

June 6, 2022

Chairman Rivenbark and Directors:

I am pleased to present the FY 2022-2023 Budget for the Lower Cape Fear Water and Sewer Authority for your review and consideration. The enclosed FY 22-23 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 9, 2022, in the conference room of the Authority's offices located 1107 New Pointe Boulevard, Suite 17, Leland, North Carolina.

Legal notice of the public hearing on the budget was published on April 20, April 27, and May 4, 2022, 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 population served by the Authority's customers.

FY 20-21 ACCOMPLISHMENTS

54" PARALLEL RAW WATER TRANSMISSION MAIN

The cost of the project is being funded by Brunswick County and CFPWA based upon the requirements contained in the MOU. Construction began in FY 19-20, and the pipeline began operation on April 28, 2022. The final project cost is \$36.13 MM which is \$1.07 MM under construction estimate and engineering fees where also \$360,000 less for a total savings of 1.43MM.

The project increased the available capacity in the Kings Bluff Raw Water Transmission System from 45 million gallons per day (mgd) to 62 mgd without any improvements to the Kings Bluff Pump Station.

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 is expected to be completed in the FY 2022-23 Fiscal Year

LEAK ON 48" LINE TO CFPWA AND PENDER COUNTY

This leak occurred on November 4, 2021, and all work was completed by February 9, 2022. This has spurred a renewed and concerted effort by all LCFWASA partners to seek funding to expedite the design and construction of a second parallel line for the remainder of the 10-mile section to have the Authority completely redundant and to allow for maintenance of the existing 48" line. The Authority has been working closely with Legislators, Partners and the directors of member utilities to garner support for total funding of this critical project.

US ARMY CORPS OF ENGINEERS CAPE FEAR LOCK AND DAM DISPOSITION STUDY

In January 2020, the U. S. Army Corps of Engineers completed their study of the Cape Fear River Locks and Dams and determined that they were no longer needed for commercial navigation, which was their federally mandated purpose. As a part of their study, the Corps of Engineers developed three options for the future of the Cape Fear River Locks and Dams. These options are: Corps of Engineers to retain ownership but perform no maintenance; transfer ownership to an interested third party; or transfer ownership to a responsible state agency. As the Authority relies on Lock and Dam No. 1 to create a pool of water that results in a safe yield of 106 mgd for potable water usage, the Authority has determined that of the alternatives, transfer to a third party was the best long-term option for the Authority and its customers. Negotiations among the utilities and the NC DEQ continue as to which entity would be the best option for ownership of the Cape Fear River Locks and Dams. After a meeting with the local Army Corps office in late 2021, there has

been no incremental or final decision on dispensing of the locks and dams. This year, there was a project to realign the fish dam at Lock and Dam #1.

FISCAL YEAR 2021-2022 FUND DESCRIPTION

The Authority maintains 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 22-23 is \$850,000, to be paid in December 2022. The interest rate on the remaining principal is variable, and it is estimated that \$297,500 in interest will be paid based on current interest rates.

In FY 22-23, expenditures by Smithfield on the operation of the Bladen Bluffs Regional Water Treatment Plant are expected to be \$3,654,318.

The Authority charges approximately 30% of some 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 22-23, the projected water revenues reflect an increase of 2% in demand over the FY 21-22 projections. The projected water demand for FY 22-23 is 10.56 billion gallons or 25.67 million gallons per day (mgd). By Board approval, the raw water rate increases to FY 22-23 at \$0.3600 per 1,000 gallons. This rate and the projected flow will generate \$3,276,239 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 22-23, costs associated with the Operations and Maintenance by Brunswick County is recommended to increase from \$453,609 to \$510,822. The increase is not due to any one major area, just general operating costs across the board.

In FY 22-23, cost for operating the Kings Bluff Pump Station is \$3,378,921. This year, the Operating Fund will transfer \$150,000 to Renewal and Replacement and \$100,000 to the Enterprise Fund. \$911,875 in capital funds will be expended for various projects.

Debt service payment to New Hanover County started in FY 20-21. The final payment of \$258,834 will be made in FY 22-23.

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 22-23, there will be no appropriations from this fund because the balance is \$192,454.48. An anticipated transfer from the Operational Fund of \$150,000 will bring the R & R fund up to \$342,454.48 by the end of FY 22-23. Over a ten-year period, the projected balance should be \$3,000,000.00 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 main source of funds for capital projects and major repairs. There are no projects that are budgeted for this fund in FY 22-23. A Capital Project Ordinance would be approved if the need for an additional project arises in FY 22-23. \$391,253.25 was transferred from this fund to purchase a VFD ahead of schedule and for approximately a \$103,000 in spare parts for the VFDs.

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 expenditures from this fund in FY 22-23.

CONCLUSION

I would like to thank the Finance Committee and the Board for their support and recognition of what resources are 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. 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,

Tim H. Holloman
Executive Director