

BRUNSWICK COUNTY ADMINISTRATION

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May 18, 2015

Brunswick County Board of Commissioners:

I am pleased to present the recommended FY 2015-2016 budget for Brunswick County for your review and consideration. County revenues are continuing to modestly improve 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, the elimination of services that may more effectively be provided by the private sector or specialized non-profits while achieving the revenue neutral tax rate. This proposal expands existing service levels in DSS utilizing state funds, continues to focus on improvements to the technology infrastructure, maintains funding for public schools, funds the employee compensation plan and provides funding for an effort to determine a dedicated funding stream for shoreline protection.

The county underwent a countywide revaluation of all real property as of January 1, 2015 which resulted in a 10% decrease in total county values. As required by NC General Statutes, the county calculates a revenue neutral tax rate based on the average of growth during the past four years. The county's average growth in assessed valuation from fiscal year 2011-2012 through 2014-2015 was 0.53%. The recommended budget is based upon the revenue neutral ad valorem tax rate of 48.50 cents, which is an increase of 4.25 cents over the current rate of 44.25 cents. The FY 2015-2016 budget proposal for all funds totals \$214,236,623 which represents an increase of 1.9% over the budget adopted June 16, 2014. The general fund budget is balanced by utilizing a prudent fund balance appropriation of \$3,065,489 for non-recurring capital appropriations as compared to \$3,768,420 in FY 2014-2015.

The recovery from the recession continues to impact individuals, businesses and corporations, and all levels of government as the economy is expected to modestly grow. Nationally, new job growth fluctuates on a monthly basis and the March jobless rate was 5.5%. The average cost of a gallon of gasoline in North Carolina is lower than a year ago at \$2.38 per gallon. Looking at the leading economic indicators for North Carolina, statewide unemployment is down 17.2% from last year, building permits are up by 19.8%, manufacturing hours worked are up 3.7% and average weekly earnings are up 5.0%. Locally, home sales rose more than 25% in the first quarter of 2015, sales rose 45.7% and the average sales price increased 17% as reported by the Brunswick County Association of Realtors. Brunswick County's unemployment rate is 6.8% compared to the State at 5.4% and United States at 5.5%.



Consistently ranking in the top twenty fastest growing counties in America, Brunswick County is now ranked 30th for national reporting and 2nd in the State for calendar year 2014. On a positive note the State Data Center reported Brunswick County's projected permanent population to be 121,744, 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 provides concerns regarding the County's discretion in the use of building and inspection fees, continued or enhanced receipt of school lottery funds, potential changes to the County's ability to assess taxes on builders' inventory, changes to local option sales tax proceeds distribution and control and potential unfunded mandates for the county to provide services.

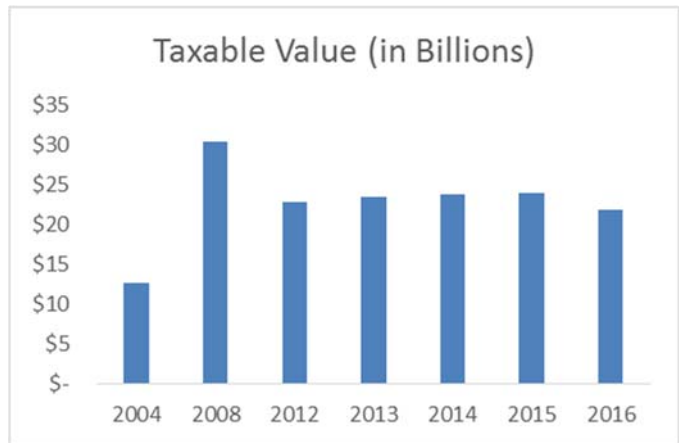
Due to some proactive measures taken in recent years to reduce expenses, the general governmental funds are leaner and significantly less reliant on non-recurring sources. These actions include the decisions to renegotiate and extend the countywide solid waste collection and disposal contract, contracting the county food services operations, refinancing debt obligations to more attractive rates, the elimination of the non-emergency transport program, partnering with WARM for community development grants and the transition of the adult health services to other community providers.

GOVERNMENTAL FUNDS

Revenues

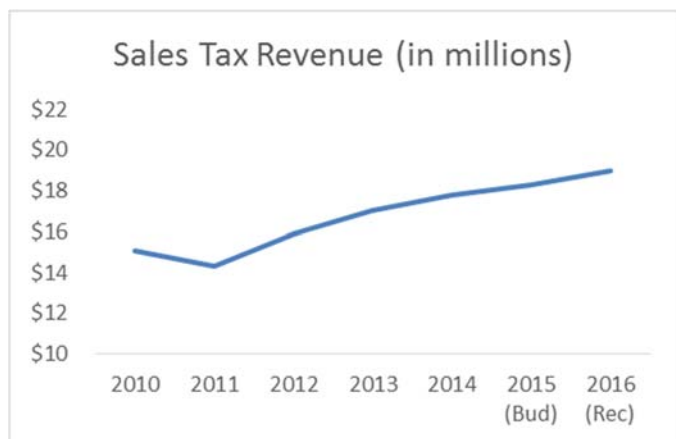
The total recommended general government budget is \$168,059,308 which represents a 1.8% increase from FY 2014-2015. Property tax revenue is the primary source of governmental fund revenue, providing \$109,348,481 or 65.1% of the total revenue. The 2015 levy is a revaluation year. The total projected tax base, inclusive of real property and motor vehicles for FY 2015-2016, is \$22,920,451,666 down by \$1,986,932,004 or 7.98% below the base of \$24,907,383,670 on which the FY 2014-2015 budget was based.

The total projected real property value for FY 2015-2016 is \$21,920,451,666 which represents an 8.6% decrease under the FY 2014-2015 real property base of \$23,982,383,670. The motor vehicle base is projected to be \$1,000,000,000 with an increase of 8.11% from the prior year base of \$925,000,000. The projected collection rate for motor vehicles is close to 100%, which should generate revenue of \$4,850,000. North Carolina's vehicle Tax & Tag Together program was implemented in the previous fiscal year and collection improvements are expected to continue. The program collects vehicle property taxes along with registration renewals.



The total real property levy for FY 2015-2016 is calculated on a tax base of \$21,920,451,666, the recommended revenue neutral tax rate of 48.50 cents, the FY 2013-2014 audited collection rate of 95.0%, and is projected to provide \$100,998,481 in revenue. The total property tax revenue projection for both real property and motor vehicles is \$105,848,481 which is \$1,364,497 or 1.31% more than the original budget for FY 2014-2015. The value of one cent on the tax rate is \$2,182,443 as compared to \$2,361,220 in the prior year. The county tax on a home valued at \$250,000 would be \$1,212.50 and the county tax on a vehicle with a value of \$25,000 would be \$121.25.

A major source of general governmental revenue is local option sales tax. The growth in sales tax revenue is greater than current year projections and the outlook for continued growth extends into the projection for FY 2015-2016. Total county sales tax revenues, exclusive of the portion of Articles 40 and 42 designated for school capital needs, are projected to be \$14,479,555 which is \$684,982 or 5.0% higher than the original budget of \$13,794,573 for FY 2014-15. The portion of Articles 40 and 42 designated for schools is \$4,526,641 which is \$46,026 or 1.0% more than the current budget of \$4,480,615. 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 2015-2016 are mixed with moderate increases. Emergency Medical Services fees will decrease due to the elimination of non-emergency transport services. Total EMS charges are projected to reach \$3,450,000 with an additional \$450,000 from Medicaid Cost Settlement revenue.

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

Revenue	FY 2013	FY 2014	FY 2015	FY 2016	% Change
Solid Waste Tipping Fees	\$1,000,000	\$1,180,000	\$1,600,000	\$1,600,000	no change
Building Permits	\$846,500	\$1,008,734	\$1,206,000	\$1,708,000	+41.6%
Deed Stamp Excise Tax	\$1,800,000	\$1,850,000	\$2,000,000	\$2,200,000	+10.0%

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 no increase in revenue associated with federal inmates and state misdemeanor reimbursements. There is no planned reimbursement revenues from other counties for housing inmates.

The restricted intergovernmental funds from the State and federal governments projected to total \$18,312,913 which is increased \$1,792,250 or 10.8% from the prior fiscal year original budget of \$16,520,663 mainly due to the increase of 25% in the Medicaid reimbursement of salary and benefits. The recommended budget includes an estimate of \$635,000 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 \$3,065,489 for a decrease of \$702,931. 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 2013-2014 unassigned fund balance of \$53.5 million that is 33.7% of expenditures. In November of 2014, the County appropriated \$2,750,000 of fund balance earned in FY 2013-2014 for the funding of pay as you go capital projects at Smithville Park and \$750,000 for Landfill closure cost. All of the FY 2015-2016 fund balance appropriation is dedicated to non-recurring

expenditures. The County ended fiscal year 2013 with actual revenues in excess of expenditures of \$7,095,091 and \$10,796,908 in fiscal year 2014.

Expenditures

The FY 2015-2016 budget includes adequate funding to improve existing services levels and contractual obligations while providing for the costs of a pay scale adjustment of 1.0% and 1 to 2% merit raises to eligible employees, contributions to the employee and dependent health plan, \$750,000 dedicated to landfill closure costs, \$166,000 second year funding of Oak Island Eastern Channel Dredging Restoration, funded an additional \$75,000 to assist the Village of Bald Head Island with rescue services, \$50,000 dedicated to identifying a dedicated funding stream for shoreline protection, and continued 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 recommended a COLA for retirees and the contribution rate is recommended to decrease. The recommended budgeted rate for general employees is 7.00% and law enforcement 7.27%

In September 2011 the County assumed ownership of the Brunswick Community Hospital property. The property is currently under contract through June 30, 2015. At this time, the facility revenue approximately equals expenditures.

Brunswick County Board of Elections is facing the potential for four elections in FY 2015-16 to include a Municipal Election, Presidential Primary Election, May Primary and a possible Second Primary. Funding in the amount of \$800,000 is recommended for temporary salaries to accommodate staffing for One-Stop voting, Election Day voting locations and peak Elections office work, along with additional training and check in stations for law changes in 2016 for the photo ID requirement.

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 7.5% 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. The FY 2015-2016 unit price of \$11.91 is based on 83,246 units with a projected average increase in service locations of 1,548 for countywide solid waste collection of \$12,245,578 for an increase over the prior year of \$387,160.

The construction and demolition tonnage being received at the county landfill had an increase as of April 2014 of 5.9% 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 \$5.2 million and the total cost of closure is estimated at \$8.8 million.

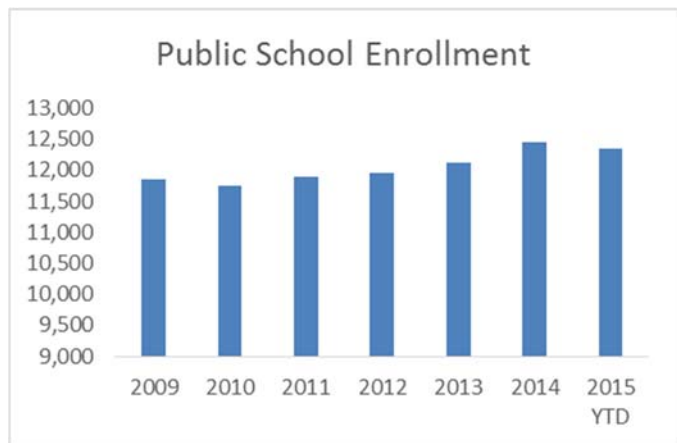
Per the above referenced solid waste contract, Waste Industries is providing curbside recycling services on a voluntary individual contract basis for which the costs are borne by the users through direct billing with no direct fiscal impact to Brunswick County. As of May 2015, Waste Industries reports there are 25,751 county households using curbside recycling either voluntary or through their municipal services.

Brunswick County Public Schools

The County is recommended to enter into a funding agreement with the Brunswick County Board of Education through June 30, 2017. The terms of the agreement are substantially identical to prior agreements. The requirements are for the County to provide 36.5% of the ad valorem tax revenue to the schools for operating expenditures less the portion of the tax rate dedicated to pay debt service. The total recommended FY 2015-2016 school appropriation, in accordance with the funding agreement, is \$34,499,762 which represents an increase of approximately 1.4 percent or \$464,940 over the FY 2014-2015. Under the terms of the agreement, 35.75%, or \$33,790,863 will be used for current expense and 0.75% or \$708,899 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 \$963,165 of local option sales tax proceeds, after subtracting \$3,563,476 dedicated for school debt service, to be utilized for category 1 (improvements to buildings and grounds) annual needs. The estimated State lottery proceeds of \$800,000 will be used for debt service in lieu of local option sales tax proceeds increasing the amount to be utilized for category 1 annual needs. The schools capital improvement plan includes the utilization of prior year ad valorem collections received pursuant to the funding agreement of \$1,690,372 to aid in funding for additional category 1 system improvements.

The total general obligation debt service for Brunswick County Schools for FY 2015-2016 is \$6,113,119. An additional \$3,563,476 of limited obligation debt associated with Town Creek Elementary School, Cedar Grove Middle School, North Brunswick High School Additions, and Waccamaw Multi-Purpose Facility is funded from sales tax revenue dedicated to school capital under statute. Including the debt service, 39.30% or \$41,598,381 of the County ad valorem property tax revenue is appropriated for k-12 public education purposes.

In FY 2013-2014 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 92nd, federal funding rank of 64th and local per pupil expenditures combined, Brunswick County ranked 50th in the State in total for \$8,581.53 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 \$3,117,789.

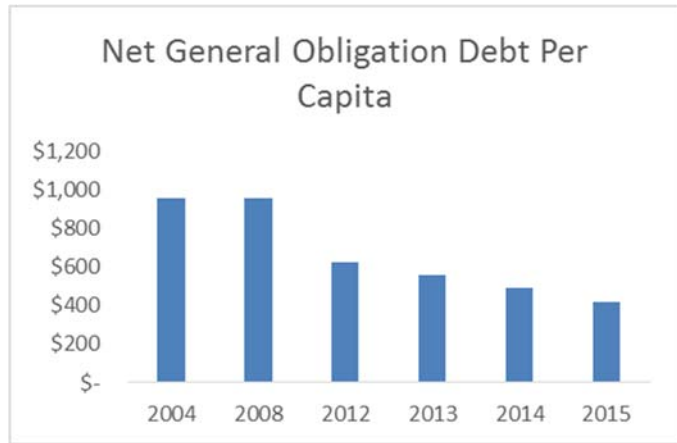
The recommended community college appropriation for FY 2015-2016 is \$3,598,737 for the operating budget which includes \$206,594 for county facility usage and interagency adult transportation and the k-12 school system use of facilities of \$224,000. The recommended budget for capital outlay needs is \$50,000. It is recommended to change the college appropriation to funding at the purpose level and by reimbursement with any annual budget surplus to be placed in a reserve for college capital needs. The combined recommended change to the support for the community college totals a decrease of \$100,710 or 2.7%.

Debt Service

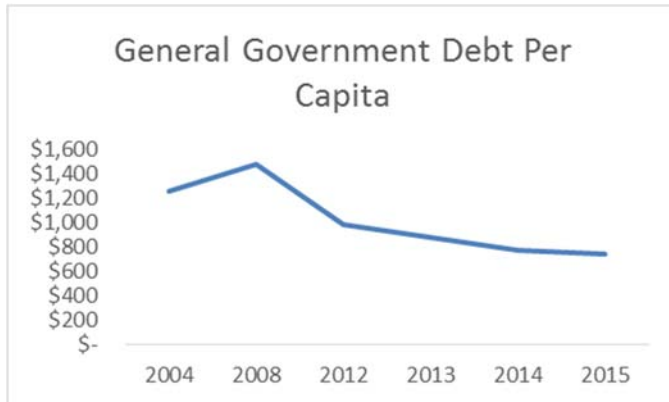
Brunswick County government is in a good position with regard to capital facilities for general fund operations. There is adequate office space for a workforce that has shrunk in recent years and excess capacity in the County Detention Center. Topping the list of needs of Brunswick County include renovations and maintenance to existing buildings, 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 couple of years.

However, school officials report district wide deferred maintenance and improvements and the need for a new Lincoln Elementary School, a new Town Creek Middle School, Waccamaw K-1-2 replacement building, and the addition of a STEM/CTE Program, totaling in excess of \$170 million. The schools have suggested to the county that a bond referendum in November of 2016 may be needed to address the capital needs.

Overall, Brunswick County’s per capita debt ratio is low. The County’s total outstanding Governmental funds debt declined from \$91,440,000 to \$89,955,000 as of the end of FY 2014-2015. This equates to approximately \$740 per capita and current net general obligation debt is approximately \$416 per capita.



The total general government debt service budget will be \$14,881,873 which represents an increase of \$997,345 or 7.18% more than the debt service budget for the



prior year. This increase is mainly due to the limited obligation bonds debt issued for the North Brunswick High School Additions and the Waccamaw Multi-Purpose Facility.

The total principal payments on general fund debt are \$11,470,000 with interest and service fee payments equaling \$3,411,873.

Human Services

Changes in the costs for Human Service Departments and related organizations include a general government local funding contribution of \$3,766,035 to the health fund programs representing a decrease of \$381,188, under the current year appropriation mainly due to the elimination of the non-mandated Adult Health Program and health plan decreases. 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 \$3,644,688 net of the non-mandated Adult Health Program.

The total contribution to the social services fund of \$5,813,416 represents a slight increase from the current year of \$20,916 mainly due to employee costs.

Funding for Trillium is recommended to decrease to \$250,443 from \$692,000 in the prior year. This will provide funding in parity with other counties within Trillium. The funding level per person will be \$2.18 rather than the current Brunswick County level of \$5.66.

The recommended appropriation to Brunswick Senior Resources, Inc. is \$1,565,000, which is the same as the prior year. As the senior center in Leland is constructed and becomes operational along with improvements at the Lockwood Folly center and the acquisition of a center in District 1, it is estimated that that additional resources will be needed to support senior activities in the county.

Employee Benefits

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 2015-2016 budget recommendation includes a pay scale market adjust of 1.0 % related to the CPI index change from the prior year at a cost of approximately \$475,500 and the funding of employee merit raises of between 1 and 2% at an estimated cost of \$507,000.

With significant increases in health care costs, necessary plan design changes to the employee group health insurance schedule of benefits include no available coverage for employee spouses and an increase in the individual deductible from \$500 to \$750 for savings of \$1.8 million. As an organization we will embark on the fourth 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 eliminate employee premiums of \$40 per month for those participating in the annual health risk screening, decrease the cost of dependent coverage and decrease the county contributions to the health fund per employee to \$8,400 from \$10,470 in FY 2015-2016. The self-insured health plan is operating at 100.00% utilization with no expected reserves accumulated as of June 30, 2015. The sector that has experienced the highest claims is spouses, and pre-65 retirees where claims have exceeded contributions. Specific stop loss insurance for individual claims exceeding \$150,000 is in place to manage the risk associated with a self-insured plan. However, the County has incurred 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 spouses.

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 various ways. Some departments, primarily those associated with development and construction permitting, are experiencing increased activity since the recession. Other departments, primarily those that provide human services, public safety or internal and support services have seen an increase in service demands. The FY 2013-2014 general government budget included a net decrease of 3 positions and in FY 2014-2015 a net decrease of 3 positions for a total of 826 general government positions remaining.

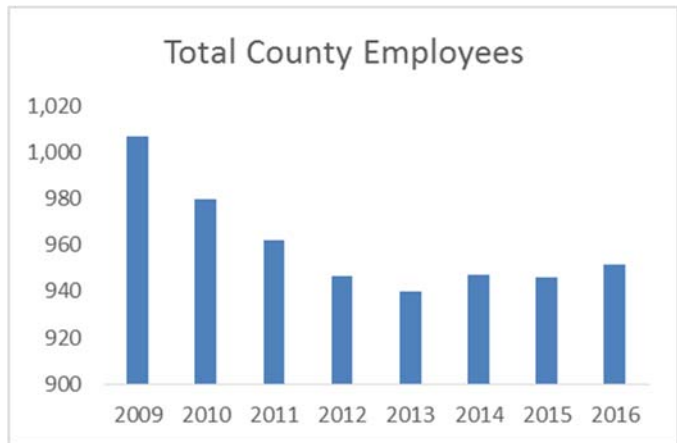
A total of 21 new positions were requested for general government. The recommended budget includes the transfer of a Deputy Clerk's position from the Governing Body to Administration as an Administrative Assistant I to assist with the administrative and mailroom duties. A transfer of an Administrative Assistant II from Service Center to Operation Services as an Inventory Control Purchaser, and the transfer of a Training Coordinator from Emergency Services to Emergency Medical Services as a Computer Technician. The general government recommended FTE increase is the addition of 1 Division of Motor Vehicle Specialist in Tax Administration, 1 Junior Network Engineer in Management Information Services, 2 Drug Enforcement Unit deputies in the Sheriff's Office, 1 Code Inspector IV in Code Administration, 1 Administrative Telecommuter in Central Communications, 0.65 funding for a shared 2 county Extension Agent and Extension Secretary in Cooperative Extension, and 3 Income Maintenance Caseworker I, 2 Income Maintenance Caseworker II, 1 Social Worker III, and 1 Social Worker Quality Assurance Supervisor for a total increase of 13.65. The total cost of new positions added is \$1,139,556. Positions eliminated are 1 Community Development Administrator in Planning now provided by contracting with a non-profit entity, 3 Emergency Medical Technicians that were part of the Non-Emergency Transport Program, 3 positions in the non-mandated Adult Health Program and 2 positions in the Employee Wellness Program now provided by contracted services for a total savings of \$606,111.

As part of the County's pay plan and to maintain a competitive pay plan per policy, 25% of budgeted positions were evaluated and various positions were reclassified at a cost of \$31,604. Other reclassification are recommended to meet minimums for exempt status and to create career ladders for advancement and certifications at a total cost of \$24,818.

The general government operations provide school resource officers which are reimbursed by the school system and the charter school totaling \$1,160,000 for at a flat annual rate of \$58,000 per officer, down from the prior year due to the change in health insurance premiums per employee. This is the second 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 3 new positions were requested for the enterprise operations. The budget includes the recommendation of 1 Generator Maintenance Tech II in the Water Instrumentation and Electrical Division, 1 Collections Mechanic I and 1 Collections Mechanic III in the Sewer Collections Division at a cost of \$154,642.

These changes would bring the total number of positions to 951.65, of which 827.65 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 2015-2016 totals \$5,565,797.

In FY 2015-2016 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 and \$4,270,000 for the construction of improvements to the Smithville Park. Completion of the Waccamaw Park project includes soccer lights, basketball court and two tennis courts w/lights & ADA at an estimated cost of \$508,000. The remaining \$2,778,000 of pay go funds needed to fund the parks are subject to audited results released October 31st and maintaining a fund balance percent calculation of the previous year.

Included in the public safety component of the plan is the Sheriff's Office firing range in the amount of \$1,814,200, of which \$680,000 is funded from the reserve and the remaining \$1,134,200 will be pay go funds contingent upon audited results released October 31st and maintaining a fund balance percent calculation of the previous year.

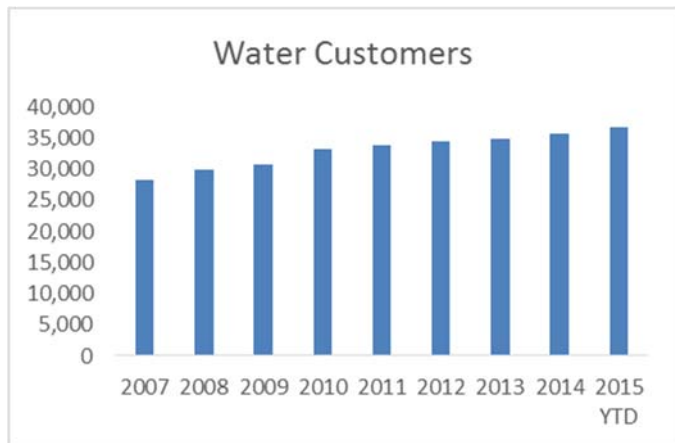
The FY 2015-2016 Capital Improvement Plan as presented includes \$750,000 of current year revenue transfers from the general fund and \$2,000,000 of capital reserve funds. Since the five-year capital improvement plan represents a living document, some projects originally scheduled for FY 2015-2016 have been deferred to future years.

Capital Outlay and Major Operating Expenditures

The recommended general government budget includes a total of \$2,407,189 in capital outlay and major operating equipment for operating purposes in the governmental funds, increased by \$208,420 from the FY 2014-2015 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 at \$388,315, 2 new ambulances at \$310,000 and an excavator at \$150,000 and SAN (server) replacement for \$300,000. The Operation Services budget includes funding for repairs and maintenance to buildings including \$50,000 for the Harper Library HVAC system, \$345,000 for Building C redesign and repairs and \$15,000 for Shallotte Senior Center HVAC repairs. The major operating budget includes the replacement of 235 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 36,828 water retail customers and 14,378 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 Ocean Ridge Pump Station was completed in 2014-2015 and the Ocean Isle Beach Wastewater Plant improvement are under construction.

The County continues to expand the water distribution system to meet the potable water needs of the county. The FY 2014-2015 neighborhood water mains project consisting of Fletcher-Hewett, Sirwood Place, Nichols Avenue, Big Oak Subdivision, Beaufort, and Snowfield neighborhood are currently scheduled to be advertised for construction in FY 16.

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 2015-2016 is \$20,944,110 which is slightly higher than the original budget for FY 2014-2015 appropriation of \$20,510,074. A conservative estimate of 700 connections are projected in the upcoming fiscal year. New service 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 rates for base service charges and the usage rate of \$3.05 per 1000 gallons; however, with the planned acquisition of the Caswell Beach water system with approximately 650 customers, the County plans to adopt their current monthly billing rates. For a ¾" meter the monthly access rate will be \$9.50 with a usage rate of \$4.20 per 1,000 gallons. Total commercial and residential retail water sales are projected to be \$8,781,812 or \$2,131,530 for industrial, \$5,040,632 for retail and \$1,609,650 for irrigation. The monthly base service charges will produce \$5,346,720.

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 \$2.82 per 1000 gallons. The rate cannot be finalized as the May PPI is not yet available, however an estimate would be in the \$2.77 to \$2.83 range based on the most current PPI. Assuming the rate of \$2.82, wholesale water revenue is projected to provide \$4,620,400.

Operating Costs

There was 1 new position requested for the water fund, a Generator Maintenance Tech I which was recommended for funding. The amount budgeted for the purchase of raw water from the Lower Cape Fear Water and Sewer Authority is unchanged at \$1,073,250. The anticipated rate is \$0.27 per thousand gallons. The County will continue to operate and maintain the raw water pumping station at Kings Bluff for the LCFWSA on a reimbursable basis. The operating budget for the Kings Bluff Pumping Station will decrease by approximately 6.9% to \$284,178 due to decreases in employee health care benefit costs.

Planned expenditures are less than planned revenues of \$1,399,192 therefore, the budget includes a contingency reserve.

Capital Outlay

The largest capital expenditure in the water fund is \$1,000,000 for the final phase of implementation of the automated water meter reading system and meter installation. The County is on schedule to complete the project in FY 2015-2016. Other large capital outlay items include 2 replacement vehicles at \$42,000 and a flatbed truck at \$80,000.

Debt Service

Debt service in the water fund increased due to two new debt issues in FY 2015 with the first installment payments due in FY 2016. Phase II of the Northwest Water Transmission Improvement project is included as a capital project for FY 2014-2015 at a cost of \$8.75 million and the Danford Road water project at an additional cost of \$4.1 million. The total water fund debt service budget shows a modest increase at \$2,018,140.

Water Capital Improvement Plan

The water fund capital improvement plan includes projects for FY 2015-2016 at a total estimated cost of \$3,375,000. The largest project is FY15 Top Six Water Main projects with an estimated total cost of \$850,000.

Other water system improvement projects to be funded on a pay as you go basis without incurring debt are transmission improvement mains \$500,000, system improvement mains for neighborhoods \$650,000, Northwest raw water reservoir \$500,000, aquifer storage and recovery study phase II \$300,000, and highway 74/76 water main \$175,000.

Waterline expansion projects planned in the upcoming fiscal year for professional engineering design include Ludlum Road, Taft Road/Sea Wind II Subdivision, Old Town Creek

Road, High Meadows Subdivision, Russ Town Road and Big Neck/Mill Branch Road. These projects will be constructed with an estimated \$850,000 of capital reserve funds.

WASTEWATER FUND

The total recommended sewer fund budget for FY 2015-2016 is \$24,924,602 representing an 11.4% increase or \$2,546,093 over the FY 2014-2015 original budget.

Revenue

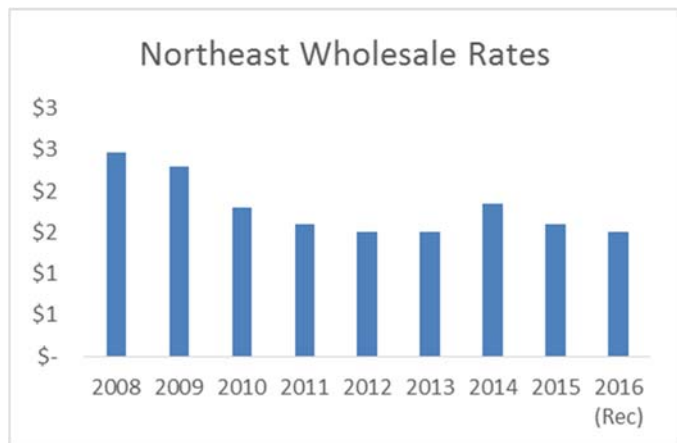
There is no increase in the current sewer retail rate structure that is projected to generate \$8,706,435 or \$619,821 more than the \$8,086,614 projected in the original FY 2014-2015 budget. However, with the planned acquisition of the Caswell Beach sewer system with approximately 650 customers, the County plans to adopt their current monthly billing rates.

The number of new sewer connections is conservatively projected to be approximately 300. 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 positions requested for the Sewer Fund; a Collections Mechanic I and III, with both recommended for funding.

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 12 years. Based on an annual average daily flow of 1.53 MGD and an operational budget of \$925,960, the wholesale rate for the Northeast participants will decrease from \$1.60 to \$1.50 per thousand gallons.



The recommended operating budget for the West Brunswick Regional Wastewater System is \$2,733,542, up 16.1% due to the increased operating costs and increased flow. The County increased the capacity in the lease agreement with Southport to 750 mgd with revenues to be shared with the other participants. 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 \$2.60 to \$2.45 per 1000 gallons.



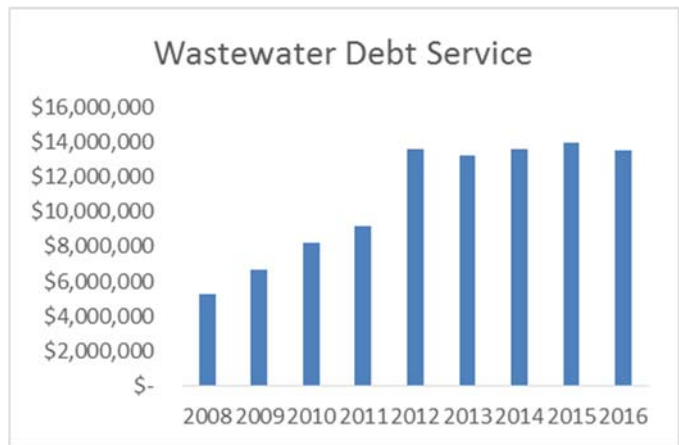
Capital Outlay

Some of the larger capital outlay for the sewer divisions includes a mid-size excavator \$62,000, a hydro-gritter \$62,000, lab expansion at the west regional facility \$80,000 and 2 additional trucks totaling \$80,000. Total capital outlay for wastewater departments is \$512,425.

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 2015-2016 is \$13,444,284 decreased \$525,498 from FY 2014-2015 mainly due to the refunding of existing debt offset by the new debt issue of \$4.2 million for the Ocean Isle Beach Wastewater Treatment Plant Pump Station and improvements.

West Regional Wastewater participants are responsible for \$5,366,881 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 \$2,678,800, the Town of Holden Beach will contribute \$1,164,145, and the Town of Shallotte will contribute \$498,936. Although not a participant in the West Regional System, the City of Southport will contribute \$750,000 under the terms of an interim wastewater treatment agreement with the County and Ocean Isle Beach will contribute an additional \$275,000.



The Northeast Regional Wastewater participants are responsible for \$1,291,212. 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 \$927,092. Debt service reimbursements for the remaining Northeast Regional participants for the expansion includes the Town of Navassa \$94,020, the City of Northwest \$26,546, and Brunswick Regional Water and Sewer H2Go \$243,554.

Wastewater Capital Improvements

The wastewater capital improvement plan for FY 2015-2016 is \$3,100,000 in total. The largest project is the Carolina Shores Special Assessment District with an estimated total cost of \$1,950,000.

Conclusion

The outlook for FY 2015-2016 is more optimistic than recent years but uncertainty surrounding legislation and 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 and set aside reserve funds for pay as you go capital improvement projects. Significant progress has been made toward these goals due to some very proactive and strategic actions by the Board of Commissioners and staff to reduce expenditures. The county needs 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 staff for their dedication to conservative budgeting and efficient use of the county's resources and 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 2015-2016 that will meet the service needs and expectations of everyone we serve.

Respectfully Submitted,



Ann B. Hardy
County Manager