

June 8, 2026

Chairman Phillips and Directors:

I am pleased to present the FY 2026-2027 Budget for the Lower Cape Fear Water and Sewer Authority for your review and consideration. The enclosed FY 26-27 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 11, 2026, 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 16, 22, 29, and May 6, 2026, 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 557,634 in 2025. This represents an 18% increase in the number of people served by the Authority's customers.

FY 25-26 ACCOMPLISHMENTS

Construction on the 10-mile parallel line project began in late 2025 with expected completion date of Spring 2027 and is made possible by partner, State Revolving loan funds, and other funding to advance the project schedule and maximize its benefits.

Expanded Electus as the Authority's Lobbyist from State interests to include the Federal Level as well.

Acquired land for the Reservoir and began advertising for an Owner's Advisor for the Design-Build phase.

Completion of design on the Air backwash and Walkway project expected this year.

Refurbishment of the last bowl assembly at Kings Bluff.

Began the 4th pump acquisition, design and installation project.

CAPITAL IMPROVEMENT PLAN ALIGNED WITH RATES

The Authority continues to align the CIP with adequate rates to stabilize various funds and levels and anticipate unexpected emergencies and long-term needs. The Long-Range Planning Committee continues to support a rate policy aligned with construction, refurbishment, and expansion needs.

FISCAL YEAR 2025-2026 FUND DESCRIPTION

The Authority maintains five funds. 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 its construction, Smithfield Foods operates the facilities and pays all costs related to their operation, including the debt service. The Authority receives the bills related to the facility's operation, pays the vendors, and 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 26-27 is \$1,190,000 to be paid in December 2026. The interest rate on the remaining principal is variable, and based on current interest rates, it is estimated that \$480,000 in interest will be paid.

In FY 26-27, Smithfield's expenditure on the operation of the Bladen Bluffs Regional Water Treatment Plant is expected to be \$1,400,000.00.

The Authority charges approximately 32.5% of personnel and direct costs to Smithfield in recognition of the personnel's work performed on Bladen Bluffs Regional Water Treatment Plant-related issues, such as accounts payable, expenditure accounting, and capital project management. Smithfield pays its proportionate share of other direct costs, such as insurance and audits.

KINGS BLUFF OPERATING FUND

REVENUES

In FY 26-27, the projected water revenues reflect an increase of 17% over the FY 25-26 projections. The projected water demand for FY 26-27 is 11.19 billion gallons or 30.68 million gallons per day (mgd). By Board approval, the raw water rate increases in FY 26-27 to \$0.5200 per 1,000 gallons for governmental partners and to \$0.74 per 1,000 gallons for Industrial customers. This rate and the projected flow will generate \$6,135,401 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 26-27, Brunswick County's Operations and Maintenance costs are \$720,196.

In FY 26-27, the cost of operating the Kings Bluff Pump Station is \$14,515,788. \$9,896,431 in capital funds will be expended for various projects, with approximately \$4,200,000 on the air backwash and walkway replacement and 3,065,810 on the fourth pump. \$19,000,000 will be spent on the three-phase, 10-mile parallel line project.

RENEWAL AND REPLACEMENT FUND

The purpose of this fund is to pay for the replacement of equipment at the Kings Bluff Pump Station. The Balance of this fund is \$2,848,919.68. At a minimum, the projected balance over ten years should be \$5,000,000, adjusted for inflation.

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 26-27. The balance of this fund is \$1,281,306.40. Over ten years, the projected balance should be \$10,000,000 at a minimum. Annual allocations to this fund need to be in the range of \$400,000 to \$500,000 annually to reach 50% of the projected need.

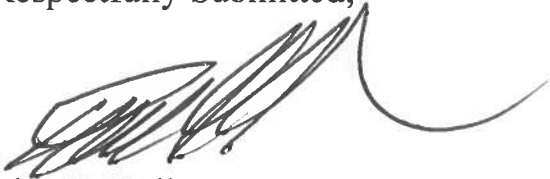
RIGHT OF WAY FUND

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 26-27.

CONCLUSION

I want to thank the Finance Committee and the Board for supporting and recognizing 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. The Board continues to strengthen the Authority's Financial position to be prepared to meet 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. Recognition also goes to our partners and Board for their continued efforts to secure funding for our larger capital projects in addition to rate revenue.

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