

June 5, 2023

Norwood Blanchard and Directors:

I am pleased to present the FY 2023-2024 Budget for the Lower Cape Fear Water and Sewer Authority for your review and consideration. The enclosed FY 23-24 Budget has been prepared in accordance with the North Carolina General Statute 159 Article 3, entitled "*The Local Government Budget and Fiscal Control Act.*"

The Public Hearing on the annual budget was held during the regularly scheduled monthly meeting of the Authority Board at 9:00 AM on Monday, May 8, 2023, in the conference room of the Authority's offices located at 1107 New Pointe Boulevard, Suite 17, Leland, North Carolina.

Legal notice of the public hearing on the budget was published on April 19, April 26, and May 3, 2023, in accordance with the General Statutes.

The Authority's annual budget outlines the revenues that the Authority expects to receive during the fiscal year and outlines the expenditures expected to be made during the fiscal year. The core business of the Authority is providing raw water from the Cape Fear River to the Authority's customers. The Authority also continues to work with Smithfield Foods in the operation of the Bladen Bluffs Regional Water Treatment Plant.

The region served by the Authority continues to be one of the fastest-growing regions in the nation. The counties served by the Authority have increased in population from 456,941 in 2010 to an estimated population of 545,634 in 2022. This represents a 20% increase in the number of people served by the Authority's customers.

FY 22-23 ACCOMPLISHMENTS

The second VFD was replaced in 2022 at \$266,000.

An aerial crosswalk was completed on the existing 48" line for accessibility and safety for \$271,247.18.

Funds were secured to work on paralleling the next 7 miles of 48" line past the Northwest Plant.

The Owners' advisor and Design-Build team were selected to design and construct this seven-mile section of line.

CAPITAL IMPROVEMENT PLAN ALIGNED WITH RATES

The Authority continues to align the CIP to be supported by adequate rates to stabilize various funds and levels to anticipate unexpected emergencies and long-term needs. A Long-Range Planning Committee will work with the anticipated Cost of Service project consultant to establish policy on rates aligned with the needs for construction, refurbishment, or expansion. A cost-of-service study was completed this year.

FISCAL YEAR 2023-2024 FUND DESCRIPTION

The Authority has five funds that it maintains. The funds and their purposes are as follows:

BLADEN BLUFFS OPERATING FUND

While the Authority owns the Bladen Bluffs Regional Water Treatment Plant and is responsible for the debt associated with the plant's construction, Smithfield Foods operates the facilities and pays all costs related to the facility's operation, including the debt service. The Authority receives the bills related to the facility's operation, pays the vendors, then submits a consolidated statement to Smithfield Foods monthly per the December 19, 2009, Agreement.

The debt service principal for the Bladen Bluffs Regional Water Treatment Plant for FY 23-24 is \$970,000, to be paid in December 2023. The interest rate on the remaining principal is variable, and it is estimated that \$450,000 in interest will be paid based on current interest rates.

In FY 23-24, expenditures by Smithfield on the operation of the Bladen Bluffs Regional Water Treatment Plant are expected to be \$5,038,603.

The Authority charges approximately 30% of the personnel costs and direct costs to Smithfield in recognition of personnel's work performed on Bladen Bluffs Regional Water Treatment Plant-related issues such as accounts payable, accounting of expenditures, and management of capital projects. Smithfield pays its proportionate share of other direct costs, such as insurance and audits.

KINGS BLUFF OPERATING FUND

REVENUES

In FY 23-24, the projected water revenues reflect an increase of 11% over the FY 22-23 projections. The projected water demand for FY 23-24 is 9.38 billion gallons

or 25.69 million gallons per day (mgd). By Board approval, the raw water rate increases in FY 23-24 to \$0.4000 per 1,000 gallons. This rate and the projected flow will generate \$3,912,487 in operating revenue.

EXPENDITURES

The Authority owns the Kings Bluff Raw Water Pump Station and associated transmission system. While the Authority contracts with Brunswick County for the daily operation of the station, the Authority is responsible for paying for several direct costs associated with station operation, such as electric charges from Duke Energy, fuel costs related to the main generators, debt service on capital improvements, and significant capital expenditures for repairs of station equipment.

In FY 23-24, costs associated with the Operations and Maintenance by Brunswick County are recommended to increase from \$549,822 to \$696,990. The increase is due to salary, benefits, and right-of-way maintenance.

In FY 23-24, the cost of operating the Kings Bluff Pump Station is \$4,023,460. This year, the Operating Fund will transfer \$380,000 to Renewal and Replacement and \$100,000 to the Enterprise Fund. \$1,286,360 in capital funds will be expended for various projects.

RENEWAL AND REPLACEMENT FUND

The purpose of this fund is to pay the cost of equipment that needs to be replaced at the Kings Bluff Pump Station. In FY 23-24, this fund will have no appropriations because the balance is \$342,473.84. An anticipated transfer from the Operational Fund of \$380,000 will bring the R & R fund up to \$722,473.84 by the end of FY 23-24. Over ten years, the projected balance should be \$5,000,000 at a minimum. This needs to be adjusted to a smaller window to arrive at this amount in five years instead of the projected 10-year window.

ENTERPRISE FUND

The Enterprise Fund is the primary source of funds for capital projects and major repairs. No projects are budgeted for this fund in FY 23-24. A Capital Project Ordinance will be approved if the need for an additional project arises in FY 23-24. The balance of this fund is \$380,836.92. Over ten years, the projected balance should be \$10,000,000 at a minimum. \$100,000 was transferred to this fund in FY 22-23, and an additional \$100,000 will be transferred in FY 23-24. Annual

allocations to this fund need to be in the range of \$400,00 to \$500,000 annually to reach 50% of the projected need.

RIGHT OF WAY FUND

The Right of Way Maintenance Fund was funded by a developer and will be used to repair the roadway constructed with the Authority's easement in Brunswick County. We do not anticipate any expenditure from this fund in FY 23-24.

CONCLUSION

I want to thank the Finance Committee and the Board for their support and recognition of the resources needed to keep the Authority moving forward. I would also like to express special appreciation to our Financial Administrative Assistant for her attention to detail with Authority funds. Emergency preparedness is a focal point for our Board of Directors, who are working to make sure the entire length of the raw water pipeline is redundant, allowing customers peace of mind regarding supply. In addition, enhancing the Authority's Financial position is a critical factor in fulfilling capital obligations to our partners and the communities they serve. Furthermore, planning to accommodate future growth and promoting business retention and recruitment to the Cape Fear Region is a top concern for the Board.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Tim H. Holloman', with a long, sweeping flourish extending to the right.

Tim H. Holloman
Executive Director