

BRUNSWICK COUNTY ADMINISTRATION

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

MAILING ADDRESS:

POST OFFICE BOX 249
BOLIVIA, NORTH CAROLINA 28422

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

May 21, 2018

Brunswick County Board of Commissioners:

I am pleased to present the recommended FY 2018-2019 budget for Brunswick County for your review and consideration. County revenues are strong in all major categories resulting in funding for improvements to public safety services and providing enhancements for employee retention and recruitment through adoption of a competitive a pay scale and benefits package that includes an option for spousal health and dental insurance. Department heads submitted conservative and thoughtful budget requests that reflect the service priorities of the Board of Commissioners and the citizens of Brunswick County. In summary, the over-arching focus of the recommended budget is meeting the needs of a growing county with diverse demographics.

The next revaluation in the county's 4-year cycle is scheduled for January 1, 2019. As required by NC General Statutes, in 2015 the county calculated a revenue neutral tax rate of 48.50 cents for FY 2015-2016. The recommended budget includes no ad valorem tax rate change from the current 48.50 cents. The FY 2018-2019 budget proposal for all funds totals \$242,689,100 which represents an increase of 4.0% over the budget adopted June 5, 2017. The general fund budget is balanced by utilizing a prudent fund balance appropriation of \$3,563,251, net of the \$1,422,360 in escrow funds held for the Holden Beach sand nourishment project, for non-recurring capital appropriations as compared to \$3,418,233 in FY 2017-2018.

The county's economy is experiencing moderate and consistent growth. Nationally, new job growth fluctuates monthly and the March jobless rate was 4.1%. The average cost of a gallon of gasoline in North Carolina is higher than a year ago at \$2.75 from \$2.22 per gallon. Statewide leading economic indicators for March are: unemployment rate is down 0.2%, building permits are up 29.4%, manufacturing hours worked are down 1.4% and average weekly earnings are up 2.4%. Locally, in March of 2018 home sales rose 13.4% compared to one year ago and sales dollars increased 27.9% in the first quarter of 2018 over first quarter of 2017 as reported by the Brunswick County Association of Realtors. In the current fiscal year through March 2018, countywide building permits issued for single family homes increased 10.0% and commercial permits issued increased 50.2% compared to the same time last fiscal year. Brunswick County's unemployment rate is 5.6% compared to the State at 4.5% and United States at 4.1%.

Consistently ranking as one of the fastest growing counties in America, Brunswick County ranked 23rd for 2017 national reporting and the top in the State as of July 1, 2017. The State Data Center reported Brunswick County projected permanent population to be 130,897, up from the decennial census figure 107,431 indicating that people are consistently choosing Brunswick County as a place to live.

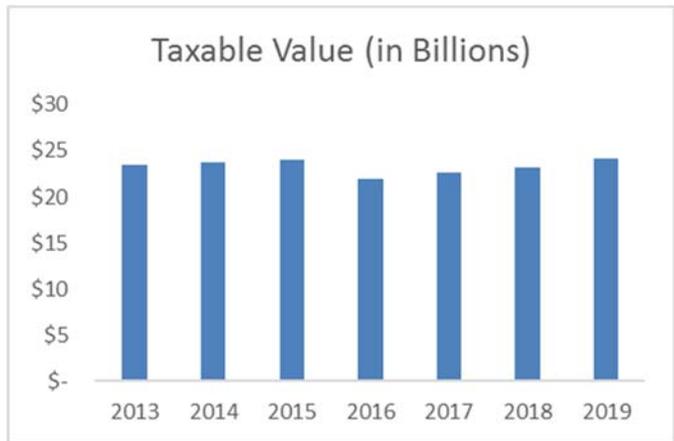


GOVERNMENTAL FUNDS

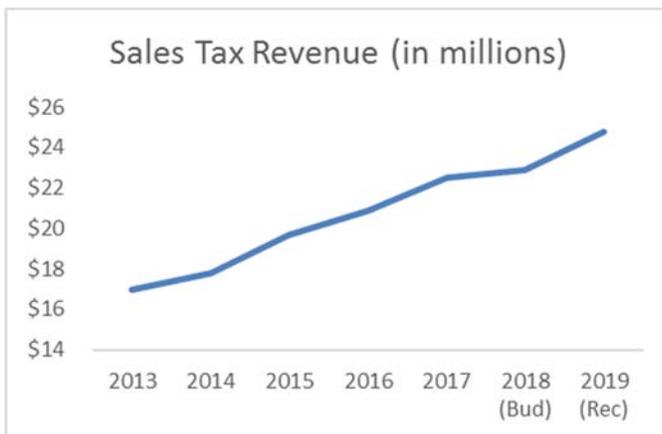
Revenues

Revenue projections are maintaining the upward trend. The total recommended general government budget is \$192,519,035 which represents a 3.7% increase from FY 2017-2018. Property tax revenue is the primary source of governmental fund revenue, providing \$124,680,301 or 64.8% of the total revenue. The total projected tax base, inclusive of real property and motor vehicles for FY 2018-2019, is \$25,573,185,495 up by \$1,150,622,095 or 4.7% above the base of \$24,422,563,400 on which the FY 2017-2018 budget was based.

The total projected real property value for FY 2018-2019 is \$24,223,185,495, which represents a 4.5% increase over the FY 2017-2018 real property base of \$23,172,563,400. The motor vehicle base is projected to be \$1,350,000,000 with an increase of 8.0% from the prior year base of \$1,250,000,000. The projected collection rate for motor vehicles is close to 100%, which will generate revenue of \$6,547,500.



The total real property levy for FY 2018-2019 is calculated on a tax base of \$24,223,185,495, the recommended tax rate of 48.50 cents, at the estimated collection rate of 98%, and is projected to provide \$115,132,801 in revenue. The total property tax revenue projection for both real property and motor vehicles is \$121,680,301, which is \$6,894,682 or 6.0% more than the original budget for FY 2017-2018. The value of one cent on the tax rate is \$2,508,872 as compared to \$2,366,714 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 2018-2019. Total county sales tax revenues, exclusive of the portion of Articles 40 and 42 designated for school capital needs, are projected to be \$18,742,203, which is \$1,343,189 or 7.7% higher than the original

budget of \$17,399,014 for FY 2017-18. The portion of Articles 40 and 42 designated for schools is \$6,011,920, which is \$462,610 or 8.3% more than the current budget of \$5,549,310. The increased sales tax is attributable to the general economic conditions within the county and the increase in the number of retail businesses locating within the county. The local portion of the sales tax is 2.00 cents and the state sales tax rate is 4.75 cents for a total of 6.75 cents.

Projections for other revenue sources for FY 2018-2019 indicate moderate increases. Emergency Medical Services fee revenues will increase due to growth in transport services. Total EMS charges are projected to reach \$3,959,578 with an additional \$600,000 from Medicaid Cost Settlement revenue.

There are continued improvements for other major general government revenue categories over prior years' projections as follows:

Revenue	FY 2016	FY 2017	FY 2018	FY 2019	% Change
Solid Waste Tipping Fees	\$1,600,000	\$1,800,000	\$2,100,000	\$2,250,000	+7.1%
Building Permits	\$1,708,000	\$1,750,000	\$1,950,000	\$1,960,000	+0.5%
Deed Stamp Excise Tax	\$2,200,000	\$2,300,000	\$2,800,000	\$2,900,000	+3.6%

The Sheriff continues to seek new revenues to offset the costs of serving civil warrants and detention center operations. The recommended budget includes no increase in revenue associated with federal or state inmates at \$400,000 each. There are no planned reimbursement revenues from other counties for housing inmates.

The restricted intergovernmental funds from the state and federal governments are projected to total \$14,011,375, which is decreased \$3,873,983 or 21.7% from the prior fiscal year original budget of \$17,885,358. This is due to previously passed through revenues from the state transitioning to direct pay for daycare services decreasing \$3,523,054. The recommended budget includes in the health fund an estimate of \$525,000 of Medicaid Maximization funds to provide current year eligible services and utilizes \$274,410 of the health reserve funds.

The recommended budget includes a fund balance appropriation for funds held in escrow and non-recurring capital expenditures of \$4,985,611 for an increase of \$105,778. A portion of the appropriation is due to escrow funds held in the amount of \$1,422,360 by the County related to the Holden Beach Interlocal Agreement and the issuance of Special Obligation Bonds for beach nourishment. Taking the escrow fund requirement into consideration, this level of fund balance appropriation is consistent with the County's levels in prior years and is considered reasonable due to the County's FY 2016-2017 unassigned fund balance of \$59.3 million that is 31.6% of

expenditures and transfers to capital projects. In May of the current fiscal year, the County appropriated \$2,000,000 of fund balance for the Courthouse Parking Lot project and Sheriff's new software solution to provide a unified database to meet current and future operational needs. The County ended fiscal year 2017 with revenues greater than expenditures before transfers for projects of \$18,128,506.

Expenditures

The recommended budget took into consideration three major focus areas:

1. Employee Retention, Recruitment and Succession Planning

- Scale adjustment recommendation of 2.0% to new hires and employees who are satisfactory performers
- Recommendation of additional .65% to 1.0% merit to employees who are high performers.
- Recommendation of additional 1.05% to 1.35% merit to the county's highest performers in 2018-2019
- Maintain county employee, eligible dependent children and retiree health plan with no increase in employee premiums or reduction of benefits and add an optional spousal health and dental benefit
- To join a fully insured plan with other NC local government entities to create a pool for employees

2. Public Safety

- Improve Emergency Medical Services Response times with the addition of 2 advanced life support quick response units stationed in the Waccamaw and Sunset Harbor communities
- Provide 5 additional deputy patrols as part of the three-year plan of 20 additional deputy patrols
- Provide municipal and non-profit fire department funding assistance based on the fire fee committees' recommendations and support by municipal governments where applicable
- Increased support in Code Administration with an additional Fire Inspector and Inspections and Permit Analyst

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

- Increase of 7.0% per the funding agreement with Brunswick County Schools for the operating budget resulting from growth in ad valorem and sales taxes
- Increase of 4.8% to Brunswick Community College to support existing programs and an additional \$216,000 for the Foundation Grant providing tuition assistance
- Increase of 15.0% to Brunswick Senior Resources to support program expansion related to new centers

- Continue the county's commitment of \$200,000 per year to shoreline protection with an additional \$400,000 for dredging
- Provide employees training, resources, and equipment to facilitate high service levels to citizens
- Replace vehicles utilized beyond end of useful life
- Continued funding for technology/computer software support and cyber security upgrades
- Maintain computer replacement program

Solid Waste Management

Solid waste management, including the operation of the County's construction and demolition landfill and contracting for the countywide curbside collection of municipal solid waste, represents 8.5% of the general government expenditures. The County has a countywide solid waste collection and disposal contract with Waste Industries through June 2023. The contract includes an annual price adjustment formula based on March CPI and the previous year's number of new cans added. The FY 2018-2019 per unit increased \$0.14 to \$12.27. Based on average growth in cans of 2,328 per month and replacement cans, the budget for countywide solid waste collection is \$13,736,000 for an increase over the prior year of \$624,600.

The construction and demolition tonnage received at the county landfill increased 17.8% as of June 30, 2017 compared to the previous year. To preserve the existing capacity in the landfill and extend the useful life of the facility, the County contracts with Waste Industries for diversion of waste to a landfill in Sampson County, North Carolina. The cost of diverting 75% of the waste from the landfill is currently \$38 per ton or \$1,040,000 per year. The current landfill closure reserve balance accumulated is \$8.8 million with an additional planned transfer to the reserve in FY 19 of \$750,000. The total cost of closure is estimated at \$9.9 million.

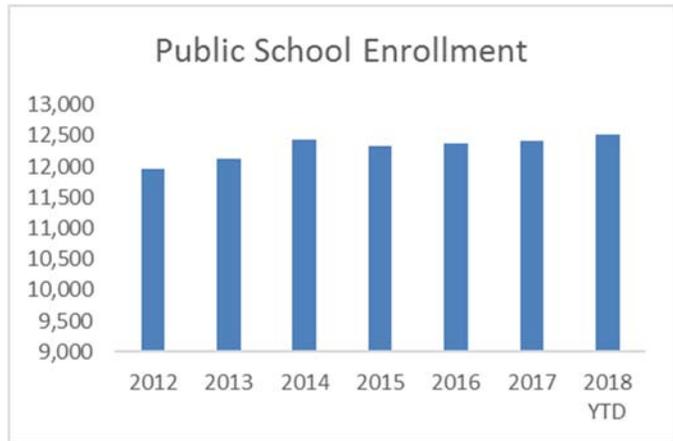
Waste Industries is providing curbside recycling services on a voluntary individual contract basis for which the costs are borne by the users through direct billing with no direct fiscal impact to Brunswick County. Waste Industries reports there are 33,771 county households using curbside recycling either voluntary or through their municipal services.

Brunswick County Public Schools

The County has a long-standing funding agreement with the Brunswick County Board of Education that was extended through June 30, 2021. 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 2018-2019 school appropriation, in accordance with the funding agreement, is \$40,756,278, which represents an increase of approximately 7.0 percent or \$2,674,787 over the FY 2017-2018 approved budget. Under the terms of the agreement, 35.75%, or \$39,918,820 will be used for current expense and 0.75% or \$837,458 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 \$3,546,775 of local option sales tax proceeds, after subtracting \$2,465,145 dedicated for school debt service, the remainder is for category 1 (improvements to buildings and grounds) annual needs. The estimated State lottery proceeds of \$800,000 will be used for debt service in lieu of local option sales tax proceeds increasing the amount to be utilized for category 1 annual needs. The school's capital improvement plan includes resources from prior year ad valorem collections received pursuant to the funding agreement of \$839,500 to aid in funding additional category 1 system improvements.

The total general obligation debt service for Brunswick County Schools for FY 2018-2019 is \$5,418,365. An additional \$3,265,145 of limited obligation debt associated with Town Creek Elementary School, Cedar Grove Middle School, North Brunswick High School Additions, and Waccamaw Multi-Purpose Facility is funded from sales tax revenue dedicated to school capital under statute and lottery proceeds. Including the debt service, 37.9% or \$46,174,642 of the County current year ad valorem property tax revenue is appropriated for k-12 public education purposes.



In FY 2016-2017, Brunswick County ranked 17th in the State of North Carolina for local funding of public schools based on per pupil expenditures. With the State providing funding rank of 87th, federal funding rank of 45th and local per pupil expenditures combined, Brunswick County ranked 46th in the State in total for \$9,297.61 expended per pupil.

Brunswick Community College

Brunswick Community College completed the Southport satellite campus improvements concluding all the college bond projects of the general obligation bond funded capital projects. The Board of Commissioners appropriated \$215,000 to combine with an appropriation by the college of \$200,000 to complete the roof project and add 9,000 square feet to the Southport satellite campus. The total General Obligation debt service for Brunswick Community College is \$2,764,089.

The county and the college entered into an agreement to design and construct an Allied Health Building to house all health occupation programs on the main campus utilizing \$2.85 million of NCCConnect State Bond Funds and an additional \$2.85 million of county and college funds. The former Early Childhood Education Center will be renovated and an addition will be constructed. The project design is complete and the bids are expected in the summer of 2018 with construction to follow shortly thereafter.

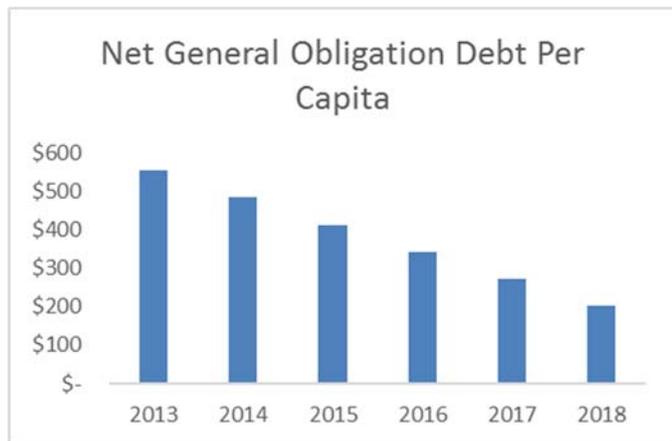
The recommended community college appropriation in FY 2018-2019 is \$4,183,867 for reimbursable operating expenditures. Also, included in the budget is the k-12 school system use of facilities of \$224,000. It is recommended to continue the college appropriation to funding at the purpose level and by reimbursement with any annual budget surplus to be placed in a reserve for college capital needs. The combined recommended change to the support for the community college totals an increase of \$191,437 or 4.8%.

Included in the funding for the Brunswick Community College is funding for the Foundation Grant of \$216,000 (up from the prior year \$16,000) to assist with tuition and fees for qualified Brunswick County High School graduates.

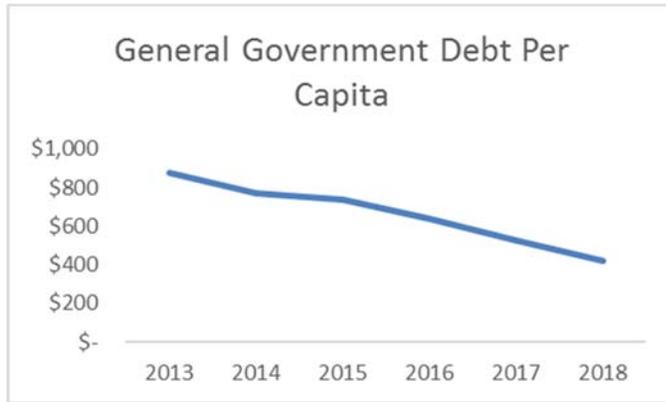
Debt Service

In general, Brunswick County government is in a good position regarding capital facilities for general fund operations. There is adequate office space for the workforce, and excess capacity in the County Detention Center. Topping the list of needs are additional courtroom space and renovations. There are plans to study the need for Health and Human Services facility space needs.

In November 2016, the voters approved a \$152 million general obligation bond referendum to address the school capital needs of district wide maintenance and improvements and the need for a new Town Creek Middle School, classroom additions for Lincoln Elementary School, West Brunswick High School, North Brunswick High School and Town Creek Elementary, Waccamaw K-1-2 replacement building, and the addition of a STEM/CTE Program, totaling \$152 million. There are 3 separate bond issues scheduled within 5 years, with the first issue in June 2018 and the first principal and interest payment in August 2019 estimated at \$5,800,000.



Overall, Brunswick County's per capita debt ratio is low. The County's total outstanding Governmental Funds debt will decline from \$68,700,000 to \$57,490,000 as of June 30, 2018. This equates to approximately \$424 per capita and current net general obligation debt is approximately \$203 per capita.



The total general government debt service budget will be \$13,460,707, which represents a reduction of \$357,742 or 2.6% from the prior year. This decrease is mainly due to decreases in the annual amortization schedule.

The total principal payments on general fund debt are \$11,070,001 with interest and service fee payments equaling \$2,390,706.

Human Services

Changes in the costs for Human Service Departments and related organizations include a general government local funding contribution of \$4,240,314 to the health fund programs representing a decrease of \$5,894 mainly due to increases in employee salary and benefits offset with decreases in one-time capital purchases made in the prior year.

The total contribution to the social services fund of \$6,500,154 represents a decrease from the current year appropriation of \$160,970 mainly due to changes in employee costs and a portion of replacement vehicles and equipment costs.

Funding of \$250,443 is recommended to enter into a contract for services that include crisis intervention service with the state agency Trillium.

The recommended appropriation to Brunswick Senior Resources, Inc. is \$2,387,618, which is 15.0% greater than the prior year and dedicated for the recent completion of renovations for the new center in Calabash, meal preparation beginning at The Shallotte Center and the second year of a 3-year phase in of Case Managers.

Employee Benefits

The FY 2018-2019 budget recommendation includes a pay scale market adjust of 2.0% related to the December CPI index change from the prior year at a cost of approximately \$1,224,900 of which \$168,600 is budgeted in the enterprise fund and the additional funding of employee merit raises of 1% at an estimated cost of \$611,400 of which \$84,300 is budgeted in the enterprise fund.

The County will move away from the current Health Insurance Fund contributions for employees and pre-65 retirees to a fully insured health benefit pool established through NCHIP. There will be no plan benefit design changes. However, the county will offer for employees to obtain health and dental insurance for spouses. The administrator for the plan will continue to be

Blue Cross Blue Shield. The wellness program will no longer be offered. County contributions for the health and dental program per employee is \$8,412. With the increase for the coverage option for employee spouse health and dental, the budget impact to the general fund is \$2,621,967 and to the enterprise fund \$326,020.

The Local Government Employee Retirement System Board recommended contribution rates for general employees at 7.75% and law enforcement at 8.50%.

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

Staffing / Positions

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

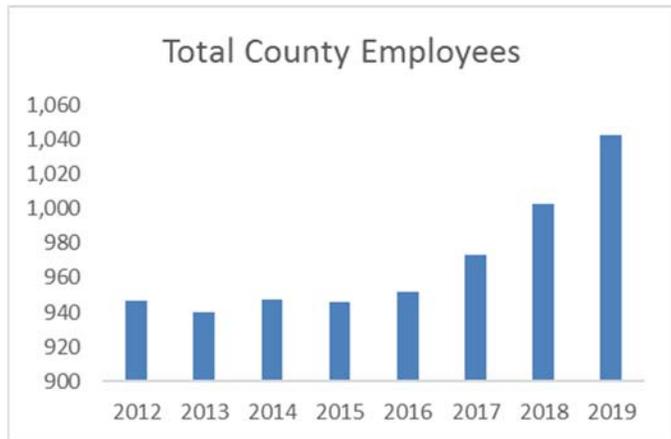
Thirty-three new positions are recommended for general government. The general government recommended FTE increase is the addition of one GIS Analyst and one Real Estate Appraiser I in Tax Administration, one Legal Assistant in Legal, a Programmer II and a Computer Technician in Management Information Services, one Inspector in Engineering, a Grounds Assistant I and a Custodial Assistant I in Operation Services and five Deputies in the Sheriff's Office, two Jailer I's in the Detention Center, eight QRV paramedics in Emergency Medical Services, one Fire Inspector and one Inspection and Permit Op. Analyst in Building Inspections and Permitting, three Call Takers in Central Communications Center, a Library Assistant, a Park Assistant in Parks and Recreation Maintenance, a Medical Office Assistant in WIC Client Services and a Social Work Program Specialist and a Social Work Supervisor III in Social Services Administration. The total cost of new positions added is \$1,810,480.

As part of the County's goal to maintain a competitive pay plan per policy, more than 25% of budgeted positions were analyzed resulting in the conclusion that the county remains very competitive with its peers and in line with market. There were 17 reclassifications recommended at a total cost of \$43,283.

The general government operations provide school resource officers, which are reimbursed by the school system and the charter school totaling \$1,287,963 at a flat annual rate of \$61,332 per officer, up from the prior year due to the changes for merit, market, and benefits per employee. During the 2018 fiscal year, the school system requested a detective dedicated for school safety be included in the reimbursement agreement. The addition of the detective base rate for FY 2019 is \$67,801 bringing the total reimbursement to \$1,355,765.

Four new positions are included for the enterprise operations. The budget includes the recommendation of one Meter Reader in Utility Billing and one Utility Locator I, one Distribution Mechanic I and one Utility Foreman in Construction at a total cost of \$213,995.

These changes bring the total number of positions to 1,042.78, of which 907.78 are associated with general government functions and 135 associated with the enterprise operations.



Capital Improvement Plan

The list of projects recommended for funding in FY 2018-2019 totals \$12,436,901.

The environmental protection component of the plan includes \$731,651 for a transfer station at the existing landfill location and staff will bring forth a proposal from Waste Industries, Inc. to fund the project. The culture and recreation component of the plan includes \$479,500 for the Brunswick Waterway Park at Holden Beach. The general government component includes \$10,225,750 for construction of the Courthouse Addition and Renovations and \$1,000,000 for the Courthouse Parking Lot.

The FY 2018-2019 Governmental Capital Improvement Plan funding sources as presented includes \$750,000 of current year revenue transfers from the general fund to fund future C & D Landfill Closure, \$411,000 of grant funding, \$1,068,500 of capital reserve funds, \$10,225,750 debt issue or pay go if audited results are positive and \$731,651 to be determined for planned projects. Since the five-year capital improvement plan represents a living document, some projects originally scheduled for the five-year timeframe have been deferred to later years.

Capital Outlay and Major Operating Expenditures

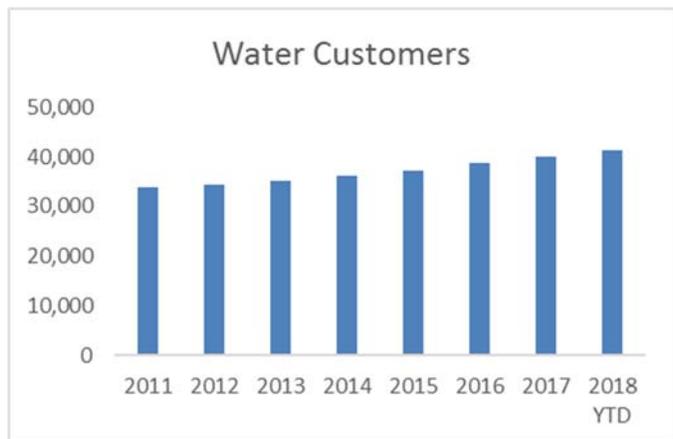
The recommended general government budget includes a total of \$4,795,217 dedicated to capital outlay and major operating expenditures, an increase of \$1,167,529 from the FY 2017-2018 approved budget. Capital outlay in general fund departments consists of items more than \$5,000 in value. Some of the more significant capital items include a mini-excavator at \$75,000 and a replacement tandem dump truck at \$130,000 for Operation Services, 23 replacement in-car camera systems at \$131,859, 5 additional and 19 replacement patrol cars at \$641,904, and 5 other replacement vehicles totaling \$167,566 for the Sheriff's Office, shower replacements at \$200,000 and a jail security system at \$100,000 for the Detention Center, 2 new ambulances totaling \$336,000, 2 remount ambulances totaling \$220,000, and 14 cardiac monitors/defibrillators totaling

\$420,000 for Emergency Medical Services, a replacement articulating wheel loader for Solid Waste at \$175,000, a concession stand at Navassa for \$245,000 and a playground at Leland at \$120,000 for Parks and Recreation Administration and 3 additional vehicles totaling \$75,000 for the Department of Social Services.

The Operation Services budget includes funding for repairs and maintenance to buildings including \$18,000 for Convenience Site Buildings, \$25,400 for Brivo Building Security, \$40,000 for Barbee Library Roof, \$20,000 for Harper Library Carpet Replacement, \$30,000 for Building I bathroom renovation, \$38,000 for Building I partial flooring replacement and \$100,000 for HVAC upgrades to Building B Annex Fund. The major operating budget includes the replacement of 107 desktop and laptop computers.

ENTERPRISE FUND

The county enterprise fund continues to expand to meet the service needs of the retail, industrial and wholesale customers. The customer base is experiencing consistent and moderate growth. The County currently has 41,248 water retail customers and 17,471 sewer retail customers. Customer connections provide capital recovery and transmission fee revenue, which is a source dedicated to the retirement of debt service for system expansion project and pay go capital 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 the three distinct regional service areas. The County continues to strengthen regionalism by adding participants and establishing contractual relationships that eliminate duplication of effort and capital costs. Additionally, several projects have occurred over the last several years that further strengthen the County’s role as the regional wastewater treatment provider in Brunswick County.

The County continues to expand the water distribution system to meet the potable water needs of the county. In May 2018, the Board of Commissioners approved to add advanced treatment through a low-pressure reverse osmosis system estimated to cost \$99 million and expand the capacity of the Northwest Water Treatment Plant to 45 MGD, along with jointly constructing a parallel 54-inch water line with the Cape Fear Public Utility Authority securing the growing county’s water supply for many years.

WATER FUND

Revenues

The total recommended water fund revenue budget for FY 2018-2019 is \$23,618,468 which is \$1,868,549 higher than the original budget for FY 2017-2018 appropriation of \$21,749,919. New service connection predictions generate approximately \$688,000 in capital recovery and \$232,000 in transmission line fees. Tap fees will generate an additional \$799,000.

No increase is being recommended in the retail water rates for base service charges based on meter size with the standard 3/4 inch meter at \$12 per month and the usage rate of \$3.05 per 1,000 gallons. Total commercial and residential retail water sales are projected to be \$9,150,000 or \$1,900,000 for industrial, \$5,250,000 for retail and \$2,000,000 for irrigation. The monthly base service charges will produce \$6,050,000 annually.

Wholesale and industrial water rates are adjusted annually based on the Producer Price Index for May of each year. Wholesale water revenue has continued to increase mainly due to growth in the County and the PPI calculated rate. The current wholesale rate is \$2.82 per 1,000 gallons. The rate cannot be finalized as the May PPI is not yet available, however an estimate would be in the \$2.88 to \$2.92 range based on the most current PPI. Assuming the rate of \$2.90, wholesale water revenue is projected to provide \$5,800,000.

Operating Costs

There were four new positions recommended for the water operations, a Meter Reader in Utility Billing and a Utility Locator I, Distribution Mechanic I, and a Utility Foreman in Construction. The amount budgeted for the purchase of raw water from the Lower Cape Fear Water and Sewer Authority is unchanged at \$1,199,249. The anticipated rate is \$0.27 per thousand gallons with a predicted flow of 4.414 billion gallons. The County will continue to operate and maintain the raw water pumping station at Kings Bluff for the LCFWSA on a reimbursement basis. The operating budget for the Kings Bluff Pumping Station will slightly decrease to \$306,468 due to planned improvement cost completed in the prior year offset with increases for employee salary and benefits.

A transfer to the reserve is for planned or future capital projects of \$3,700,144. An additional transfer of \$910,000 is for water capital recovery and transmission fees paid at the time of connection to the water system. House Bill 436 requires the county to account for system development fees in a reserve fund for pay go capital projects or to pay debt service. The budget includes no appropriation of net assets.

Capital Outlay

Some of the larger operating capital items for the water divisions include a front-end loader \$120,000, CO2 injection system to minimize sludge to reduce the use of sulfuric acid \$75,100, 40 HP mini excavator \$70,000, a Ditch Witch 500-gallon vacuum \$60,000 and 8 vehicles \$373,000. The total operating capital outlay for the water fund is \$820,100.

Debt Service

Debt service in the water fund decreased \$6,014 due to the annual amortization schedule. There are no new planned debt issues in the coming year. The total water fund debt service budget is \$2,245,929.

Water Capital Improvement Plan

The water fund capital improvement plan includes projects for FY 2018-2019 at a total estimated cost of \$17,690,000. The largest project is to begin design in FY 19 for the 2.5 MGD Northwest Water Plant Expansion and advanced treatment through a low-pressure reverse osmosis process. Construction is scheduled to begin in FY 20 with a total estimated cost of \$134,599,600. The debt service on the water capacity expansion and advanced treatment is scheduled to begin in FY 22 due to the county's plan to capitalize construction period interest. Another larger project is the NCDOT funded Hwy 211 Expansion with an estimated total cost of \$8,910,000, funded through reimbursements from the state.

Other water system improvement projects to be funded from capital reserves and currently available revenues are Sunset Harbor Road \$460,000, Hwy 74/76 projects \$250,000, Shallotte Water Transmission Main \$640,000, and Utilities Operation Center design \$80,000.

The county and the Lower Cape Fear Water & Sewer Authority partners are conducting a preliminary engineering study to plan for the construction of a 54" Raw Water Line to meet the long term needs of potable water in the region and provide a redundant source of raw water from the Cape Fear River. The county's share of the 54" Raw Water Line cost is projected to be \$39,560,000 with the construction to occur in 2020.

SEWER FUND

The total recommended sewer fund budget for FY 2018-2019 is \$26,165,890, representing a 0.3% decrease or \$80,905 under the FY 2017-2018 original budget.

Revenue

There is no increase in the current sewer retail rate structure that is projected to generate \$9,800,000 or \$500,000 more than the \$9,300,000 projected in the original FY 2017-2018 budget.

Conservatively budgeted, new service connections are projected to generate \$600,000 in sewer capital recovery fees and sewer transmission fees of \$200,000. Capital recovery fees provide funds for small capital projects and debt service retirement.

Operating Costs

There are no new positions recommended for the sewer fund.

The regional wastewater systems operated by the County continue to be successful and assist all participants in controlling operational costs.

The Northeast Regional Wastewater system has been in operation for 15 years. Based on an annual average daily flow of 1.9 MGD and an operational budget of \$1,536,651, the wholesale rate for the Northeast participants will increase from \$1.50 to \$2.20 per 1,000 gallons.



The Town of Ocean Isle Beach became a regional participant in 2012 and in exchange, the town deeded and dedicated its existing 1.05 MGD wastewater treatment plant. The terms of the agreement stated wholesale metered flow per 1,000 gallons rate would not exceed \$2.93 for five years. For FY 19, the wholesale rate will increase to \$3.80 based on 1.47 MGD and an operational budget of \$543,940.

The recommended operating budget for the West Brunswick Regional Wastewater System is \$3,030,109, up 3% after taking into consideration the \$1,265,000 in capital improvements for odor control and infiltration basin conversion completed in the prior year. The average daily flow to the plant is estimated to be 3.4 MGD. The wholesale rate is recommended to remain steady at \$2.20 per 1,000 gallons.



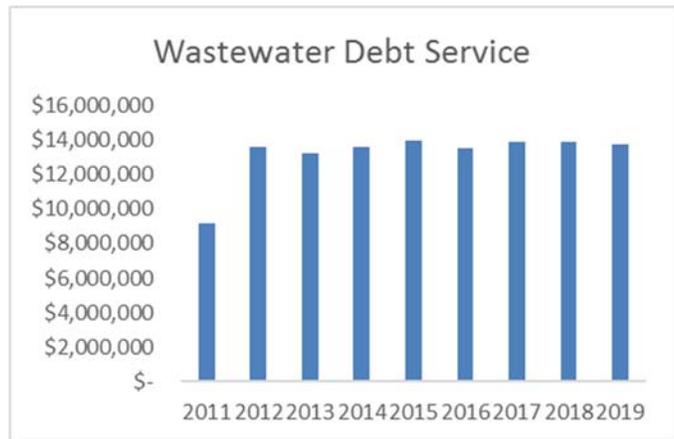
Capital Outlay

Some of the larger capital outlay items for the sewer divisions include Utilities Operation Center Parking and Equipment Laydown \$110,000, NCDOT Ocean Isle Beach round-about piping \$138,000, Timber Lane force main replacement \$400,000, CS sludge storage tank, pump, and blower \$150,000, and Oak Island repump improvements \$275,000. Total capital outlay for wastewater departments is \$1,609,825.

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 2018-2019 is \$13,721,904 and has decreased \$164,618 from FY 2017-2018 due to the annual amortization schedules. No new debt issues are planned for FY 2018-2019.

The West Regional Wastewater participants are responsible for \$5,493,211 of the total sewer fund debt service that is related to the construction and expansion of the plant and associated facilities. Contributions from participants are the Town of Oak Island \$2,817,847, the Town of Holden Beach \$1,151,940, the Town of Shallotte \$498,424 and the Town Ocean Isle Beach will \$275,000. Until the completion of the 0.75 MGD expansion for capacity to serve the City of Southport, the city will pay a \$750,000 lease payment under the terms of an interim wastewater treatment agreement with the County.



Northeast Regional Wastewater participants are responsible for \$1,277,729 in debt service. Debt service reimbursements from the Northeast Regional participants includes the Town of Navassa \$94,004, the City of Northwest \$26,406, and the Brunswick Regional Water and Sewer (H2GO) \$243,091 and the Town of Leland \$914,228.

Wastewater Capital Improvements

The wastewater capital improvement plan for FY 2018-2019 is \$31,334,000. The largest project is the NCDOT funded NC 211 R-5021 Utility Relocation with an estimated total cost of \$7,560,000. Engineering and design will be completed for the 2.5 MGD Northeast Brunswick Regional WWTP expansion to begin construction in 2020 at a cost of \$39,100,000 and will be paid for by service fees paid by participants. The County currently leases a portion of the allocated capacity to the City of Southport for wastewater treatment. Recently, the City of Southport and

the County entered into a wastewater service agreement for the City to purchase 0.75 MGD capacity and the county will expand the West Brunswick Regional Wastewater System from 6.5 to 7.25 at cost of \$25,760,000. The City plans to secure financing with a State loan. Engineering and design will begin in FY 2019 for the 74/76 Industrial project and funding will be provided through a \$2.1 million grant awarded to Columbus County in support for infrastructure at the International Logistics Park.

CONCLUSION

The outlook for FY 2018-2019 is very positive and will provide for improving service levels and enhanced employee benefits that are sustainable. If the growth projections occur, the County may continue to reduce the reliance on non-recurring funds to balance the general government operating budget and set aside reserve funds for pay as you go capital improvement projects. Significant progress has been made toward these goals due to some very proactive and strategic actions by the Board of Commissioners.

I would like to thank the staff for their dedication to conservative budgeting and efficient use of the county's resources. I am grateful to the Board of Commissioners for providing valuable direction during the development of the recommended budget. I look forward to working with you over the next several weeks to develop a final budget for FY 2018-2019 that will meet commissioners' goals of providing needed services at the lowest possible cost to taxpayers and ratepayers.

Respectfully Submitted,

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

Ann B. Hardy
County Manager