

BRUNSWICK COUNTY ADMINISTRATION

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Brunswick County Board of Commissioners:

The recommended FY 2010-2011 budget for Brunswick County presented herewith is the product of contributions and teamwork of all of the internal stakeholders of the county organization. Understanding the economic climate and the dilemma of declining revenue, department directors submitted realistic requests focused on maintaining existing levels of service. In many cases, departmental operating budgets were reduced to absorb mandated cost increases such as the employer contribution to the retirement system. Many of the cost reduction measures employed by other local governments, to include deferral of capital outlay, the elimination of some vacant positions, and salary and hiring freezes, will be necessary for the upcoming year. Fortunately, this proposal will require no layoffs of existing employees and employee compensation and fringe benefits are preserved. The ad valorem tax rate will remain at 30.5 cents. The FY 2010-2011 budget proposal for all funds totals \$196,051,649 which represents a decrease of 1.3% under the budget adopted June 15, 2009. The general fund budget is balanced by utilizing fund balance and capital reserve transfers.

The multi-year recession that has negatively impacted individuals, businesses and corporations and all levels of government has ended, but it has left behind a frail and weak economy that is recovering very slowly. County governments across the nation, struggling to provide necessary services with dwindling revenues, have taken drastic measures to cut operating costs and many have had no choice but to reduce services. Locally, we have experienced the economic decline during the last three years in property values, home sales and new home construction. Brunswick County's unemployment rate is still very high at 11.9% compared to the State at 10.9% and United States at 9.5%.

Although progress on infrastructure construction for most residential development projects has stopped and some developers have faced bankruptcy, defaults have not been widespread to date. Fuel costs that averaged \$2.00 per gallon last May have increased to an average of \$2.85 today. Only in the last two months have there been reports of increases in the real estate activity and new single family home starts. Consistently ranking in the top twenty fastest growing counties in America, Brunswick County dropped to 38th nationally for calendar year 2009 and second in the state of North Carolina.



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.

GOVERNMENTAL FUNDS

Revenues

The total recommended Governmental Funds Budget is \$145,913,065, which represents a 1.6% decrease from FY 2010. Property tax revenue is the primary source of governmental fund revenue, providing 68.8% of the total. Growth in the county's tax base is the smallest in many years and is a direct reflection of the reduced construction activity.

The total projected tax base, inclusive of real property and motor vehicles for FY 2010-2011, is \$33,259,342,060 up by \$195,890,560 (.00592 %) or slightly over one-half of one percent over the base of \$33,063,451,500 on which the FY 2009-2010 budget was based.

The total projected real property value for FY 2010-2011 is \$32,384,342,060 which represents a .0053% change over the FY 2009-2010 real property base of \$32,213,451,500. The motor vehicle base is projected to be \$875,000,000 or 2.94% more than the current year base of \$850,000,000. The projected collection rate for motor vehicles is 87.5 % which should generate \$2,335,000. This small increase in the motor vehicle base can be attributed to new car purchases and additional vehicles being registered in the county.

The total real property levy for FY 2010-2011 is based on a tax base of \$32,384,342,060, the tax rate of 30.5 cents and a collection rate of 95.65% and is projected to be \$94,476,000. The total property tax revenue projection is \$96,811,000 which is 1.32% or \$1,268,899 more than the original budget for FY 2009-2010.

The value of one cent on the tax rate is \$3,160,734.

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 and reductions enacted by the General Assembly in 2007 as part of the Medicaid Relief Swap package. The changes have been phased in and the full impact of the changes will be realized this year. Total county sales tax revenues for FY 2010-2011 are projected to be \$8,988,223 exclusive of the portion of Articles 40 and 42 designated for schools which is 24.5% or \$2,926,077 less than the original budget for FY 2009-2010 of \$11,914,300.

In addition to the drop in consumer spending, the changes to the sales tax scenario related to the Medicaid Swap impacting the sales tax revenue projection include; the first full year without the remaining quarter cent of Article 44 which ended with sales tax payments made to counties in January 2010. Also, in January 2010, the distribution of the Article 42 sales tax changed to the point of delivery basis in lieu of the population basis. The impact of the change in distribution

method will reduce the total Article 42 revenue significantly. 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 three consecutive years of revenue declines, the County's other revenue sources continue to be weak. Projections for FY 2010-2011 are mixed with some sources continuing to decline and others moderate increases. Emergency Medical Services fees have steadily increased in recent years due to growth in calls for service and improved collection. EMS charges are projected to reach \$2,600,000 compared to \$2,400,000 for the current year due to increasing calls for service and a proposed fee increase for ALS emergency transports from \$400 to \$475 and ALS 2 transports from \$550 to \$650.

The other major revenue category projections include:

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>% Change</u>
Investment Earnings	\$1,500,000	\$600,000	\$200,000	(-66.6%)
Solid Waste Tipping Fees	1,856,000	1,200,000	950,000	(-20.8%)
Building Permits	1,400,000	875,000	775,000	(-11.4%)
Excise Tax	3,300,000	1,500,000	1,800,000	(+20%)

The economy continues to negatively impact 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 2010-2011, a transfer from the County Capital Reserve Fund for debt service in the amount of \$3,150,000 and a fund balance appropriation in the amount of \$2,945,942 is required. This is a short term measure to address budget shortfalls due to the adverse impact of the economic conditions that is made possible due to prudent budgetary practices and financial management which has resulted in fund balance levels that exceed the County's budget policy thresholds. Additionally, the practice of appropriating fund balance and capital reserves in successive years does not warrant an extreme amount of concern as it is anticipated that only a small percentage, if any of the \$6,914,463 fund balance/capital reserve appropriated in FY 2009-2010 will actually be expended at June 30, 2010.

Expenditures

Due to the aforementioned decline in revenue, the FY 2010-2011 budget holds the line on new programs and initiatives in order to maintain existing services levels, existing personnel and fringe benefits and contractual obligations. Many of the departmental operating budgets are lower than the FY 2010-2011 adopted budget. For the second year some of the positions that were frozen and remained unfilled are recommended for elimination, capital outlay was further reduced and capital projects were eliminated or deferred to future years. While some major operating expenses such as fuel costs are projected to be less than the current year, others such as the employer contribution to the Local Government Employee Retirement System are increasing. Due to losses in the value of investments in 2008 and a lower performing investment portfolio which once accounted for 75% of annual system income, LGERS is implementing a 32.3%

employer contribution increase effective July 1st. The increase will take the rate for regular employees from 4.8% to 6.35% and law enforcement from 4.86% to 6.41%. The contribution increase will cost the county \$594,085. Subsequent annual increases are expected until the system actuarial needs are realized.

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 a significant portion of the general fund expenditures. Due to a change in the contract provision for determining the annual rate adjustment for the solid waste collection and disposal contract, it appears that the annual cost for collection which remained flat this year, primarily due to a 2.31% change in the Consumer Price Index, lower than normal new cans placed into service and a reduction in fuel surcharge costs will increase by about 1.7%. The unit cost will increase from \$11.24 to \$11.44. Estimated contractual costs for Waste Industries is \$10,726,205 reflecting the CPI increase and less than 2000 new cans placed into service.

Due to less tonnage being received at the County landfill and a continuing downward trend resulting in less tipping fee revenue, a reduction in contract funding for diversion to a South Carolina landfill is recommended from \$450,000 to \$400,000. Also, due to the reduced tipping fee revenue, a transfer to the Capital Reserve Fund for landfill closure cost is not recommended.

The Board of Commissioners has authorized staff to finalize a proposal from Waste Industries to provide countywide curbside collection of recyclables. This will require the approval of each municipality to participate and authorize the County to charge a user fee to property owners within their corporate boundaries. Since the contracts with Waste Industries and the municipalities are not finalized, no user fee revenue or contract costs for recycling are included in the budget. A budget amendment will be presented at the time that the contracts and municipal agreement are presented for approval.

Brunswick County Public Schools

Brunswick County and the Brunswick County Schools have maintained a funding agreement for the last 15 years. The funding agreement with the Brunswick County Schools was extended for the FY 2009-2010 with minor modifications. The primary provisions were retained which include providing 36.5% of the County ad valorem property tax revenue to the schools for operating expenditures less the portion of the tax rate dedicated to debt service. Over the last three years, the local funding for schools has increased by an average of 6.2% and the student population has increased by an average of 2%. The budgeted funding allotment for the Schools for FY 2009-2010 was \$31,016,145 of which 35.75% was to be used for current expenditures and .75% for categories 1 and 2 capital outlay. The FY 2009-2010 school appropriation represented a total reduction of \$844,921 or 2.65% from FY 2008-2009.

Facing a significant general fund budget deficit for FY 2010-2011, the County Commissioners have recommended that the funding agreement be deferred for one year to give the County and the Board of Education the flexibility to determine funding outside the confines of a restrictive formula in these uncertain times. The County is asking the Schools to share in the local revenue shortfall and is recommending a total appropriation from property tax revenue of \$29,515,717 which is approximately \$1,500,000 less than the budgeted appropriation for the current fiscal year. The total appropriation may be used at the discretion of the Board of Education without a requirement to use any portion for categories 1 and 2 capital outlay. It is anticipated that a new funding agreement will be developed and adopted by both Boards before the end of the calendar year.

The total General Obligation debt service for Brunswick County Schools for FY 2010-2011 is \$7,354,536 exclusive of debt service serviced by sales tax revenue. Including the debt service, 44.2% of the County ad valorem property tax revenue for is appropriated for public education purposes.

Brunswick Community College

Brunswick Community College continues to experience steady growth in enrollment. Construction of most of the of the General Obligation Bond Capital Projects have been completed during the current fiscal year and others will be completed with the exception of satellite facility improvements. The recommended Community College appropriation for FY 2010-2011 is \$3,435,831 which is the same amount appropriated in the current fiscal year.

The total General Obligation debt service for Brunswick Community College is \$2,518,461.

Debt Service

No additional general fund debt is anticipated during FY 2010-2011. The total debt service budget will be \$15,582,012 which represents a decrease of \$213,384 or 1.35% under the debt service budget for FY 2009-2010 although the budget includes the first year principal and interest payment for the Leland Library Recovery Zone Economic Development Bond of \$121,199. The 45% RZEDB interest rebate of \$16,289 will result in a net first year debt service cost of \$104,910 for the library project. The reduction in total general fund debt service for FY 2010-2011 is primarily due to lower interest payments on existing debt.

Human Services

Changes in the costs for Human Service Departments and related organizations include a general fund contribution of \$4,540,668 to the Health Fund representing a very small increase of \$1,470, and a total contribution to the Social Services Fund of \$5,514,376 that is a significant reduction from the current year of \$692,260 or 11.15 %. This reduction in the transfer to the Social Services Fund is attributed largely to the long awaited end of county participation in Medicaid

Service costs. Funding for Southeastern Mental Health is recommended to remain the same at \$692,000. Due to an increase in food costs and the need to increase meal charges, the recommended appropriation to Brunswick Senior Resources, Inc. is \$1,600,000 which represents an increase of \$100,000 to cover the additional meal costs and property costs of the newly opened Southport Center.

Employee Benefits

In difficult economic times, employee benefits are often one of the first things targeted for cuts. It was not possible to include employee compensation adjustments in this budget proposal, however it does maintain employee salaries and fringe benefits at current levels for FY 2010-2011. 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. The new provider will be Blue Cross and Blue Shield. Only a PPO Plan will be offered, with a 90/10 in-network copayment and a \$500.00 deductible. The only changes to the current PPO Plan are an increase in the Emergency Room Copayment to \$200 and the reinstatement of a \$10.00 copayment for generic prescriptions. The good news is that the premiums will not increase for the County or for employees that have dependent coverage. A small premium reduction will actually be realized from the aforementioned changes. In light of the medical cost increases or "trend" this is a very attractive plan and premium in light of the County's claims experience.

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

Staffing / Positions

The economy continues to impact the various County departments differently. Some departments, primarily those associated with development and construction permitting have experienced a significant slowdown and 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 the current year's budget, twenty-five (25) vacant positions were eliminated for a cost savings of \$972,553 including salary and benefit costs. An additional sixteen (16) positions that are currently vacant are recommended for elimination for an estimated savings of \$743,722 in FY 2010-2011. These positions include; one (1) Fiscal Assistant in Finance, one (1) Chief Appraiser and one (1) Tax Listing Specialist in Tax Administration, five (5) Telecommunicator I positions in Central Communications, one (1) Code Enforcement Officer, three (3) Park Assistants and one (1) Park Supervisor in Parks and Recreation Maintenance, one (1) Public Housing Director, one (1) Food Services Assistant I in Food Services and a Senior Programmer in MIS.

Four (4) new positions were requested for general government departments. None of these positions are recommended for funding in the FY 2010-2011 budget.

Capital Improvement Plan

The list of projects recommended for funding in FY 2010-2011 is very small in comparison to recent years due to the budgetary constraints associated with the poor economy. Some projects originally scheduled for FY 2010-2011 have been deferred to future years. Only two projects are slated for the upcoming year including \$200,000 for additional renovations and modifications to Buildings I, E and F to meet the office space needs for various departments. The bulk of the funds will go toward the installation a new HVAC system for Building E. The Plan also includes \$200,000 to renovate the office space in Building J to possibly house county departments or external agencies for which the County now leases space external to the Government Center.

The funding source for these projects is the County Capital Reserve Fund.

Capital Outlay and Major Operating Expenditures

The recommended budget includes a total of \$903,459 in capital outlay for operating purposes in the general fund, down \$192,099 from the FY 2009-2010 budget capital outlay total. Capital outlay consists of items in excess of \$5,000 in value. Some of the more significant capital items include eighteen (18) replacement patrol vehicles for the Sheriff's Office, two remounted ambulances for Emergency Medical Services, two (2) virtualization servers for MIS, one (1) mid-size tractor with loader and a replacement ¾ Ton 4X4 truck for Operation Services, two (2) new mid-size pick-up trucks and one (1) Z-Track mower for Parks and Recreation and seven (7) replacement radio consoles for Central Communications.

Funded primarily from the Emergency Telephone Fund, a phone system to replace the existing analog system with a digital Internet Protocol system for Central Communications \$475,000, a 911 call taking network replacement \$102,106 and a 911 recording system \$50,000.

The major operating equipment recommended for the general fund totals \$259,259. Major operating equipment includes items that are less than \$5,000 in value. Some of the recommended items include fifteen (15) replacement desktop computers for MIS, ten (10) ballistic vests, ten (10) replacement mobile radios and six (6) replacement portable radios for the Sheriff's Office, two (2) ambulance cots for EMS, seven (7) dispatch chairs for Central Communications and seven (7) HVAC units for the Animal Control trucks.

ENTERPRISE FUND

While the economy has taken a huge toll on the general fund revenue picture the impact is not as dramatic on the enterprise fund however, with fewer customer connections and lower capital

recovery fee revenue, it is becoming more difficult to fund the debt service payments for system expansion projects, primarily in the Sewer Fund.

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.

The County entered into an agreement with the City of Southport to provide treatment services on an interim basis to give the City time to determine a long term treatment solution, which may include becoming a partner in the West Regional Wastewater System or partnering with the County on a future southeast regional treatment system. The City is making significant progress on the pump station and force main installation and should be in a position to send wastewater to the West Regional System later this calendar year. The City of Northwest is nearing the completion of the construction of a collection system and should be operational soon. Construction should be completed on the Calabash sewer collection system in late summer and the Special Assessment District assessments should be finalized in the fall. Construction has started on the Sunset Beach mainland sewer collection system for which American Reinvestment and Recovery Act (ARRA) funding in the amount of \$3 million was received and contracts for the connecting force main and the island vacuum collection system will be awarded this summer. The Northeast Regional Wastewater Plant 825,000 gpd expansion design has been completed and a construction permit is expected later in the calendar year 2010. The 3 MGD expansion to the West Regional Treatment Plant and Effluent Dispersal System has been completed and the Town of Oak Island is expected to begin sending wastewater to the plant this summer.

The County is currently the Emergency Operator of the Brick Landing Plantation wastewater plant and collection system and working with the developer, financial institutions and homeowners association to obtain ownership of the system in order to make the necessary repairs and construct a pump station to provide reliable service for the development. It is unknown at this time if this matter will be resolved.

The County recently entered into an agreement with the City of Boiling Spring Lakes to construct a sewer collection system in the commercial corridor of the Town for which property owners will pay an assessment to cover the capital cost or debt. As part of the agreement, the City transferred its water distribution system to the County adding approximately 1,911 retail customers to the County's base and the County assumed the outstanding debt of \$4.4 million on the system.

Construction of the new elevated water storage tank in Shallotte is also nearing completion. Phase I of the Northwest Water Treatment Plant improvements and the construction of several water main projects funded by Recovery Zone Economic Development Bonds will begin soon.

The County continues to make transactions and 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 2010-2011 is \$18,007,948 which is \$225,542 or 1.3% less than the original budget for FY 2010. This is a conservative budget in light of the fact that connections to the water system have not met current year expectations and total water consumption has declined over the last two years. We are projecting approximately 600 connections 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 County currently has approximately 33,000 retail water customers, following the transaction whereby the County obtained 1,911 retail water customers from the City of Boiling Spring Lakes system. We are still seeing a limited number of customers disconnect second homes or vacant housing units to avoid the availability fee due to the economy. I am prepared to recommend that the retail water rate of \$3.05 per 1000 gallons and the \$11.00 per month base charge remain unchanged. Total retail water sales are projected to be \$5,436,436 or \$4,211,460 for retail and \$1,225,176 for irrigation. Retail water sales are being estimated conservatively as weather conditions can impact usage and the unknown of the impact the economy may have on water consumption. The base fee of \$11.00 will produce \$4,440,996 and investment earnings for the Water Fund will decrease approximately 67% to \$60,000.

Wholesale and industrial water rates are adjusted annually based on the Producer Price Index for May of each year. Wholesale water revenue has been very consistent the prior three years generating approximately \$4,600,000 although the new wholesale/industrial rate is estimated to increase by 4.9% this year based on the PPI Index for March. The actual rate is based on the May PPI Index. The calculation to a rate of \$2.57 per 1000 gallons total revenue is projected to be lower due the City of Boiling Spring Lakes no longer being a wholesale customer. Industrial water sales are expected to decrease by 18% despite the higher rate to \$1,964,194 based on lower consumption trends.

Operating Costs

Much like the general fund, several division budgets within the water fund are less than the FY 2010 operating budget. There were no new positions requested. We do not anticipate the need to increase the amount budgeted for the purchase of raw water from the Lower Cape Fear Water and Sewer Authority although the rate is increasing. 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 reduced by approximately 3.7% to \$252,147.

Capital Outlay

The largest capital expenditure in the Water fund is \$1,500,000 for the second year implementation of the automated water meter reading system and meter installation. Other large capital outlay items include a track hoe \$100,000, a forklift \$27,500, four (4) replacement vehicles \$92,000, lime feed equipment \$26,000 and a lime slurry pump \$15,000 for the 211 Water Treatment Plant.

Debt Service

Current debt service in the Water Fund continues to be low as no new debt has been incurred since the private placement revenue bond associated with the Carolina Blythe Water System in 2004. The total water fund debt service budget is \$1,425,641 for a net actual increase of 665.8% or \$1,239,477. The total debt service budget is actually less than the current year original budget because it included \$1,386,000 in first year lease payments for the automated meter reading system. The Board subsequently decided to fund the system on a pay as you go basis. This significant increase is attributable to the first year debt service for Phase I Northwest Water Treatment Plant \$884,136, the USDA Water System Bond assumed for the Boiling Spring Lakes Water System \$241,535, and the Randolphville Road, Mt. Zion Road and Shingletree water main projects \$116,807.

The Northwest Water Treatment Plant Improvements and water main projects will be financed as revenue bonds under a Recovery Zone Economic Development Bond allocation. The County will receive an interest rebate equal to 45% of the total annual interest cost. The rebate is estimated to be \$198,423. The debt service payments for the above referenced projects are estimated as bids have not been received for the water plant project and the terms of the financing have not been finalized.

Water Capital Improvement Plan

The Water Fund Capital Improvement Plan includes four (4) primary projects for FY 2010-2011 at a total estimated cost of \$10,221,346. The largest project is a water transmission system improvement in the northern area of the county to provide a redundant feed and additional capacity to the central and southern portions of system. The estimated cost is \$7,654,787. The actual cost will be dependent on the route selected. Funding in the amount of \$766,559 is included for the engineering and professional services required to perform an Environmental Impact Statement or Environmental Assessment, if necessary, in order to obtain the Interbasin Transfer Permit required to expand the Northwest Water Treatment Plant. These projects would be financed with proceeds from a 2011 Enterprise System Revenue Bond issue.

The Plan also includes \$600,000 for the design and construction of a water main extension to serve the Roger Bacon Charter Day School and Trucking Lane off of Highway 87 to be funded with system user fee revenue and \$500,000 for miscellaneous special assessment water system improvements yet to be determined. Additionally, to address small pay as you go water projects and to provide matching funds for grants received, \$100,000 is included.

WASTEWATER FUND

The total recommended Sewer Fund Budget for FY 2010-2011 is \$14,218,587, representing a 5.54% increase or \$746,564 over the FY 2009-2010 budget primarily due to increased interest costs associated with the 2008A Revenue Bonds for the West Brunswick Wastewater Plant Phase II and the Shallotte/Southwest Brunswick sewer force mains and pump station projects and increased operating budget for the West Brunswick Regional Wastewater System as a result of the capacity expansion. The County currently has 8,809 retail sewer customers and there is no proposed increase in the current rate structure that is projected to generate \$5,519,083. The 221 retail sewer customers that we anticipated as the result of the Public Utilities Commission approval of an order to transfer the Brick Landing Sewer collection system and treatment facilities to Brunswick County did not materialize. In April, the County became emergency operator and is running the system on a temporary basis and attempting to gain ownership.

The number of new sewer connections is conservatively projected to be approximately 200 in addition to the customers added from the Calabash and Sunset Beach projects that will not pay Capital Recovery Fees if they connect within one year of system completion. Sewer Capital Recovery Fees are projected to generate \$600,000 and Sewer Transmission Capital Recovery Fees are projected to generate \$200,000. 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. The Sewer Service Agreement with the Town of Oak Island deferred the Town's payment of capital costs/debt service to the time that the Town sends wastewater flow to the West Regional Plant. Completion of the Town's collection system has taken longer than expected which has been a challenge, however it appears that the Town will be in a position to pay debt service cost in the near future due to obtaining a permit modification recently.

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 7 years. Based on an annual average daily flow of 1.1 MGD and an operational budget of \$685,766, the wholesale rate for the Northeast Partners will be \$1.60 per 1000 gallons, down from \$1.80 per 1000 gallons.

The recommended operating budget for the West Brunswick Regional Wastewater System is \$1,490,030 up 18.1% due to the increased operating costs and permit requirements for the 6 MGD expanded plant. Five (5) additional positions were added in the current year budget. The full year impact of these personnel costs will be realized in FY 2011. The operating cost increase will primarily be in the areas of chemicals, electricity and contractual services for sludge removal. Even with the increase in the West Regional Budget, the wholesale rate is recommended to remain at \$3.18 per 1000 gallons due to the additional flow anticipated from the Town of Oak Island.

Sewer Operating Costs

There were no new positions requested in the Sewer Fund. Adequate funding is recommended to provide the required level of maintenance to keep the system reliable. Capital outlay is limited and includes one (1) replacement F-250 Truck with Utility Bed \$27,000, a nitrate controller for the Oxidation Ditch at the West Brunswick Facility \$15,800 and additional operating equipment.. Major operating equipment consist of four (4) foam cutters for the Northeast Facility \$19,948 and twelve (12) pressure transducers \$24,000.

Sewer Fund Debt Service

The Sewer Fund debt service budget is substantial and has been necessary to realize the service availability that we have achieved in a relatively short period of time. The total debt service budget for FY 2010-2011 is \$9,256,557, a net increase of \$1,006,825 or 12.2%. The increase is due to the full year of debt service on the 2008A Revenue Bonds. The West Regional wastewater partners are responsible for \$4,839,824 of this debt service. The Town of Oak Island will contribute \$3,092,321, the Town of Holden Beach will contribute \$1,248,443, and the Town of Shallotte will contribute \$499,060. The Town of Leland's contribution for the State Revolving Loan Fund debt on the Northeast Regional Plant is \$217,072 .

The County has been successful in obtaining \$3 million in American Reinvestment and Recovery Act (ARRA) funding for the Sunset Beach Mainland wastewater collection project in the form of a \$1.5 million grant and a \$1.5 million no interest loan. The first interest payment for this ARRA loan is included at \$88,378. The first year interest payment for the 2009 Build America Bonds that were issued to fund the construction of the Calabash and Sunset Beach mainland wastewater collection systems is included at \$106,632. The interest payment for the portion of Recovery Zone Economic Development Bonds that will be sold in June for the construction of the Highway 74/76 sewer force main is a included at \$24,548.

The financing for the construction of the Sunset Beach Island Sewer collection system will be finalized in June as part of the RZEDB allocation. No debt service payments impact the FY 2010-2011 budget as the interest will be capitalized during construction. The source of revenue to retire the debt on the Sunset Beach and Calabash sewer collection systems will be property

assessments over ten years. A small amount of special assessment revenue is projected for the Sunset Beach and Calabash projects.

Wastewater Capital Improvements

The Wastewater Capital Improvement Plan for FY 2010-2011 includes five (5) primary projects. The largest capital project to be constructed, beginning in FY 2010-2011, is the Northeast Brunswick Regional Wastewater Plant 825,000 MGD expansion in the amount of \$7,273,657 that will be financed with revenue bond proceeds and the County's portion will be funded with capital reserve funds. The engineering design for the Boiling Spring Lakes collection system and treatment plant will be initiated at a total estimated cost of \$537,000 and, if the County can obtain ownership control of the Brick Landing wastewater system, \$1,000,000 will be spent to construct a pump station and repair the collection system. These projects would be funded with the remaining proceeds from the Series 2008A Revenue Bond. The Brick Landing project cost would later be recovered through property assessments.

The other projects include the construction of a sewer collection system in the Dutchman Creek Subdivision at an estimated cost of \$700,000 which could be funded from the wastewater capital reserve fund if grants are not obtained. A Special Assessment District may also be an option for this project. The Angel's Trace Road Force Main Upgrade is scheduled at \$375,000.

Conclusion

This FY 2010-2011 budget plan presented to you will fund the personnel and basic operating costs to maintain existing service levels and requires the appropriation of non recurring sources of revenue to fill the gap between projected revenue and expenditures for the General Fund. There is still much uncertainty as to what the future holds for local government revenue streams. Because we do not know what will happen to the property tax collection rate, sales tax collections, fuel costs, etc. we will need to proceed with caution as we enter the upcoming fiscal year and continue to follow cost control measures that have been implemented this year and others to include:

- Continue a hard hiring and salary freeze for all positions in all departments with the exception of department head and key supervisory personnel. Department directors will be asked to be creative and strategic in the utilization of personnel if resources shrink as vacancies occur.
- Freeze all out-of-state travel and in-state travel that requires an overnight stay or lodging that is not related to obtaining a certification or to obtain information required to successfully perform one's job.
- Defer all capital outlay expenditures until at least February 2011 to allow adequate time to monitor midyear revenue.
- Continue to encourage employees in departments that have decreased activity levels to apply for vacancies that are advertised in other departments.

- Optimize position and job sharing opportunities between departments.
- Monitor revenue trends on a monthly basis and be prepared to implement additional expenditure reduction measures, if necessary, to possibly include service reduction alternatives.

I would like to thank the Board of Commissioners for providing direction to the staff to assist us in the development of this recommended budget as we continue to address the challenges and opportunities presented in this “new normal” environment for local governments. I look forward to working with you over the next several weeks to develop a final budget plan for FY 2010-2011 that will meet the public service needs of the people of this great county.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Marty K. Lawing", written in a cursive style.

Marty K. Lawing
County Manager