

BRUNSWICK COUNTY ADMINISTRATION

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Brunswick County Board of Commissioners:

I am pleased to present the recommended FY 2011-2012 budget for Brunswick County herewith for your review and consideration. This is the fourth consecutive budget drafted in the midst of declining and/or uncertain economic conditions. With a clear focus on maintaining existing levels of service and a clear understanding of the toll that the economy has had locally, department directors submitted realistic funding requests. In most cases, departmental operating budgets were reduced below the current year's departmental appropriation. Much like recent years, many of the cost reduction measures employed by other local governments, to include deferral of capital outlay and compensation adjustments and the elimination of vacant positions, will continue to be necessary for the upcoming year. Fortunately, this proposal will preserve employee compensation and fringe benefits at existing levels. While many local governments have been forced to reduce service levels, the only service curtailment to be implemented in Brunswick County that will not be transparent to all is a reduction in public library operating hours by closing all branches on Sundays and two branches on Saturdays.

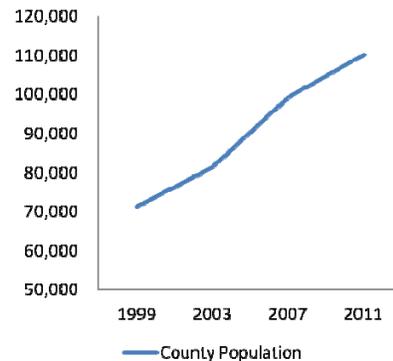
In addition to the economy, drawing much interest and attention during this budget process to date has been the 2011 revaluation of all real property in Brunswick County that has reduced the total real property tax base by approximately 29%. The recommended ad valorem tax rate is revenue neutral at 44.25 cents. The FY 2011-2012 budget proposal for all funds totals \$190,514,918 which represents a decrease of 2.4% over the budget adopted June 21, 2010. 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 was declared over about a year ago; however the recovery has been much slower than expected with only the stock market and some corporate profits making significant advances. Nationally, 244,000 new jobs were added in April reducing the jobless rate to 9%. The cost of a gallon of gasoline is one dollar higher than a year ago and the value of the dollar has only very recently begun to increase. Looking at the leading economic indicators for North Carolina, claims for unemployment benefits are down 22 percent from last year, building permits are down by 11.7 percent, manufacturing hours worked are up 3.5% and average weekly earnings are down 1.3%. Locally, home sales and new home construction are at their lowest levels since the start of the recession. Brunswick County's unemployment rate is still very high at 10.9% compared to the State at 9.7% and United States at 9.0%.



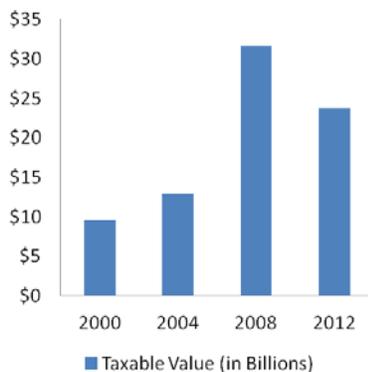
Consistently ranking in the top twenty fastest growing counties in America, Brunswick County dropped to 37th nationally for calendar year 2010. On a positive note the 2010 Census reported Brunswick County’s permanent population to be 107,431, representing decennial growth rate of 46.9% ranking second of the 100 counties 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. An analysis of the preliminary State budget does not indicate any major reductions or cost shifts that would have a catastrophic impact on the County’s budget. We anticipate a reduction in the N.C Education Lottery Fund allocation, elimination of the funding for the Cape Fear Sentencing Program and possibly a requirement to house sentenced misdemeanants in county jails for a period of up to six months.



GOVERNMENTAL FUNDS

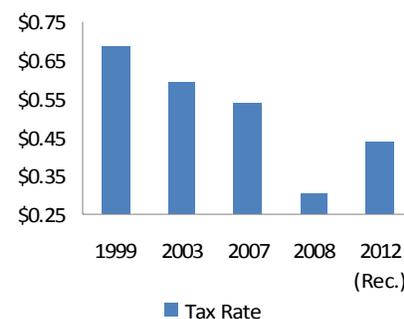
Revenues



The total recommended General Funds Group Budget is \$146,871,517 which represents a 0.6% increase from FY 2011. Property tax revenue is the primary source of governmental fund revenue, providing 69.9% of the total revenue. Following four very modest years of growth in the county’s tax base and the completion of the 2011 property reassessment, the total projected tax base, inclusive of real property and motor vehicles for FY 2011-2012, is \$23,667,873,488 down by \$9,591,468,572 or over 28.8 percent below the base of \$33,259,342,060 on which the FY 2010-2011 budget was based.

The total projected real property value for FY 2011-2012 is \$22,842,873,488 which represents a 29.5% decrease over the FY 2010-2011 real property base of \$32,384,342,060. The motor vehicle base is projected to be \$825,000,000 or 5.7% less than the current year base of \$875,000,000. The projected collection rate for motor vehicles is 88.22% which should generate \$3,220,581. This small decrease in the motor vehicle base can be attributed to fewer new car purchases and the depreciated value of existing vehicles registered in the county.

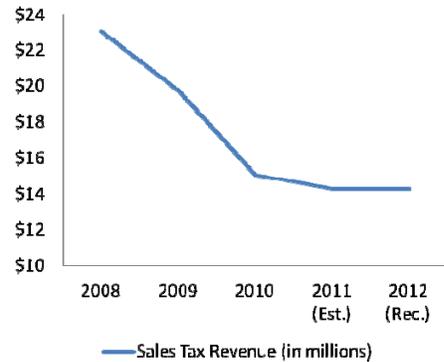
The total real property levy for FY 2011-2012 is based on a tax base of \$22,842,873,488 the tax rate of 44.25 cents and a collection rate of 95.21% and is projected to be \$96,237,997.



The total property tax revenue projection for both real property and motor vehicles is \$99,458,578 which is 2.7% or \$2,647,579 more than the original budget for FY 2011-2012.

The value of one cent on the tax rate is \$2,247,651. The revenue neutral tax rate calculation includes a factor of the average growth rate in the tax base for the last three years of 2.26%. The County tax on a home valued at \$250,000 would be \$1,106.25 and the county tax on a vehicle with a value of \$25,000 would be \$110.63.

The second largest source of governmental fund revenue is sales tax; however it represents a smaller percentage than in previous years due to the economy and changes in population figures resulting from the census that may impact the distributions. Total county sales tax revenues for FY 2011-2012 are projected to be \$10,699,005 exclusive of the portion of Articles 40 and 42 designated for schools, which is 19% or \$1,710,782 more than the original budget for FY 2010-2011 of \$8,988,223.



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 suppressed. Projections for FY 2011-2012 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 \$2,700,000 compared to \$2,600,000 for the current year due to increasing calls for service and a good collection rate.

The other major revenue category projections include:

Revenue	FY 2009	FY 2010	FY 2011	FY 2012	% Change
Investment Earnings	\$1,500,000	\$600,000	\$200,000	\$190,000	-5%
Solid Waste Tipping Fees	\$1,856,000	\$1,200,000	\$950,000	\$1,100,000	+16%
Building Permits	\$1,400,000	\$875,000	\$775,000	\$610,000	-21%
Excise Tax	\$3,300,000	\$1,500,000	\$1,800,000	\$1,900,000	+6%

The economy continues to negatively impact many of the County’s primary revenue sources. Since the total general fund revenues have declined more than it has been determined to be feasible to reduce general fund expenditures for FY 2011-2012, 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 \$2,990,424 is required. This is a short term measure that has become a trend in recent years to address budget shortfalls due to the adverse impact of the economic conditions. This is possible due to historically prudent budgetary practices and financial management which has resulted in fund balance levels that exceed the County's budget policy thresholds. The appropriation of non-recurring funds in the amount of \$6,140,424 for FY 2012 is slightly more than the \$6,120,996 fund balance/capital reserve appropriated in FY 2010-2011.

Expenditures

Due to the aforementioned declines in some major revenue sources, the FY 2011-2012 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 third 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. Some operating expenses such as fuel, group health insurance, solid waste collection and disposal and 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 .53% employer contribution increase effective July 1st for the second consecutive year. The increase will take the rate for regular employees from 6.35% to 6.88% and law enforcement from 6.41% to 6.94%. The contribution increase will cost the county \$224,608. Subsequent annual increases are expected until the system actuarial needs are realized.

At some point during the upcoming fiscal year it is anticipated that the County will assume ownership of the Brunswick Community Hospital property. A total of \$350,000 is included to cover operation and maintenance costs for the building and grounds during the interim period between uses.

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 10% of the general fund expenditures. Three years ago, the contract provision for determining the annual rate adjustment for the solid waste collection and disposal contract was implemented. The formula takes into consideration the number of new cans added in the previous 12 months and the change in the Consumer Price Index. Based on a 2.68% increase in the Consumer Price Index and 1,296 additional cans added the unit costs will increase from \$11.44 to \$11.66. We anticipate an increase in fuel surcharge costs due to diesel fuel price increases. Estimated contractual costs for Waste Industries due to the cumulative impact of the above factors are \$12,100,000 reflecting a budgetary increase of 12.1% over the current year. This cost includes charges from Waste Industries to collect recycling from the convenience sites, parks and schools.

The construction and demolition tonnage being received at the County landfill has leveled off after sharp declines in recent years. As a result, the contract funding for diversion to a South Carolina landfill is recommended at the same level as the current year at \$400,000. Also, due to the reduced tipping fee revenue, a transfer to the Capital Reserve Fund for landfill closure cost is not recommended.

This budget includes no revenue or expenditures related to the curbside collection of recyclables. County staff met with all municipalities to obtain commitments to participate in a countywide curbside collection contract similar to the solid waste contract. The results are inconclusive at this time pending the adoption of a local bill to authorize Brunswick County to charge a solid waste and recycling collection fee.

Brunswick County Public Schools

Facing a significant general fund budget deficit for FY 2010-2011, the County Commissioners and Board of Education agreed to defer the funding agreement that had been employed for 15 years for one fiscal year to give the County and the Board of Education the flexibility to determine funding outside the confines of a restrictive formula during uncertain times. The County asked the Schools to share in the local revenue shortfall by recommending a total appropriation from property tax revenue of \$29,515,717 which was approximately \$1,500,000 less than the budgeted appropriation for the prior fiscal year. The total appropriation was to be used at the discretion of the Board of Education without a requirement to use any portion for categories 2 and 3 capital outlay.

The County and the Board of Education have entered into a funding agreement for the next two years that is very similar to prior agreements. It retains the provision to contribute 36.5% of the County ad valorem tax revenue to the schools for operating expenditures less the portion of the tax rate dedicated to pay debt service. The total recommended FY 2012 school appropriation in accordance with the revised funding agreement is \$31,949,720, which represents an increase of approximately 8.25 percent or \$2,434,003 over the FY 2010-2011 appropriation and an increase of 3 percent or \$933,575 more than the FY 2009-2010 appropriation of \$31,016,145, the most recent year under a funding agreement. In accordance with the agreement, 35.75 percent, or \$31,293,219 will be used for current expense and .75 percent or \$656,501 will be used for categories 2 and 3 capital outlay.

The total General Obligation debt service for Brunswick County Schools for FY 2011-2012 is \$7,134,450 exclusive of debt service serviced by sales tax revenue. Including the debt service, 39.3% of the County ad valorem property tax revenue is appropriated for public education purposes.

Brunswick Community College

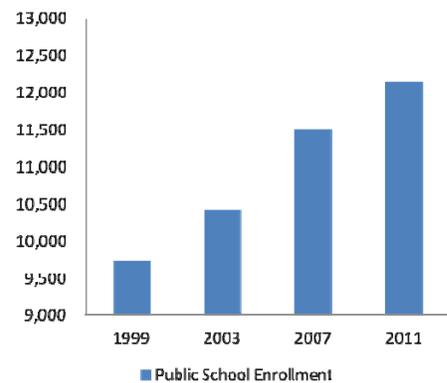
Brunswick Community College plans to complete the renovation to the two satellite campus projects planned as part of the General Obligation Bond funded capital projects. The two

facilities are located in the Carolina Shores area and in Southport. The recommended Community College appropriation for FY 2011-2012 is \$3,538,906 which is an increase of approximately 3 percent over the FY 2010-2011 appropriation of \$3,435,831. The Community College appropriation was not increased for the current year. The recommended increase in the College appropriation is based on the percentage increase in the Brunswick County Schools appropriation for FY 2012 compared to the Schools appropriation for FY 2010.

The total General Obligation debt service for Brunswick Community College is \$2,460,448 which is approximately 2.3% less due to lower interest payments.

Debt Service

Brunswick County government is in a good position with regard to capital facilities for general fund operations. We currently have adequate office space for a workforce that is shrinking and excess capacity in the County Detention Center. Topping the list of needs of Brunswick County include some renovations and maintenance to existing buildings, new senior citizen centers and park expansions and upgrades. Enrollment growth projections for Brunswick County Schools are projected to remain low in the near future so it is possible that new school construction can be deferred for several years. Overall, Brunswick County's per capita debt ratio is low. The County's total outstanding General Fund debt is \$122,600,833. This equates to approximately \$1,141 per capita.



No additional general fund debt is anticipated during FY 2011-2012. The total debt service budget will be \$14,860,689 which represents a decrease of \$721,323 or 4.62% under the debt service budget for FY 2010-2011. The 45% RZEDB interest rebate for the Leland Library expansion project is estimated to be \$15,151 and will result in net debt service for the project of \$93,519. The reduction in total general fund debt service for FY 2011-2012 is primarily due to lower interest payments on existing debt.

The total principal payments on general fund debt are \$9,949,167 with interest payments equaling \$4,896,512.

Human Services

Changes in the costs for Human Service Departments and related organizations include a general fund contribution of \$4,478,015 to the Health Fund representing a small reduction of \$87,653, over the current year appropriation. The total contribution to the Social Services Fund of \$5,265,546 represents a reduction from the current year of \$248,830 or 4.5%. This reduction in the transfer to the Social Services Fund is attributed largely to a change in the way in which daycare will be reimbursed to the providers. Through a phased approach, the state will begin

making reimbursements directly to the daycare providers in an effort to streamline the process and remove counties from the transaction. Due to first year phasing the amount of daycare funds that will be processed by the county is reduced from approximately \$5 million to approximately \$2 million.

Funding for Southeastern Mental Health is recommended to remain the same at \$692,000. The recommended appropriation to Brunswick Senior Resources, Inc. is \$1,600,000.

Employee Benefits

In these difficult economic times most local governments have been forced to modify employee benefits and compensation as a means to balance budgets in an environment of diminishing revenue streams. Such actions have been avoided in Brunswick County, however, again this year, it is not feasible to include employee merit or cost of living compensation adjustments in this budget, however, employee salaries and fringe benefits remain at current levels for FY 2011-2012. 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, most of which are mandated as part of the healthcare reform legislation. One significant change that will be transparent to the members of the plan is the transition to being self-insured with the group insurance. Blue Cross and Blue Shield will continue to be the third party administrator of the plan and claims. Instead of paying premiums to Blue Cross and Blue Shield, the County will pay the medical and dental claims directly through monthly reimbursements to Blue Cross and Blue Shield. A Health Insurance Fund will be established from which to pay the claims. The county's contribution to the Health Insurance Fund will increase by 8.1 percent which is equal to the fully insured renewal premium presented by Blue Cross and Blue Shield. Included in the administrative fees to Blue Cross is Specific Stop Loss Coverage that will cover claims costs for individual plan members in excess of \$150,000 and Aggregate Stop Loss coverage that covers the first \$1 million in claims above the expected claims total of \$9,435,542 should the total claims reach this level. After the aggregate stop loss payments of \$1 million, additional claims, if any would be the responsibility of the county to pay.

In order for the county to have the opportunity to achieve success under the self insured scenario, it is imperative that the county continue to expand opportunities for employee health awareness and actions. Therefore, this budget includes a level of funding to continue annual Health Risk Assessments for all employees and to extend the hours of operation for the employee clinic. An additional appropriation may be necessary if dependents are offered the opportunity to participate in the Health Risk Assessments and clinic. It is not possible to project the dependent participation level at this point.

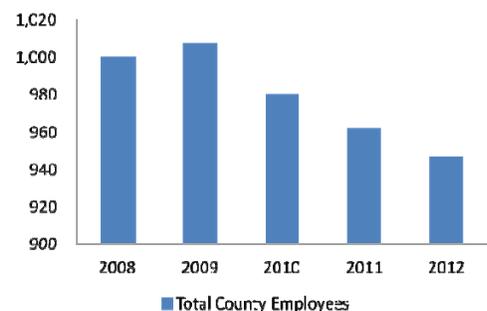
The proposed budget includes funding for all regular benefits such as the 5% 401K employer contribution and longevity pay for employees with five years or more of service.

Staffing / Positions

The economy continues to impact the service delivery and workload of County departments in different ways. Some departments, primarily those associated with development and construction permitting continue to experience reduced activity. Other departments, primarily those that provide humans services, public safety or internal and support services have seen an increase in service demands. It has been a goal of Administration and the Board to avoid a reduction in force; however elimination of vacant positions was deemed to again be an acceptable measure to balance the budget. In FY 2010 twenty-five (25) vacant positions were eliminated for a cost savings of \$972,553 including salary and benefit costs. In FY 2011 an additional sixteen (16) vacant positions were eliminated for an estimated savings of \$743,722. The recommended budget for FY 2012 includes the elimination of sixteen (16) full-time vacant positions and four (4) Health Department positions due to the termination of state funding. The vacant positions eliminated include: (1) Fiscal Assistant in Finance, (1) Field Auditor/Lister in Tax Administration, (1) Mapper II in GIS, (1) Deputy Register of Deeds I, (1) Painter and (2) Housekeeping Assistant I positions in Operation Services, (3) Library Assistants, (1) Animal Control Officer II, (1) Child Support Agent II, (4) Human Resources Aides in Social Services. These cuts result in a budget reduction of approximately \$640,000.

The grant funded positions in the Health Department include (3) Social Worker II positions in Family Health and (1) Nutritionist III in Diabetes Education.

Twelve (12) new positions were requested for general government departments and external state offices. Only two (2) of these positions are recommended for funding in the FY 2011-2012 budget. These include two full-time Vector Control Workers for Operations Services. These full time positions will be offset by the reduction in the number of part-time temporary workers used in the spraying program and to assist with the additional responsibilities associated with the vector control on Eagle Island for which the state is providing additional funding.



These changes would bring the total number of fulltime county positions down to 946, 828 of which are associated with General Fund departments and 118 associated with the Enterprise Fund.

Capital Improvement Plan

The list of projects recommended for funding in FY 2011-2012 includes nine projects totaling \$6,129,578. Three of the projects included in the Economic Development Category are infrastructure projects for failed residential development projects that the county will complete using surety/performance bond proceeds. The largest is for the Avalon Project for which the County has received \$3,922,845 to complete the planned infrastructure.

The recommended Plan includes \$450,000 for HVAC System replacements in Buildings H, F and G, and \$250,000 to renovate Building J to be utilized by the North Carolina Department of Correction which will eliminate the need for the county to lease commercial office space for the Probation and Parole Section. These projects will be funded with current year revenue on a pay as you go basis. Related to Environmental Protection the Plan includes \$500,000 for engineering design for the Phase I of the Construction and Demolition Landfill Expansion, also funded with current year revenue.

The Culture and Recreation Component of the Plan includes \$500,000 for infrastructure improvements to the Highway 211 site, \$250,000 as the first installment of the county's participation in the Sunset Beach Boat Ramp Project and \$35,000 for the Master Plan for the Town Creek Park Improvements. The funding sources for the Highway 211 project and the Boat Ramp project are the County Capital Reserve Fund and grants. The Town Creek Park Plan funding source is current year revenue. Since the Five-Year Capital Improvement Plan is a living document some projects originally scheduled for FY 2011-2012 have been deferred to future years.

Capital Outlay and Major Operating Expenditures

The recommended budget includes a total of \$852,366 in capital outlay for operating purposes in the general fund, down \$51,093 from the FY 2010-2011 budget capital outlay total. Capital outlay consists of items in excess of \$5,000 in value. Some of the more significant capital items include twenty (20) replacement patrol vehicles for the Sheriff's Office, one (1) remounted ambulance, one (1) new ambulance and a replacement SUV for Emergency Medical Services, one (1) ½ Ton Pick-up truck for Operations Services, a diagnostic scan tool for gas and diesel vehicles and eight (8) digital recording cameras for patrol vehicles.

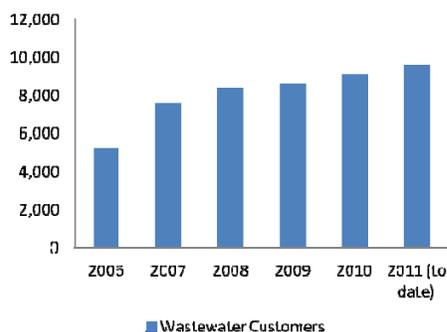
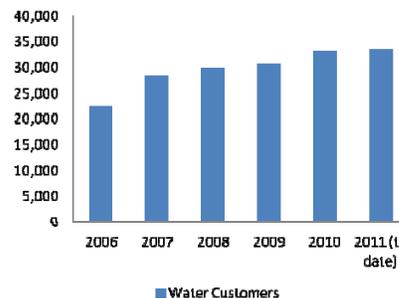
In the Emergency Telephone Fund funding is recommended to replace the primary database server five system servers totaling \$100,000.

The major operating equipment recommended for the general fund totals \$241,849. Major operating equipment includes items that are less than \$5,000 in value. Some of the recommended items include 65 replacement computers for MIS and various departments, eight (8) ballistic vests, eleven (11) light bars for patrol cars and two (2) ambulance cots for EMS.

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 33,414 water retail customers and 9,384 sewer retail customers. Fewer customer connections translates into lower capital recovery fee revenue, which is a source dedicated to the retirement of debt service for system expansion projects.

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



Developments that have occurred over the last several years that are coming to fruition to further strengthen the county's role as the regional wastewater treatment provider in Brunswick County include the completion of the pump station and force main installation by the City of Southport which has allowed the City to cease operation of its treatment plant and send all of their flow to the West Brunswick Regional Plant earlier this year. The City of Northwest has completed the construction of a collection system that is now operational and accepting customers. Construction has been completed on the

Calabash sewer collection system and the Special Assessment District has been finalized and approximately 175 customers have already connected to the system. Construction is almost complete on the Sunset Beach mainland sewer collection system and construction on the island vacuum collection system is well underway. The Northeast Regional Wastewater Plant 825,000 gpd expansion design has been completed and a construction permit is expected later in the calendar year 2011. The 3 MGD expansion to the West Regional Treatment Plant and Effluent Dispersal System has been completed and the construction of the Town of Oak Island collection system has been completed.

One year ago, Brunswick County was serving as 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. Much progress has been made to repair the collection system, and to operate the existing treatment plant within permitted standards. The County should soon be in a position to award a contract for the construction of a pump station and force main at Brick Landing so the treatment plant which has been a concern for regulators for many years can be taken out of service.

The Boiling Spring Lakes sewer collection system special assessment district project is currently under design.

Construction of the new elevated water storage tank in Shallotte was completed earlier this year and significant progress has been made on Phase I of the Northwest Water Treatment Plant upgrade. The construction of several water main extension projects are under contract and

projects funded by Recovery Zone Economic Development Bonds have been completed to include Shingletree Acres, Randolphville Road, Mt. Zion Church Road.

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 2011-2012 is \$19,267,133 which is \$1,259,185 or 7% higher than the original budget for FY 2011. Although the number of new taps is somewhat suppressed compared to the years preceding the recession approximately 500 connections are projected in the upcoming fiscal year. Five hundred connections should generate approximately \$430,000 in Capital Recovery Fee revenue and \$145,000 in Water Transmission Line Capital Recovery Fees. Tap fees are expected to generate \$220,000.

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 \$6,011,327 or \$4,615,860 for retail and \$1,395,467 for irrigation. Retail water sales can be impacted by extreme climate and economic conditions. The base fee of \$11.00 will produce \$4,496,184 and investment earnings for the Water Fund are expected to remain flat at approximately \$65,000.

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 taking into consideration that the number of wholesale customers has been reduced due to the Boiling Spring Lakes transaction. The new wholesale/industrial rate is estimated to increase by 5% this year based on the preliminary PPI Index for April. The actual rate is based on the May PPI Index. The current wholesale rate is \$2.58 per 1000 gallons. The rate cannot be finalized as the May PPI is not yet available, however an estimate would be in the \$2.72 to \$2.75 range. Industrial water sales are expected to increase slightly due to the higher rate to \$2,100,235 although consumption has trended lower over the last two fiscal years.

Operating Costs

Consistent with the conservative approach to the budget in the general fund, all division budgets within the water fund FY 2012 are less than the current year operating budgets with the exception of the Highway 211 Water Plant and the Debt Service Budget. There were no new positions requested. The amount budgeted for the purchase of raw water from the Lower Cape Fear Water and Sewer Authority is increasing by \$42,939 due to increased water production and rate increase. 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 11.7% to \$222,679 due in part to a reduction in personnel costs.

Capital Outlay

The largest capital expenditure in the Water fund is \$1,500,000 for the third year implementation of the automated water meter reading system and meter installation. Other large capital outlay items include (2) replacement trucks in Water Distribution and (1) replacement van for Instrumentation and Electrical, new SCADA Towers at the 211 Water Plant and Bell Swamp Pump Station, (3) SCADA radios, a mini excavator and trailer and a ground penetrating radar locator.

Debt Service

Current debt service in the Water Fund continues to be low as no new debt issues are slated for the upcoming year. The total water fund debt service budget is \$1,709,333 for an increase of 19.8% or \$283,692. The increase is attributable to the first full year of debt service for Phase I Northwest Water Treatment Plant Improvements \$1,169,638 and the Randolphville Road, Mt. Zion Road and Shingletree water main projects \$114,973.

The Northwest Water Treatment Plant Improvements and water main projects were 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 \$303,324.

Water Capital Improvement Plan

The Water Fund Capital Improvement Plan includes eleven (11) projects for FY 2012 at a total estimated cost of \$9,673,899. The largest project is Northwest Water Treatment Plant Expansion Phase I. The project is under construction with an estimated total of \$4,892,177 remaining to be expended in the upcoming year to complete the project. Sludge Handling System Improvements at the Highway 211 Water Treatment Plant are included in the Plan.

The majority of the other projects included in the Plan for FY 2012 are water main extension projects to include Ash-Little River Road and Etheridge Road \$812,680, Ocean Forest and Sea Castles Subdivision \$447,700, a portion of Stanley Road \$163,592, and an extension on U.S. 17 South to serve the southern satellite campus of Brunswick Community College \$417,750 and on Highway 87 to serve the Roger Bacon Charter Day School and surrounding areas \$775,000.

Additional projects planned for FY 2012 include replacing the second feed to Oak Island \$975,000 and \$300,000 for a possible special assessment project that has not been identified at this time and \$250,000 to interconnect with Little River Water and Sewer Authority for emergency back up water supply. Additionally, to address small pay as you go water projects and to provide matching funds for grants received, \$90,000 is included.

WASTEWATER FUND

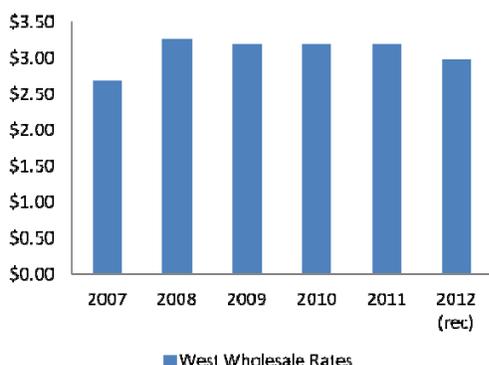
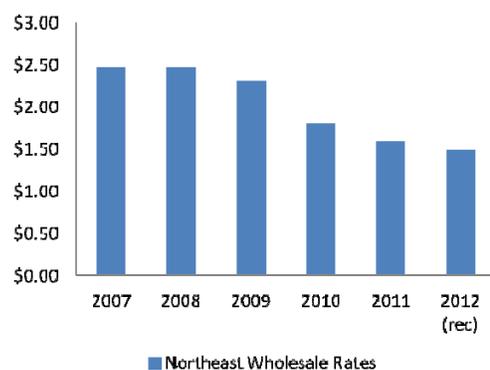
The total recommended Sewer Fund Budget for FY 2011-2012 is \$19,510,298, representing a 37.2% increase or \$5,291,711 over the FY 2010-2011 original budget primarily due to the additional of the debt service costs associated with the 2009 Build America Bonds and the increased operating costs associated with the West Brunswick Regional Wastewater System as a result of the capacity expansion.

Revenue

There is no increase in the current sewer retail rate structure that is projected to generate \$6,207,376 or \$688,293 more than the \$5,519,083 projected in the original FY 2011 budget. This increase can be attributed to proactive efforts to increase the customer base to include the addition of approximately 40 customers at Sea Aire Canal, 168 Sea Trail, 300 in Calabash and 1,200 in Sunset Beach many of which will connect incrementally during the upcoming year.

The number of new sewer connections is conservatively projected to be approximately 150 in addition to the customers added from the Brick Landing, 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 \$450,000 and Sewer Transmission Capital Recovery Fees are projected to generate \$150,000. Capital Recovery Fee revenue has primarily been used for smaller pay as you go capital projects and debt service retirement. Since the Wastewater Fund still has a relatively small customer base, the slowdown in new connections and the associated decline in capital recovery fee revenue have created some budgetary challenges to pay the debt that has resulted from the County’s aggressive expansion of county and regional collection, transmission and treatment systems. All of the regional partners are current at this time on their capital and debt service payments to the County.

The regional wastewater systems operated by the County continue to be successful in that the unit operational costs continue to stabilize as the flow increases. The Northeast Regional Wastewater system has been in operation for 8 years. Based on an annual average daily flow of 1.1 MGD and an operational budget of \$721,119, the wholesale rate for the Northeast Partners will be \$1.50 per 1000 gallons, down from \$1.60 per 1000 gallons.



The recommended operating budget for the West Brunswick Regional Wastewater System is \$1,725,902 up 15.8% due to the increased operating costs and permit requirements for the 6 MGD expanded plant. In addition to personnel costs associated with positions added in recent years, 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 be reduced to \$2.98 per 1000 gallons from the current \$3.18 per 1000 gallons due to the additional flow anticipated from the Town of Oak Island and the City of Southport.

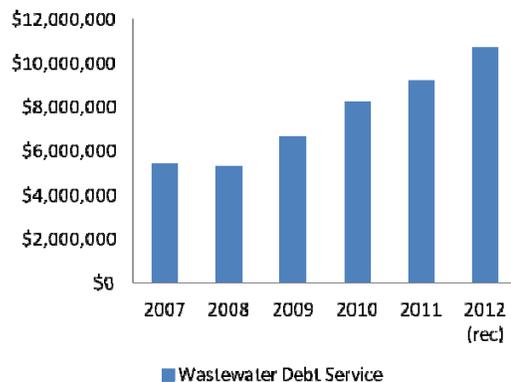
Sewer Operating Costs

There were three (3) new positions requested in the Sewer Fund due to the significant expansion of the collection system to provide the required level of maintenance to keep the system reliable. The new vacuum system being constructed in Sunset Beach will require a crew with specialized training and operational skills. The new positions added included a Utility Foreman (Vacuum System), a Maintenance Mechanic III and a Maintenance Mechanic I.

Capital outlay for the sewer divisions includes three (3) new replacement trucks for the Wastewater Collection Division and three (3) replacement trucks for the regional treatment facilities. Other capital outlay includes a Discrete Analyzer \$20,800, a 1-Ton Gantry Crane \$15,300 and UV Lamps \$7,500 for the Northeast Regional Wastewater Plant.

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 2011-2012 is \$11,017,047, a net increase of \$1,760,490 or 19.0%. The increase is due to the full year of debt service on the 2009 Build America Revenue Bonds. The 2009 Build America debt will be serviced from assessments from property owners in the Towns of Calabash and Sunset Beach over a ten year period. The County will receive an interest rebate equal to 35% of the total annual interest cost. The rebate is estimated to be \$298,206.



West Regional wastewater partners are responsible for \$4,992,535 of the total sewer fund debt services that is related to the construction and expansion of the plant and associated facilities. The Town of Oak Island will contribute \$3,248,483, the Town of Holden Beach will contribute \$1,244,891, and the Town of Shallotte will contribute \$499,161.

The Town of Leland's contribution for the State Revolving Loan Fund debt on the Northeast Regional Plant is \$212,914.

Wastewater Capital Improvements

The Wastewater Capital Improvement Plan for FY 2011-2012 includes five (5) primary projects. The largest capital project to be constructed, beginning in FY 2011-2012, is the Northeast

Brunswick Regional Wastewater Plant 825,000 MGD expansion in the amount of \$11,816,000 that will be financed with revenue bond proceeds and the County's portion will be funded with capital reserve funds. The construction of the Boiling Spring Lakes collection system and transmission system will be initiated at a total estimated cost of \$5,750,000. The County has obtained ownership of the Brick Landing collection system and the necessary easements to construct a new pump station and force main and make additional upgrades to the collection system that are projected to cost \$1,900,000. This will be a Special Assessment District project and the County will recover the project costs through property assessments. These projects would be funded with the remaining revenue bond proceeds.

The other projects include the construction of an upgrade to the Carolina Shores Wastewater Treatment Plant estimated at \$3,000,000 and the Ocean Ridge Pump Station and Angels Trace Force Main estimated at \$1,000,000. This will allow the wastewater plant at Ocean Ridge to be taken out of service.

Conclusion

This FY 2011-2012 budget plan presented to you will fund the personnel and basic operating costs to maintain existing service levels and requires a significant appropriation of non recurring sources of revenue to fill the gap between projected revenue and expenditures for the General Fund again this year. There is still much uncertainty as to what the future holds for local government revenue streams with the economy sending mixed signals and the state budget still unfinished. Because we do not know what will happen to the property tax collection rate, sales tax collections, fuel costs, etc. we will need to continue to proceed with caution as we enter the upcoming fiscal year and continue to follow cost control measures that have been implemented.

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

I would like to thank the Board of Commissioners for providing valuable direction to the staff to assist us 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 2011-2012 that will meet the public service needs of the people of this great county in the "new reality" environment that exists in the aftermath of the Great Recession.

Respectfully Submitted,



Marty K. Lawing
County Manager