

June 7th, 2021

Chairman Leonard and Directors:

I am pleased to present the FY 2021-2022 Budget for the Lower Cape Fear Water and Sewer Authority for your review and consideration. The enclosed FY 21-22 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 10, 2021 in the conference room of the Authority's offices located 1107 New Pointe Boulevard, Suite 17, Leland, North Carolina.

A legal notice of the public hearing on the budget was published on April 19 and 26th, 2021 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 also outlines the expenditures that are 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 2021. This represents a 20% increase in population served by the Authority's customers.

## **FY 20-21 ACCOMPLISHMENTS**

### **54" PARALLEL RAW WATER TRANSMISSION MAIN**

Based upon a Memorandum of Understanding (MOU) executed by the Authority, Brunswick County and Cape Fear Public Utility Authority (CFPUA), the design of a new 54" parallel raw water main from the Kings Bluff Pump Station to the Authority's raw water storage tank located near Brunswick County's Northwest Water Treatment Plant was completed. The project to construct the new 54" main was bid and the project was awarded to Garney Construction Company with a low bid of \$37,203,838. The cost of the project is being funded by Brunswick County

and CFPUA based upon the requirements contained in the MOU. Construction began in FY 19-20 and the pipeline is currently scheduled to be in service before the end of FY 21-22. Garney has installed 53,000 linear feet of the pipeline for total amount of \$26.8 MM. Garney is on schedule to complete the installation of the 54” pipe around July 1. They will still need to make all of the interconnections to the existing lines, install meter vault, and pressure control valves. Budgetary estimate for work completed by June 30th is \$32.9 MM.

When completed, the project will increase 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**

For the first time, the Authority took steps to align the CIP to be supported by adequate rates to stabilize various funds and levels to anticipate unexpected emergencies as well as long term needs. A Long-Range Planning Committee was established to make recommendations to the full Board on what needs to be included in Capital Planning and when the rates should be adjusted to support the need for construction, refurbish or expansion.

### **REMOTE ATTENDANCE POLICY**

After emerging from the pandemic, the Authority recognizes the need to address in person and remote attendance at meetings. The Authority adopted a policy regarding attendance to conform to the North Carolina General Statutes and comply with the Authority’s existing By-Laws. The Authority continued to expand the video and audio upgrades to make this more effective.

### **RECORD KEEPING**

All documents were scanned for digital access, including minutes and the Authority now has the capability to share and research documents as well as insure against loss of historical documents.

### **BLADEN BLUFFS CAPE FEAR RIVER BANK REPAIR PROJECT**

In FY 19-20, FEMA awarded the Authority \$502,770 for the repair of damage to the bank of the Cape Fear River near the intake structures for the Bladen Bluffs Regional Water Treatment Plant. The Authority contracted with McKim and Creed for the design of the repairs to the bank. The project was bid in December 2019

and Wells Brothers Construction was the lowest responsive, responsible bidder with a bid of \$221,780. Administrative costs were \$13,552.25 and Engineering costs were \$59,491.61 This project was closed out in September of 2020 and the final FEMA Payment of \$54,289.77 was received in March of 2021. FEMA has yet to do the final inspection as of June 1, 2021.

## **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. Any further action on this was halted due to COVID and the resolution is something that the Authority is monitoring even though no movement is expected for three to four years.

## **FISCAL YEAR 2021-2022 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 the construction of the plant, Smithfield Foods operates the facilities and pays all costs associated with the operation of the facility including the debt service. The Authority receives the bills associated with operation of the facility, pays the vendors, then submits a consolidated bill to Smithfield Foods on a monthly basis per the December 19, 2009 Agreement with Smithfield Foods.

The debt service principal for the Bladen Bluffs Regional Water Treatment Plant for FY 21-22 is \$850,000 to be paid December, 2021. The interest rate on the remaining principal is variable and it is estimated that \$297,500 in interest will be paid based upon current interest rates.

In FY 21-22, expenditures by Smithfield on the operation of the Bladen Bluffs Regional Water Treatment Plant are expected to be \$3,194,127.

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 accounts payable, accounting of expenditures, and management of capital projects. On other direct costs such as insurance and audits, Smithfield pays their proportionate share of the costs.

## **KINGS BLUFF OPERATING FUND**

### **REVENUES**

In FY 21-22, the projected water revenues reflect an increase of 6% in the demand over the FY 20-21 projections. The projected water demand for FY 21-22 is 10.12 billion gallons or 27.75 million gallons per day (mgd). By Board approval, the raw water rate increases to FY 21-22 at \$0.3300 per 1,000 gallons. This rate and the projected flow will generate \$3,011,394 in operating revenue. An additional \$94,302 will be generated from administrative charges to Smithfield Foods.

### **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 a number of direct costs associated with station operation such as electric charges from Duke Energy, fuel costs associated with the main generators, debt service on capital improvements, and major capital expenditures for repairs of station equipment.

In FY 21-22 costs associated with the administration of the Authority is recommended to increase from \$578,473 to \$619,244 The increase is not due to any one major area, just general operating costs across the board.

In FY 21-22, the cost for operating the Kings Bluff Pump Station and the debt service on the improvements that have been constructed at the facility are expected

to increase from \$2,576,397 to \$3,108,396. This year the Operating Fund will be transferring \$75,000 to Renewal and Replacement. \$325,000 is for VFD replacement and Argo purchase.

Debt service payment to New Hanover County started in FY 20-21. The the initial payment to New Hanover County was \$390,000. And the second payment of \$390,000 will take place in FY 2021-22. Final payment of \$258,835 will be 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 21-22 there will be no appropriations from this fund because the balance is \$40,727.00. There is an anticipated transfer from the Operational Fund of \$75,000 to bring the R & R fund up to \$115,727 by end of FY 21-22. Over a ten-year period, the projected balance should be \$3,000,000.00 at a minimum.

### **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 21-22. A Capital Project Ordinance would be approved if the need for an additional project arises in FY 21-22.

### **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 21-22.

### **CONCLUSION**

Also, 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. Furthermore, planning to accommodate future growth and promote business retention and recruitment to the Cape Fear Region is of top concern for the Board.

Respectfully Submitted,

Tim H. Holloman  
Executive Director