a cost of \$20,307.

The general government operations provide school resource officers, which are reimbursed by the school system and the charter school totaling \$1,179,000 at a flat annual rate of \$58,950 per officer, up from the prior year due to the changes for merit, market, and benefits per employee. This is the third year that the schools will reimburse the County at a flat rate that does not include charges for the summer months when school is not in session.

Four new positions are requested for the enterprise operations. The budget includes the recommendation of one Distribution Mechanic/Locator and one Distribution Supervisor in the Water Distribution Division, one Billing Technician in Water Customer Service, and one Wastewater Supervisor in the Sewer Collections Division at a total cost of \$278,022.



As part of the County’s goal to maintain a competitive pay plan per policy, 25% of budgeted water and sewer positions are evaluated and various position are recommend to be reclassified at a cost of \$18,401 in the Enterprise Fund.

These changes bring the total number of positions to 973.45, of which 846.45 are associated with general government functions and 127 associated with the enterprise operations.

Capital Improvement Plan

The list of projects recommended for funding in FY 2016-2017 totals \$6,481,250.

The culture and recreation component of the plan includes \$4,650,000 for the construction of Phase 2 of the Ocean Isle Beach Park, \$281,250 for the first of four years for the Nature Park at Holden Beach, and \$1,550,000 for the construction of a Senior Center in District 1.

The FY 2016-2017 Governmental Capital Improvement Plan as presented includes \$3,931,250 of current year revenue transfers from the general fund contingent upon the June 30, 2016 audited financial results, \$550,000 of grant funding and \$2,000,000 of capital reserve funds. Since the five-year capital improvement plan represents a living document, some projects originally scheduled for FY 2016-2017 have been deferred to future years.

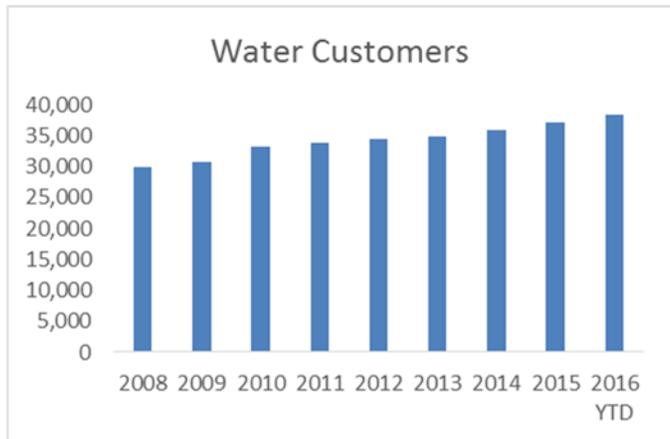
Capital Outlay and Major Operating Expenditures

The recommended general government budget includes a total of \$3,287,304 dedicated to capital outlay and major operating expenditures, an increase of \$880,115 from the FY 2015-2016. Capital outlay in general fund departments consists of items in excess of \$5,000 in value. Some of the more significant capital items include a new VOIP phone system at \$506,600, a two ton wrecker at \$100,000, a tandem dump truck at \$125,000, fifteen replacement patrol vehicles for the Sheriff’s Office at \$408,915, four Animal Protective Services trucks at \$110,804, a new ambulance and an ambulance remount at \$270,000 and Phase 1 of 3 of a Jail Security Camera

System at \$125,000. The Operation Services budget includes funding for repairs and maintenance to buildings including Building B roof replacement \$355,000, \$20,000 for the Service Center HVAC system, \$200,000 for Building M HVAC replacement, and \$100,000 for Building A HVAC replacement. The major operating budget includes the replacement of 161 desktop and laptop computers.

ENTERPRISE FUND

The county enterprise fund continues to expand to meet the service needs of the retail, industrial and wholesale customers. Although not increasing as rapidly as before the recession, the customer base is experiencing moderate growth. The County currently has 38,448 water retail customers and 15,498 sewer retail customers. Customer connections provide 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. The County continues to strengthen regionalism by adding participants and establishing contractual relationships that eliminate duplication of effort and capital costs. Additionally, several projects have occurred over the last several years that further strengthen the County’s role as the regional wastewater treatment provider in Brunswick County.

The County continues to expand the water distribution system to meet the potable water needs of the county. The FY 2014-2015 neighborhood water mains service expansion project consists of Fletcher-Hewett, Sirwood Place, Nichols Avenue, Big Oak Subdivision, Beaufort, and Snowfield neighborhood construction, which is in progress. The FY 2015-2016 neighborhood water mains project consists of High Meadows Subdivision, Old Town Creek Road, Taft Road/Sea Wynd Subdivision, Country Meadows Subdivision, Ludlum Road, Russ Town Road, Big neck/Mill Branch Road, and Apollo Street that are currently under design with construction planned FY 17 thru FY 20.

The County continues to make strategic capital improvements that will facilitate the utility systems meeting the long-term customer needs.

WATER FUND

Revenues

The total recommended water fund revenue budget for FY 2016-2017 is \$20,904,207 which is slightly lower than the original budget for FY 2015-2016 appropriation of \$20,944,110. New service connection predictions generate approximately \$688,000 in capital recovery and \$232,000 in transmission line fees. Tap fees will generate an additional \$720,000.

No increase is being recommended in the retail water rates for base service charges based on meter size with the standard 3/4 inch meter at \$12 per month and the usage rate of \$3.05 per 1000 gallons. Total commercial and residential retail water sales are projected to be \$8,406,750 or \$1,806,750 for industrial, \$5,000,000 for retail and \$1,600,000 for irrigation. The monthly base service charges will produce \$5,581,440.

Wholesale and industrial water rates are adjusted annually based on the Producer Price Index for May of each year. Wholesale water revenue has continued to increase mainly due to growth in the County. The current wholesale rate is \$2.80 per 1000 gallons. The rate cannot be finalized as the May PPI is not yet available, however an estimate would be in the \$2.75 to \$2.80 range based on the most current PPI. Assuming the rate of \$2.75, wholesale water revenue is projected to provide \$4,526,913.

Operating Costs

There were three new positions recommended for the water operations, a distribution mechanic/locator, a distribution supervisor, and a billing technician. The amount budgeted for the purchase of raw water from the Lower Cape Fear Water and Sewer Authority is unchanged at \$1,073,250. The anticipated rate is \$0.27 per thousand gallons. 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 will decrease by 5.3% to \$269,104. The net decrease is due reductions in operating equipment and building repairs and maintenance with offsetting increases for employee salary and benefits.

Planned expenditures after transfer to capital projects are greater than planned revenues by \$2,277,608 therefore, the budget includes an appropriation of net assets to assist in funding \$4,865,725 in capital projects.

Capital Outlay

Some of the larger operating capital items for the water divisions include building/parking lot improvements \$150,000, an auger feed addition for fluoride \$34,000, 196' SCADA tower at PBS 9 \$60,000 and five replacement trucks totaling \$181,500. The total operating capital outlay for the water fund is \$509,910.

Debt Service

Debt service in the water fund increased \$215,563 due to the annual amortization schedule. There are no new planned debt issues in the coming year. The total water fund debt service budget is \$2,254,735.

Water Capital Improvement Plan

The water fund capital improvement plan includes projects for FY 2016-2017 at a total estimated cost of \$16,075,725. The largest project is the NCDOT funded Hwy 211 Expansion with an estimated total cost of \$8,910,000, funded through reimbursements from the state.

Other water system improvement projects to be funded from capital reserves and currently available revenues are 211 Plant Improvements \$3,675,725, Aquifer Storage and Recovery Project Phase II-IV \$2,400,000, Southeast Area Water Tank \$150,000, FY 16 Top 7 and Apollo Water Mains \$175,000, and highway 74/76 water main \$765,000.

Waterline expansion projects currently under design in the upcoming fiscal year for professional engineering design include Ludlum Road, Taft Road/Sea Wind II Subdivision, Country Meadows Subdivision, Old Town Creek Road, High Meadows Subdivision, Russ Town Road and Big Neck/Mill Branch Road. These projects are planned to be constructed with an estimated total cost \$4,210,000 over 3 years starting in FY 2018.

SEWER FUND

The total recommended sewer fund budget for FY 2016-2017 is \$24,833,229, representing a 0.4% decrease or \$104,068 under the FY 2015-2016 original budget.

Revenue

There is no increase in the current sewer retail rate structure that is projected to generate \$9,204,975 or \$498,540 more than the \$8,706,435 projected in the original FY 2015-2016 budget.

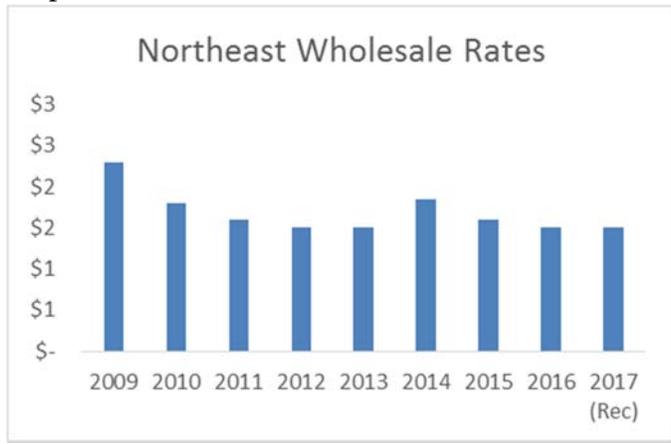
The number of new sewer connections is conservatively projected to be approximately 400. Sewer capital recovery fees are projected to generate \$600,000 and sewer transmission capital recovery fees are projected to generate \$200,000. Capital recovery fees provide funds for small capital projects and debt service retirement.

Operating Costs

A wastewater supervisor is the sole new position recommended for the sewer fund.

The regional wastewater systems operated by the County continue to be successful in that the unit operational costs continue to stabilize or decrease as the plant flow increases.

The Northeast Regional Wastewater system has been in operation for 13 years. Based on an annual average daily flow of 1.58 MGD and an operational budget of \$1,040,677, the wholesale rate for the Northeast participants will remain the same at \$1.50 per thousand gallons.



The recommended operating budget for the West Brunswick Regional Wastewater System is \$2,982,419, up 9.1% due to the increased operating costs and increased flow to 2.94 MGD. In addition to personnel costs associated with positions added in recent years, the operating cost increase will primarily be in the areas of electricity, repairs and maintenance, contractual services for sludge removal and capital outlay. The wholesale rate is recommended to decrease from \$2.45 to \$2.20 per 1000 gallons.



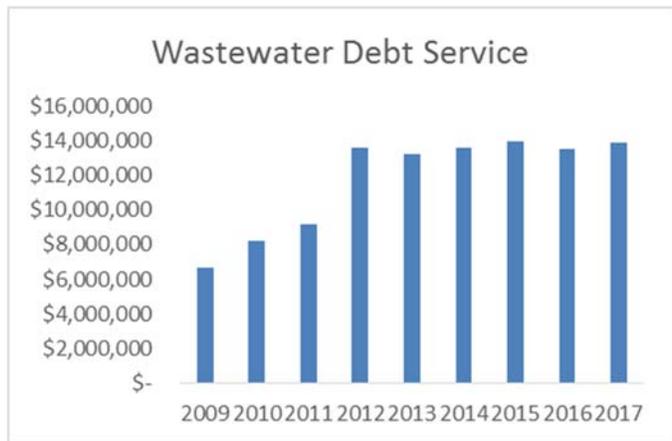
Capital Outlay

Some of the larger capital outlay items for the sewer divisions include motors for RCW \$50,000, a UV System \$77,000, three additional trucks totaling \$70,500 and four replacement trucks totaling \$159,000. Total capital outlay for wastewater departments is \$534,400.

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 2016-2017 is \$13,914,143 increased \$376,682 from FY 2015-2016 due to the annual amortization schedules. No new debt issues planned for FY 2016-2017.

West Regional Wastewater participants are responsible for \$5,552,775 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 \$2,868,510, the Town of Holden Beach will contribute \$1,160,520, and the Town of Shallotte will contribute \$498,745. Although not a participant in the West Regional System, the City of Southport will contribute \$750,000 under the terms of an interim wastewater treatment agreement with the County. Ocean Isle Beach will contribute an additional \$275,000.



The Northeast Regional Wastewater participants are responsible for \$1,286,355. The Town of Leland’s contribution for the State Revolving Loan Fund debt for Phase I of the Northeast Regional Plant and a portion of the 2015 for the plant expansion debt. Debt service reimbursements from the Northeast Regional participants includes the Town of Navassa \$94,022, the City of Northwest \$26,506, and Brunswick Regional Water and Sewer H2Go \$243,135.

Wastewater Capital Improvements

The wastewater capital improvement plan for FY 2016-2017 is \$6,640,000 in total. The largest project is the NCDOT funded NC 211 R-5021 Utility Relocation with an estimated total cost of \$5,940,000. Recommended is the first year funding of \$600,000 to construct wastewater collection systems in areas where residents have requested service and it is determined to be cost effective.

Conclusion

The outlook for FY 2016-2017 is more optimistic than recent years. If the modest growth projections occur, the County may continue to reduce the reliance on non-recurring funds to balance the general government operating budget and set aside reserve funds for pay as you go capital improvement projects. Significant progress has been made toward these goals due to some

very proactive and strategic actions by the Board of Commissioners and staff to reduce expenditures. The County is encouraged to seek and explore alternative ways of doing business that will result in cost reductions while maintaining high service levels.

I would like to thank the staff for their dedication to conservative budgeting and efficient use of the county's resources. I am grateful to the Board of Commissioners for providing valuable direction during the development of the recommended budget. I look forward to working with you over the next several weeks to develop a final budget for FY 2016-2017 that will meet commissioner's goals of providing needed services at the lowest possible cost to taxpayers and ratepayers.

Respectfully Submitted,



Ann B. Hardy
County Manager