

BRUNSWICK COUNTY ADMINISTRATION

BRUNSWICK COUNTY GOVERNMENT CENTER
DAVID R. SANDIFER COUNTY ADMINISTRATION BUILDING
30 GOVERNMENT CENTER DRIVE, N.E.
BOLIVIA, NORTH CAROLINA 28422

MAILING ADDRESS:

POST OFFICE BOX 249
BOLIVIA, NORTH CAROLINA 28422

TELEPHONE
(910) 253-2000
(800) 442-7033
FAX
(910) 253-2022

May 19, 2014

Brunswick County Board of Commissioners:

It is my honor to present the recommended FY 2014-2015 budget for Brunswick County for your review and consideration. After the great recession, county revenues are improving with all major categories increasing. Department heads submitted conservative and thoughtful budget requests that are in line with the current year. The focus of the budget is providing high service levels within currently available resources and no increase to the tax rate. This proposal improves existing service levels, provides technology infrastructure, maintains funding for education, and funds the employee compensation and health plans.

One year before the 2015 revaluation of all real property in Brunswick County, we project a slight increase in the tax base with the recommended ad valorem tax rate to remain the same at 44.25 cents. The FY 2014-2015 budget proposal for all funds totals \$210,198,452 which represents an increase of 3.3% over the budget adopted June 17, 2013. The general fund budget is balanced by utilizing a prudent fund balance appropriation of \$3,750,920 for non-recurring capital appropriations as compared to \$3,434,019 in FY 2013-2014. There has been no actual utilization of budgeted fund balance in recent years with actual results showing growth in fund balance in the range of \$2 to \$6 million per year.

The recovery from the recession continues to impact individuals, businesses and corporations, and all levels of government as the economy is expected to grow at a slow pace. Nationally, new job growth fluctuates on a monthly basis and the April jobless rate was 6.8%. The average cost of a gallon of gasoline in North Carolina is higher than a year ago at \$3.36 per gallon. Looking at the leading economic indicators for North Carolina, statewide unemployment is down 2.2% from last year, building permits are up by 7.3%, manufacturing hours worked are up 7.0% and average weekly earnings are up 7.1%. Locally, the first quarter of 2014 home sales stats are almost exactly the same as the first quarter of 2013, with the first two months showing slower growth over 2013. However, average sales price rebounded in March and continued to rise in April according to multiple listing statistics as reported by the Brunswick County Association of Realtors. Brunswick County's unemployment rate is 7.3% compared to the State at 6.6% and United States at 6.8%.

Consistently ranking in the top twenty fastest growing counties in America, Brunswick County is now ranked 47th for national reporting and 1st in the State for calendar year 2013. On



a positive note the State Data Center reported Brunswick County’s projected permanent population to be 115,301, 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 continued uncertainty surrounding the economy, I am optimistic that local economic conditions will continue to improve in the up-coming fiscal year. An analysis of the preliminary State budget does not indicate any major reductions or cost shifts that would have a severe impact on the County’s budget.

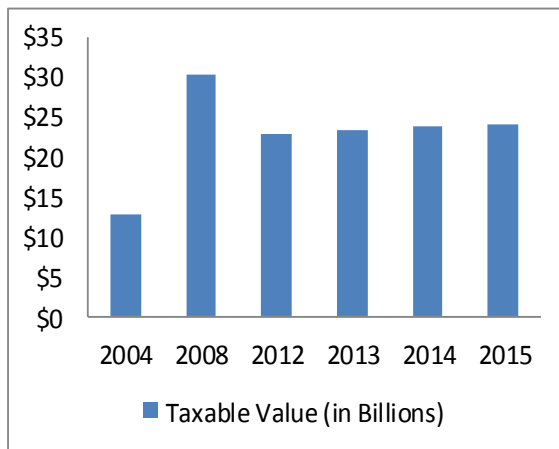
Due to some proactive measures taken in recent years to reduce expenses, the general governmental funds are leaner and significantly less reliant on non-recurring sources. These actions include the decisions to renegotiate and extend the countywide solid waste collection and disposal contract, contracting the county food services operations, refinancing debt obligations to more attractive rates, the elimination of some vacant positions and the recommendation for Brunswick Senior Resources, Inc. to assume operations of the In-home Aide grant.

GOVERNMENTAL FUNDS

Revenues

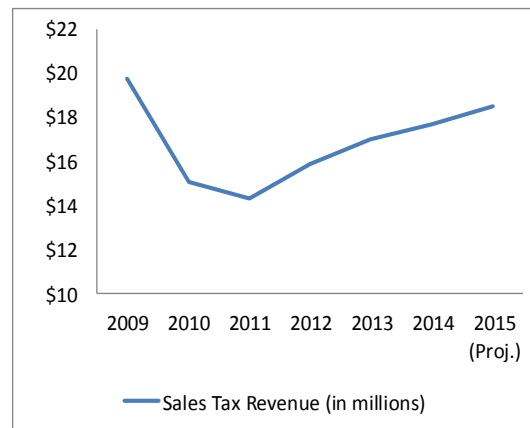
The total recommended general government budget is \$165,146,903 which represents a 3.1% increase from FY 2013-2014. Property tax revenue is the primary source of governmental fund revenue, providing \$107,983,984 or 65.4% of the total revenue. Continuing the trend of very modest years of growth in the county’s tax base in recent years, the total projected tax base, inclusive of real property and motor vehicles for FY 2014-2015, is \$24,907,383,670 up by \$204,673,852 or 0.83% above the base of \$24,702,709,818 on which the FY 2013-2014 budget was based.

The total projected real property value for FY 2014-2015 is \$23,982,383,670 which represents a 0.86% increase over the FY 2013-2014 real property base of \$23,777,709,818. The motor vehicle base is projected to be \$925,000,000 with no change from the prior year base. The projected collection rate for motor vehicles is conservatively projected to be 94.80% which should generate revenue of \$3,880,283. North Carolina’s new vehicle Tax & Tag Together program was implemented in the current fiscal year and collection improvements are expected to continue in the new fiscal year. The program was designed to collect vehicle property taxes along with registration renewals and to conveniently pay them together.



The total real property levy for FY 2014-2015 is calculated on a tax base of \$23,982,383,670, the recommended tax rate of 44.25 cents, the FY 2012-2013 audited collection rate of 94.8%, and is projected to provide \$100,603,701 in revenue. The total property tax revenue projection for both real property and motor vehicles is \$104,483,984 which is \$596,244 or 0.57% more than the original budget for FY 2013-2014. The value of one cent on the tax rate is \$2,361,220. 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 general governmental revenue is local option sales tax. The growth in sales tax revenue is meeting current year projections and the outlook for continued growth extends into the projection for FY 2014-2015. Total county sales tax revenues, exclusive of the portion of Articles 40 and 42 designated for school capital needs, are projected to be \$13,794,573 which is \$320,243 or 2.4% higher than the original budget of \$13,474,330 for FY 2013-14. The portion of Articles 40 and 42 designated for schools is \$4,730,615 which is \$159,973 or 3.50% more than the original budget for FY 2013-2014 of \$4,570,642. The increased sales tax is attributable to the general improvement of 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 2014-2015 are mixed with moderate increases. Emergency Medical Services fees have been increasing in recent years due to growth in calls for service, the addition of non-emergency transport services and improved general collections. Total EMS charges are projected to reach \$4,000,000. The EMS Medicaid Cost Settlement revenue is projected to be \$520,000.

There are continued strong improvements projected for other major general government revenue categories projections as follows:

Revenue	FY 2012	FY 2013	FY 2014	FY 2015	% Change
Solid Waste Tipping Fees	\$1,000,000	\$1,000,000	\$1,180,000	\$1,600,000	+35.59%
Building Permits	\$610,300	\$728,500	\$873,966	\$1,066,000	+21.97%
Deed Stamp Excise Tax	\$1,900,000	\$1,800,000	\$1,850,000	\$2,000,000	+8.11%

The Sheriff has aggressively sought new revenues to offset the costs of serving civil warrants and detention center operations. However, the federal and other county inmate population has declined in recent months. The recommended budget includes a decrease of \$200,000 of revenue associated with federal inmates, an increase of \$50,000 of revenue for state misdemeanant reimbursements and a decrease of \$40,000 for reimbursement revenues from other counties for housing inmates.

The restricted intergovernmental funds from the State and federal governments projected to total \$16,520,663 which is increased \$2,436,736 or 17.30% from the prior fiscal year original budget of \$14,083,927 almost entirely due to the State's decision to provide Daycare Program revenues to the county to pass through to recipients rather than payments made directly by the state. For the second year, the recommended budget includes an estimate of \$400,000 of Medicaid Maximization funds in the health fund to provide current year eligible services. In prior years, the funds were committed to a reserve for future capital related needs.

The recommended budget includes a fund balance appropriation in the amount of \$3,750,920 or an increase of \$316,901. 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 2012-2013 unassigned fund balance of \$55.1 million that is 35.8% of expenditures. In October of 2013, the county appropriated \$ 5,301,996 of fund balance earned in FY 2012-2013 for the funding of pay as you go capital projects at Waccamaw Park and Senior Center at Leland. All of the FY 2014-2015 fund balance appropriation is dedicated to non-recurring expenditures. The county ended fiscal year 2012 with actual revenues in excess of expenditures of \$2,340,273 and \$7,095,091 in fiscal year 2013.

Expenditures

The FY 2014-2015 budget includes adequate funding to improve existing services levels and contractual obligations while providing for the costs of a pay scale adjustment of 1.5% and 1 to 2% merit raises to eligible employees, contributions to the employee and dependent health plan, \$750,000 dedicated to landfill closure costs and significant improvements to technology infrastructure. The budget includes capital outlay consistent with the prior year and the Five Year Capital Improvement Plan includes pay as you go projects that will not require the county to incur additional debt. The Local Government Employee Retirement System Board rescinded the recommended COLA for retirees, so the contribution rate will not increase. However, for the LEO Class, the Court Cost Offset will be reduced from -0.27% to -0.14% due to declining court fees. The rate for general employees is 7.07% and law enforcement 7.27%

In September 2011 the County assumed ownership of the Brunswick Community Hospital property. Negotiations to complete the sale of the property are ongoing at this time. At this time, the facility revenue approximately equals expenditures.

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 8.4% of the general government expenditures. 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 2023. The new contract eliminated the fuel surcharge and retained the annual price adjustment formula for the term of the contract and locked the prior unit price of \$11.66 per month through June 30, 2013. The FY 2014-2015 unit price of \$11.92 is based on 80,955 units with a projected average increase in service locations of 1,200; the additional cost for countywide solid waste collection is \$358,400.

The construction and demolition tonnage being received at the county landfill had an increase as of April 2014 of 13% compared to the previous year. To preserve the existing capacity in the landfill and extend the useful life of the facility, the county has a contract with Waste Industries for diversion of waste to a landfill in Sampson County, North Carolina. The cost of diverting 60% of the waste from the landfill is currently \$38 per ton or \$525,000 per year. A transfer to the Capital Reserve Fund for landfill closure cost of \$750,000 is recommended. The current reserve balance accumulated is \$3.7 million and the total cost of closure is estimated at \$8.8 million.

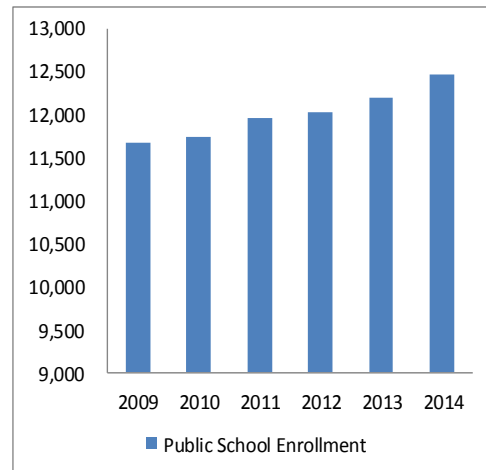
Per the above referenced solid waste contract, Waste Industries is providing curbside recycling services on a voluntary individual contract basis for which the costs are borne by the users through direct billing with no direct fiscal impact to Brunswick County. As of May 2014, Waste Industries reports there are 24,146 county households using curbside recycling either voluntary or through their municipal services.

Brunswick County Public Schools

The county entered into a funding agreement with the Brunswick County Board of Education through June 30, 2015. 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 2014-2015 school appropriation, in accordance with the funding agreement, is \$34,034,823 which represents a decrease of approximately 0.31 percent or (\$104,540) over the FY 2013-2014. Under the terms of the agreement, 35.75%, or \$33,335,477 will be used for current expense and 0.75% or \$699,346 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 \$2,138,984 of local option sales tax proceeds, after subtracting \$2,591,631 dedicated for school debt service, to be utilized for category 1 (improvements to buildings and grounds) annual needs. It is estimated that State lottery proceeds will be provided totaling \$800,000 to be used mainly to meet annual technology needs. The schools capital

improvement plan includes the utilization of prior year ad valorem collections received pursuant to the funding agreement of \$2,247,945 to aid in funding for additional category 1 system improvements

The total general obligation debt service for Brunswick County Schools for FY 2014-2015 is \$6,347,753. An additional \$2,591,631 of limited obligation debt associated with Town Creek Elementary School and Cedar Grove Middle School is funded from sales tax revenue dedicated to school capital under statute. Including the debt service, 38.65% or \$40,382,576 of the County ad valorem property tax revenue is appropriated for k-12 public education purposes.



In FY 2012-2013 Brunswick County ranked 15th in the State of North Carolina for local funding of public schools based on per pupil expenditures. With State provided funding rank of 95th, federal funding rank of 66th and local per pupil expenditures combined, Brunswick County ranked 50th in the State in total for \$8,518.75 expended per pupil.

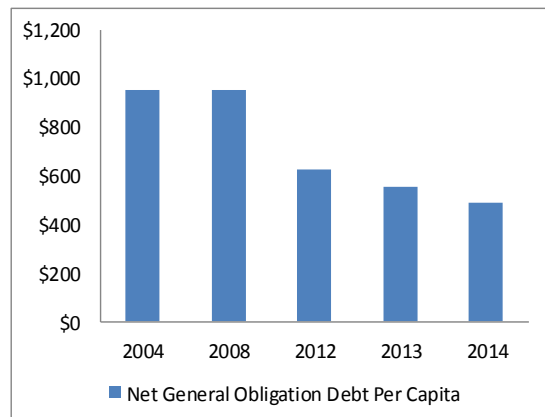
Brunswick Community College

Brunswick Community College is in the process of completing the Southport satellite campus improvements bringing all of the college bond projects near conclusion as part of the general obligation bond funded capital projects. The total General Obligation debt service for Brunswick Community College is \$2,700,944.

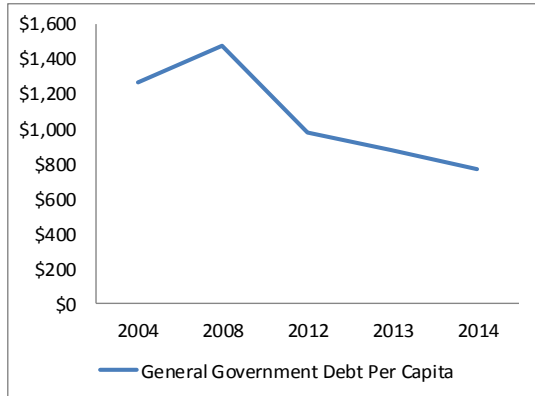
The recommended community college appropriation for FY 2014-2015 is \$3,302,447 for the operating budget and \$50,000 for gym repairs. This is the result of a realignment of funding from the FY 2013-2014 appropriation of \$3,781,447. The recommended change in the college appropriation is based on accounting for reimbursement of county use of facilities and the interagency adult transportation program totaling \$177,000 and the k-12 school system use of facilities totaling \$220,000. The combined change to the support for the community college totals a decrease of \$32,000 or 0.85%.

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 a workforce that has shrunk in recent years and excess capacity in the county detention center. Topping the



list of needs of Brunswick County include renovations and maintenance to existing buildings,



new senior citizen center and park expansions and upgrades. Enrollment growth projections for Brunswick County Schools are projected to remain steady in the near future so it is possible that new school construction may be deferred for a few years. However, school officials report deferred maintenance and the need for 2 new schools in the Leland area totaling in excess of \$120 million. Overall, Brunswick County's per capita debt ratio is low. The County's total outstanding Governmental funds debt declined from \$100,655,000 to \$91,440,000 as of the end of FY 2013-2014. This

equates to approximately \$771 per capita and current net general obligation debt is approximately \$488 per capita.

The total general government debt service budget will be \$13,844,528 which represents an increase of \$860,651 or 6.63% less than the debt service budget for FY 2014-2015. This increase is due to the amortization schedule associated with existing school debt.

The total principal payments on general fund debt are \$10,440,001 with interest and service fee payments equaling \$3,404,527.

Human Services

Changes in the costs for Human Service Departments and related organizations include a general government local funding contribution of \$4,147,223 to the health fund programs representing an increase of \$575,121, over the current year appropriation mainly due to employee compensation and health plan increases. Due to the combining of the health and social services programs into a health and human services organization, the county is required to provide a maintenance of effort in the FY 2014-15 budget under H438 that equates to the FY 2010-2011 funding level of \$3,781,570.

The total contribution to the social services fund of \$5,792,500 represents an increase from the current year of \$260,182 mainly due to employee costs.

Funding for Coastal Care is recommended to remain the same at \$692,000.

The recommended appropriation to Brunswick Senior Resources, Inc. is \$1,565,000, an increase of \$15,000 for the assumption of administration of the In-Home Aide program.

Employee Benefits

During the recession Brunswick County managed to avoid reductions in employee compensation and benefits while providing a \$1,000 non-recurring bonus to all full-time employees in November 2011 and a merit pool fund of 2% in September 2012. The FY 2012-2013 budget funded a classification and compensation study. The FY 2013-2014 budget included \$2,500,000 to fund the results of the classification and compensation study which provided for an 8% increase in the pay ranges, a 5% increase for employees with a grade increase of 1 or more grades, a service longevity/parity adjustment for Brunswick County service years with a maximum of 5% and a minimum of 3%. The FY 2014-2015 budget recommendation includes a market adjust of 1.5% to the county pay scale at a cost of \$684,448 and the funding of employee merit raises of between 1 and 2% at an estimated cost of \$563,531.

No plan design changes to the employee group health insurance schedule of benefits are recommended. As an organization we will embark on the third full year of self-insurance for the group health insurance. After more than two and a half years, claims have tracked at expected levels. The decision was made to implement employee premiums of \$40 per month and increase the cost of dependent coverage and increase the county contributions to the health fund \$1,550,660 in FY 2014-2015. The self-insured health plan is operating at 100.00% utilization with a reserve of \$1.7 million accumulated as of April 30, 2014. The sector that has experienced the highest claims is spouses where claims have exceeded contributions by 230% thru April 2014. Specific stop loss insurance for individual claims exceeding \$150,000 is in place to manage the risk associated with a self-insured plan. However, the county will incur costs for high claimants in FY 2015 that are not eligible for specific stop loss insurance.

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 and dependent spouses and provide the opportunity for employees to participate in a weight loss program at no cost. Spouses and dependents that have access to health insurance benefits from another source must elect coverage under the other source and will not be eligible for participation in the county health plan. No new eligible spouses may be added to the insurance program after July 1, 2014. These measures are anticipated to assist in maintaining the fiscal solvency of the self-insured health program.

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

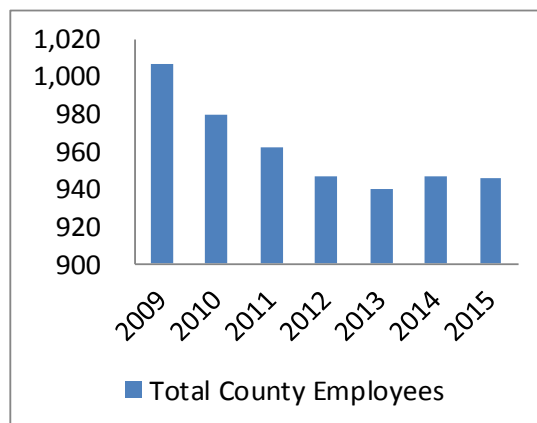
The economy continues to impact the service delivery and workload of county departments in different ways. Some departments, primarily those associated with development and construction permitting, are starting to experience increased activity from the recession. Other departments, primarily those that 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. In FY 2009-2010 twenty-two vacant positions were eliminated for a cost savings of \$971,304 including salary and benefit costs. In FY 2010-2011 an additional sixteen vacant positions were eliminated for an estimated savings of \$743,722. The FY 2011-2012 budget included the elimination of twenty-two full-time positions for a total reduction of approximately \$1,019,467 and in an effort to reach a sustainable employee base; the FY 2012-2013 budget included the elimination of 15 vacant positions representing a savings of approximately \$594,993. The FY 2013-2014 general government budget included a net decrease of 3 positions.

A total of 22 new positions were requested for general government. The recommended budget includes the transfer of a code enforcement officer to MIS as a business analyst to assist with software automation processes, the addition of 1 new gas mechanic/autobody technician position for the Service Center at a cost of \$52,427 that is expected to be realized in savings, the conversion of 3 custodial assistant positions in Operation Services currently filled by contract employees, the conversion of 3 Health Department employees from contract services, and the conversion of a Social Services legal contract to an employee. The recommended budget also includes a reduction of 11 employees from the In-Home Aide program through attrition to existing vacancies.

The general government operations provide school resource officers to be reimbursed by the school system and the charter school totaling \$1,178,000 for at a flat annual rate of \$58,900 per officer. This is the first 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.

A total of 4 new positions were requested for the enterprise operations. The budget includes the recommendation of 1 utility system analyst in the water instrumentation and electrical division, 1 collections mechanic I in the sewer collections division and the transfer of 1 meter reader to a warehouse assistant at a cost of \$121,115.

These changes would bring the total number of positions to 946, of which 826 are associated with general government functions and 120 associated with the enterprise operations.



Capital Improvement Plan

The list of projects recommended for funding in FY 2014-2015 totals \$14,678,970. A continuing project included in the economic development category is the Avalon Project for which the county has \$3,582,366 remaining and the Springlake at Maritime Shores has \$274,585 remaining to complete the planned infrastructure.

Related to environmental protection the plan includes a \$750,000 contribution to the reserve for the construction and demolition landfill closure projected to begin in 2017. 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 \$230,000 for the design fees of improvements to the Smithville Park, \$2,455,000 for the construction and renovation improvements at Waccamaw Park and \$2,750,000 for construction of a senior/community center on the Leland government complex.

The projects in the public safety section of the plan is the sheriff's firing range at \$680,000 to be funded from capital reserve funds and timber sales. The county expects to award bids in July 2014 for the new 911 Center to be funded with grants.

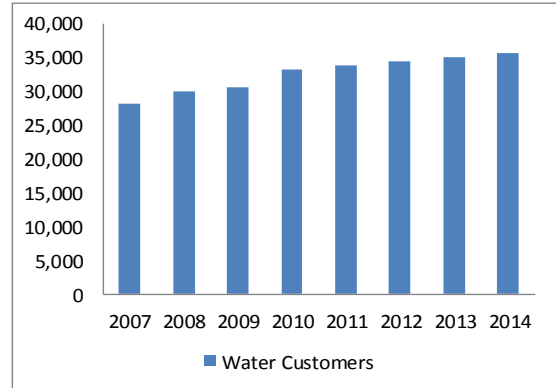
The FY 2014-2015 Capital Improvement Plan as presented includes \$750,000 of current year revenue transfers from the governmental funds and \$5,635,000 of capital reserve funds. Since the five-year capital improvement plan represents a living document some projects originally scheduled for FY 2014-2015 have been deferred to future years.

Capital Outlay and Major Operating Expenditures

The recommended general government budget includes a total of \$2,198,769 in capital outlay and major operating equipment for operating purposes in the governmental funds, down by \$405,967 from the FY 2013-2014 budget. Capital outlay in general fund departments consists of items in excess of \$5,000 in value. Some of the more significant capital items include 15 replacement patrol vehicles for the sheriff's office \$375,180, 2 new ambulances with automatic cots \$322,000 and 1 remount ambulance \$106,000, the first phase of pavement to the complex circle \$52,550, a tractor at \$115,000 and dump truck at \$120,000 and a metal storage building for public safety equipment \$100,000. The Operation Services budget includes funding for repairs and maintenance to buildings including \$46,350 for the Hickman's Crossroads HVAC system, \$240,000 for buildings G and E roof repairs and \$50,000 for building E HVAC repairs. The major operating budget include the replacement of 200 desktop and laptop computers

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 35,663 water retail customers and 13,544 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. We continue to strengthen the regional concept by adding participants and establishing contractual relationships that eliminate duplication of effort and capital costs.

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. In FY 2011-2012, the Calabash wastewater collection system and the Brick Landing collection system improvements and pump station and force main projects were completed. In FY 2012-2013, the Sunset Beach collection systems were completed and in FY 2013-2014 the Boiling Spring Lakes wastewater collection and transmission system project was completed. In November 2012, the county and the Town of Ocean Isle Beach entered into an agreement whereby the town became a regional wastewater participant which will insure a long term source of high quality wastewater treatment capacity for the citizens of the area. The Northeast Regional Wastewater Plant 825,000 gpd expansion contract was completed in 2013-14 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. The FY 2013 – 2014 neighborhood water mains project consisting of Watts Road, Tropical Shores II Subdivision, Fifty Lakes Drive, Old Ferry Connection, Mintz Cemetery Road and Turkey Trap Road is currently scheduled to be advertised for construction in the first quarter of FY 15.

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 2014-2015 is \$21,993,301 which is in line with the original budget for FY 2013-2014 appropriation and includes a transfer to the capital project fund of \$3,650,000. Although the number of new taps is somewhat suppressed compared to the years preceding the recession, a conservative estimate of 600 connections are projected in the upcoming fiscal year. Six hundred connections should generate approximately \$516,000 in capital recovery fee revenue and \$175,000 in water transmission line capital recovery fees. Tap fees are expected to generate \$450,000.

No increase is being recommended in the retail water rate of \$3.05 per 1000 gallons; however, an increase in the retail base rate of \$1 per month is recommended. A ¾" meter is recommended to increase from the current \$11.00 per month base charge to \$12.00 to meet the costs of plant expansion and transmission improvements. The most recent changes in retail water rates occurred in 2004 with household usage decreasing 20 cents per 1,000 gallons and in 2011 irrigation rates increased for tiers above 6,000 gallons. Total commercial and residential retail water sales are projected to be \$8,587,852 or \$2,417,527 for industrial, \$4,675,650 for retail and \$1,494,675 for irrigation. The base fee of \$12.00 will produce \$5,198,400.

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 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 \$2.84 to \$2.89 range based on the April PPI. Staff recommends that the wholesale rate increase over the next 2 years to the full PPI rate with a rate of \$2.82 for the first phase. The increase is necessary to fund water plant and transmission improvements. Assuming the rate of \$2.82, wholesale water revenue is projected to provide \$4,528,920.

Included in the revenue total for the water fund is an appropriation of expendable net assets in the amount of \$1,483,227 for capital projects.

Operating Costs

There were 2 new positions requested for the water fund, a systems analyst and a utilities warehouse assistant with both recommended for funding. The warehouse assistant is to be filled by the transfer of a meter reader upon full implementation of the automated meter reading system. The amount budgeted for the purchase of raw water from the Lower Cape Fear Water and Sewer Authority is unchanged at \$1,047,323. The anticipated rate is \$0.26 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 is increased by approximately 3.3% to \$305,209 due to increases in employee benefit and pay costs.

Capital Outlay

The largest capital expenditure in the water fund is \$2,000,000 for the sixth and final year of implementation of the automated water meter reading system and meter installation. The county is on schedule to complete the project in FY 2014-2015. Other large capital outlay items include a compact excavator with trailer \$77,000 and extended all-terrain forklift \$30,000.

Debt Service

Debt service in the water fund includes 2 new debt issues slated for the upcoming year. Phase II of the Northwest Water Transmission Improvement project is included as a capital project for FY 2014-2015 at a cost of \$6.5 million and the Danford Road water project at an additional cost of \$5 million. If the projects are financed as planned there would be \$102,284 of interest payments due in FY 2014-2015 with the average increase to annual debt service thereafter totaling \$750,000 for the term of the debt. The total water fund debt service budget is relatively flat at \$1,841,574.

Water Capital Improvement Plan

The water fund capital improvement plan includes projects for FY 2014-2015 at a total estimated cost of \$16,185,000. The largest project is Northwest Water Transmission Project Phase II with an estimated total cost of \$6,500,000. The plan also includes the Danford Road water project with an estimated cost of \$5,000,000.

Other water system improvement projects to be funded on a pay as you go basis without incurring debt are transmission improvement mains \$850,000, system improvement mains for neighborhoods \$650,000 Middle River and Smith Road water mains \$1,350,000, design of the Southeast Area Water Tank \$35,000, booster pump station upgrades \$400,000 and 211 Plant Improvements at an estimated cost of \$1,000,000.

Waterline expansion projects planned in the upcoming fiscal year for professional engineering design include Fletcher-Hewett Road, Sirwood Place, Nichols Avenue, Beauford Road, Big Oak Subdivision, and the Snowfield neighborhood. The projects will be constructed with an estimated \$850,000 of capital reserve funds

WASTEWATER FUND

The total recommended sewer fund budget for FY 2014-2015 is \$22,378,509 representing a 4.6% increase or \$980,706 over the FY 2013-2014 original budget.

Revenue

There is no increase in the current sewer retail rate structure that is projected to generate \$8,086,614 or \$798,739 more than the \$7,287,875 projected in the original FY 2013-2014 budget. This increase can be attributed to the completion of the Sunset Beach SAD adding approximately 2,650 customers.

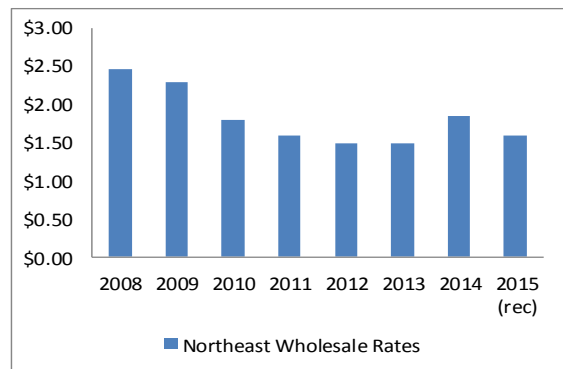
The number of new sewer connections is conservatively projected to be approximately 150. Sewer capital recovery fees are projected to generate \$450,000 and sewer transmission capital recovery fees are projected to generate \$150,000. Capital recovery fee revenue has primarily been used for smaller pay 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.

Operating Costs

There were 2 new collection system mechanic positions requested for the Sewer Fund maintenance with the recommendation to provide 1.

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 11 years. Based on an annual average daily flow of 1.45 MGD and an operational budget of \$879,700, the wholesale rate for the Northeast participants will decrease from \$1.85 to \$1.60 per thousand gallons.

The recommended operating budget for the West Brunswick Regional Wastewater System is \$2,354,900 up 16.2% 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. The wholesale rate is recommended to decrease from \$2.70 to \$2.60 per 1000 gallons.

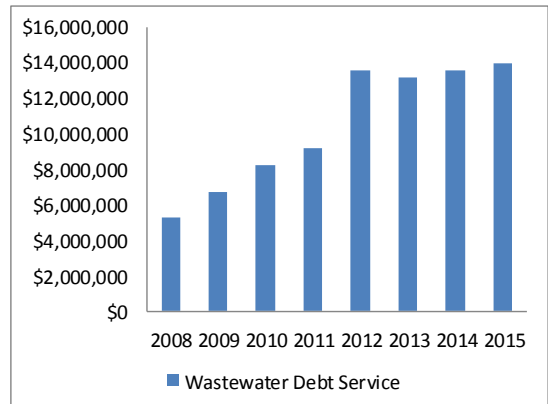
Capital Outlay

Capital outlay for the sewer divisions includes 3 replacement trucks totaling \$89,000. Total capital outlay for wastewater departments is \$155,402.

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 2014-2015 is \$13,969,782 increased from FY 2013-2014 due to the recommended new debt issue of \$3.5 million for the Ocean Isle Beach Wastewater Treatment Plant pump station. The FY 2014-2015 budget includes \$31,159 for the initial year interest with the average annual debt service estimated at \$230,000 thereafter for the term of the debt.

West Regional wastewater participants are responsible for \$5,201,181 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 \$2,909,697, the Town of Holden Beach will contribute \$1,167,494, and the Town of Shallotte will contribute \$498,990. Although not a participant in the West Regional System, the City of Southport will contribute \$350,000 under the terms of an interim wastewater treatment agreement with the county and Ocean Isle Beach will contribute an additional \$275,000.



The Northeast Regional Wastewater participants are responsible for \$1,295,766. 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 \$931,270. Debt service reimbursements for the remaining Northeast Regional participants for the expansion includes the Town of Navassa \$94,018, the City of Northwest \$26,577, and Brunswick Regional Water and Sewer H2Go \$243,901.

Wastewater Capital Improvements

The wastewater capital improvement plan for FY 2014-2015 includes two primary projects including construction of the Ocean Isle Beach Wastewater Treatment Plant Pump Station costing \$3.5 million.

Conclusion

The outlook for FY 2014-2015 is more optimistic than the previous six years but uncertainty of economic conditions still exist. If the modest growth projections ranging from 1 to 3 percent are realized, the county may continue to reduce the reliance on non-recurring funds to balance the general government operating budget. 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 need to continue to identify and evaluate alternative ways of doing business that will result in cost reductions while maintaining high service levels.

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 2014-2015 that will meet the service needs and expectations of everyone we serve.

Respectfully Submitted,

A handwritten signature in blue ink that reads "Ann B. Hardy". The signature is written in a cursive, flowing style.

Ann B. Hardy
County Manager