

June 16, 2025

Chairman Devane and Directors:

I am pleased to present the FY 2025-2026 Budget for the Lower Cape Fear Water and Sewer Authority for your review and consideration. The enclosed FY 25-26 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 12, 2025, 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 21, 23, 27, 30, May 4, and May 7, 2025, 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 24-25 ACCOMPLISHMENTS**

Construction on the 10-mile parallel line project began in late February and is made possible by partner, State Revolving loan funds, and other funding to advance the project schedule and maximize its benefits.

Engaged Electus as the Authority's Lobbyist.

Continue work on land acquisition for the Reservoir.

Working to update the long-range demand requirements for the region.

Began design on the Air backwash and Walkway 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 2024-2025 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 25-26 is \$1,115,000 to be paid in December 2025. 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 25-26, Smithfield's expenditure on the operation of the Bladen Bluffs Regional Water Treatment Plant is expected to be \$5,670,086.

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 25-26, the projected water revenues reflect an increase of 6% over the FY 24-25 projections. The projected water demand for FY 25-26 is 10.51 billion gallons or 28.82 million gallons per day (mgd). By Board approval, the raw water

rate increases in FY 25-26 to \$0.4800 per 1,000 gallons for governmental partners and to \$0.70 for Industrial customers. This rate and the projected flow will generate \$5,102,107 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 25-26, Brunswick County's Operations and Maintenance costs remained the same at \$736,811.

In FY 25-26, the cost of operating the Kings Bluff Pump Station is \$13,240,918. \$10,851,000 million in capital funds will be expended for various projects, with approximately \$4,200,000 on the air backwash and walkway replacement and 5,800,000 on the fourth pump. \$30,000,000 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. 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 25-26. The balance of this fund is \$511,049. 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 \$400,00 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 25-26.

## 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 stylized, flowing script.

Tim H. Holloman  
Executive Director