

June 17, 2024

Chairman Knight and Directors:

I am pleased to present the FY 2024-2025 Budget for the Lower Cape Fear Water and Sewer Authority for your review and consideration. The enclosed FY 24-25 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 13, 2024, 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 24, May 1, and May 8, 2024, 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 23-24 ACCOMPLISHMENTS

Rate Study completed and approved.

Funds received for the last 3 miles of line and the initial reservoir study.

On going work for the 10-mile parallel line project, now broken into three phases to utilize partner State Revolving loan funds and other funding for the maximum benefit and project schedule advancement.

Engaged First Tryon as the Authority's Financial Advisor.

Upgrading Financial Management System from QuickBooks to Southern Software

Reroofing on the original plant started this Fiscal Year.

Completed Preliminary Engineering Evaluation on the Reservoir.

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 approved 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 24-25 is \$1,035,000.00, to be paid in December 2024. The interest rate on the remaining principal is variable, and based on current interest rates, it is estimated that \$500,000 in interest will be paid.

In FY 24-25, expenditures by Smithfield on the operation of the Bladen Bluffs Regional Water Treatment Plant are expected to be \$5,570,183.

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, 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 24-25, the projected water revenues reflect an increase of 9 % over the FY 23-24 projections. The projected water demand for FY 23-24 is 10.78 billion gallons or 29.39 million gallons per day (mgd). By Board approval, the raw water rate increases in FY 24-25 to \$0.4400 per 1,000 gallons for governmental partners and to \$0.66 for Industrial customers. This rate and the projected flow will generate \$4,826,202.00 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 24-25, costs associated with the Operations and Maintenance by Brunswick County are recommended to increase from \$696,990 to \$736,811. The increase is due to salary, benefits, and right-of-way maintenance.

In FY 24-25, the cost of operating the Kings Bluff Pump Station is \$4,252,174. This year, the Operating Fund will transfer \$160,600 to Renewal and Replacement and nothing to the Enterprise Fund. \$2,685,000 million in capital funds will be expended for various projects, with approximately \$2,180,000.00 on the air back wash and walkway replacement. \$20,000,000 will be spent on the three-phase, 10-mile parallel line project.

RENEWAL AND REPLACEMENT FUND

The purpose of this fund is to pay the cost of equipment that needs to be replaced at the Kings Bluff Pump Station. In FY 24-25, this fund will appropriate \$104,534 towards the Air Backwash/Walkway replacement. If revenues allow, operational funds will cover this expense without an appropriation. An anticipated transfer from the Operational Fund of \$160,600 will bring the R & R fund up to \$1,404,808 by the end of FY 24-25. Also, we project the possibility of using \$104,534 for the Air Backwash/Walkway, depending on Operating receipts at the time of

construction. Over ten years, the projected balance should be \$5,000,000 at a minimum and 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 24-25. The balance of this fund is \$496,468. 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 24-25.

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. Emergency preparedness is a focal point for our Board of Directors, are working to ensure 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. 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,



Tim H. Holloman
Executive Director