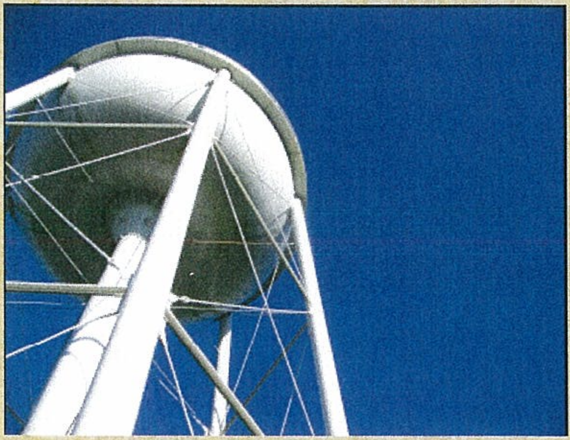
Cape Fear
Public Utility Authority
Stewardship. Sustainability. Service.



Fiscal Year 2010

ADOPTED BUDGET

Cape Fear
Public Utility Authority
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Table of Contents

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May 29th, 2009

Members of the Authority Board
Cape Fear Public Utility Authority
127 Racine Drive
Wilmington, NC 28403

Subject: FY 2010 Budget

Dear Members of the Authority Board:

I am pleased to submit the Fiscal Year 2010 budget request for the Cape Fear Public Utility Authority for your consideration.

CFPUA's commitment to its mission *"to provide high-quality water and sewer service in an environmentally responsible manner, while maintaining the lowest practical cost"* and direction provided by the Authority Board have been driving forces throughout the development of this year's budget.

The following operational and capital budget, prepared in accordance with *The Local Government Fiscal Control Act*, is designed to provide services meeting or exceeding all state regulations and Rate Covenants with which the Authority must comply. This budget proposes essential projects and operations necessary for the provision of high quality water and sewer service in an environmentally responsible manner with no increase in water and sewer rates.

A YEAR IN REVIEW

As we reflect on our first year of operation, we are reminded of many successes and challenges. Some of the notable successes include the highly effective consolidation of two distinct and independent work forces without a disruption of water and sewer services, reduced response time to emergency situations, and the development, application, and reconsideration of new ordinances. Among the challenges this organization overcame this year were the predictable growing pains of any new organization as well as the data conversion and billing hurdles that were unexpected and substantial. As a testimony to the vitality of the Cape Fear Public Utility Authority, the leadership and dedication of the Authority Board and staff faced these challenges and opportunities head on. CFPUA, as an organization, set the course based on the principles of *Stewardship, Sustainability, and*

Service. Despite the, sometimes overwhelming, challenges we persevered and made substantial progress toward building the foundation necessary to provide the community and the region of dependable water and wastewater services. The focus of this organization is to provide these services in an environmentally conscience manner which facilitates regional growth and development.

Overall, this merger has been and continues to be a success story. Staff has become a unified and effective workforce. There are already many benefits that have been realized by staff which include an increased level of service in many areas. The newly formed organization quickly illustrated cost effectiveness and efficiencies in operations, maintenance, compliance, and spill response. Additionally, focused management of sewer cleaning, inspection crews and right of way maintenance contributed to a reduction in response time to sewer stops and spills from 30 -45 minutes to often 10 – 15 minutes. Other innovative maintenance initiatives were introduced in FY2009, for example a root control program was started to work hand in hand with the Fats, Oils, and Grease (FOG) program as a proactive and predictive mechanism to address blocked sewers and the backflow inspection restructuring to achieve an improved level of customer service. Vital regional partnerships, like those with neighboring governments and civic, environmental and economic development organizations, were also established. These are just a few of the early opportunities that this merger has provided for staff to demonstrate its commitment to improving our operations, being fiscally responsible, and protecting the environment and public health of this community and region.

As we look forward into this next fiscal year, there are existing challenges that we will continue to work through. Although the billing conversion problems encountered just after consolidation have been corrected and billing is on schedule, the difficulties presented to our customers because of this problem remain a priority to resolve. In addition to this issue, the rate increases, to bring existing rates to parity and to sufficiently fund operations and the CIP, have resulted in a less than desirable public image. The negative public image of this organization is one that we will collectively and proactively work to improve over this next year.

Over the last several years both the City and the County worked with multiple consultants to develop plans to maintain and grow their respective systems. As part of the Authority's Strategic Business Plan, we are working to develop an Integrated Water Resources Master Plan (IWRMP) based on the compilation of these existing plans. The IWRMP will incorporate any new data and/or changing circumstances. Additionally, this plan will be consistent with the guiding principles of *Stewardship, Sustainability, and Service* as well as the Authority's mission "*to provide high-quality water and sewer service in an environmentally responsible manner, while maintaining the lowest practical cost*". A formal overall Strategic Business Plan is being coordinated with the City, County and regional stakeholders. This plan's development will provide a clear vision of where the organization is going and to help focus resources in each area to support the organization's vision.

BUSINESS FACTORS AND OPPORTUNITIES

As this organization grows and matures we are committed to operating in a manner that continuously looks for opportunities to optimize resources, streamline processes and improve our services to the community. There are many internal and external factors that positively and potentially negatively affect this organizations ability to move forward and focus on continual improvement. Some of those factors are the economy, growth, environment, and an existing aged infrastructure.

ECONOMY

The FY 2009 budget projected water and sewer sales increases of 2% and 1.4%, respectively. A combination of the downturn in the economy and the reduction in system development charges (SDCs) were among several contributors to the collection of significantly lower revenues than projected. FY 2010 is already presenting great challenges in light of the current economy; challenges presented to local, regional and state government entities and private business alike. Authority management and staff have and continue to work diligently to optimize operations in order to control costs and minimize any necessary increases needed to meet our core commitments. This is clearly evident in the operational budget requests for FY 2010. A budget that provides for the opening of a new water treatment plant in September 2009, the operation of approximately 27 new wells, planning to operate the Northside Wastewater Treatment Plant for the first time at 16 mgd for a full year, and the opening of a new environmental and safety building in May 2010 staff has developed an operating budget that reflects a decrease in anticipated expenditures from FY 2009. Additionally, actions taken by the Authority Board and staff over this last year further demonstrate our commitment to our customers and the struggles they are experiencing in this economy. We as an organization have and continue to work with our customers and stakeholder groups to discuss and resolve issues to improve our level of service.

GROWTH

Growth and the economy go hand in hand, and as economic pressures increased in 2008, commercial and residential development experienced a significant decrease. This decrease presents a budgetary impact through reduced system development charges and revenue from other user fees. In concert with economic pressure and unique to our first year of operation was the implementation of new State standards for flow tracking at pump stations. The implementation of this process highlighted capacity issues at numerous stations. Several pump stations have been identified as being at or exceeding capacity in critical future growth areas throughout our service area. This process, along with the capacity management program and the Strategic Plan, has provided a road map of focused areas for capacity management and expansion. As a result, the Motts and Barnards Creeks and the Country Haven pump stations have been the focus of innovative and aggressive short and long term solutions.

ENVIRONMENT

Environmental Stewardship is a fundamental philosophy and guiding principal of CFPUA. Due to the commitment by the Authority Board and staff to develop an environmental management system, we were recognized as an Environmental Partner in the North Carolina Department of Environment and Natural Resources' Environmental Stewardship Initiative (ESI) by NCDENR Secretary Bill Ross in December of 2008. This program is designed to promote and encourage superior environmental performance, proactive environmental management and continual improvement. We are implementing an environmental management system based on the ISO 14001 international standard. This system is based on the Plan-Do-Check-Act management model that drives continual improvement. Implementation of this system will provide a formal process that will enable staff to better analyze, control and reduce the environmental impact of our activities and operate more effectively and efficiently.

Other environmental initiatives include water conservation efforts. Staff continues to work proactively to provide our customers guidance on how water should be utilized in times of drought and during drought preparedness weather patterns. Although not in drought-like conditions through the summer of 2008, CFPUA worked proactively with such organizations as the New Hanover Soil and Water Conservation District in educating landscapers and homeowners on the importance of water efficiency. Additionally, creative ad campaigns through various media outlets have assisted in getting this message communicated to the general public. Water efficiencies achieved by CFPUA customers are not only environmentally responsible, but may equate to monetary savings for the customer as well as CFPUA itself. The optimization of system resources to reduce peak consumption periods may allow the postponement of otherwise unnecessary facility and/or distribution system expansions.

AGED INFRASTRUCTURE

Both of the existing organizations have been utilizing asset management practices for many years to manage their respective infrastructure needs. As these systems have grown the need for a formal system has been recognized and the merger of the system in to CFPUA has provided an opportunity to gain some economies of scale through a more formal asset management system. We, as well as our peers across the country, face the challenge of repairing, replacing, and/or rehabilitating existing infrastructure in a timely cost effective manner. As a part of our commitment to *Stewardship, Sustainability, and Service* to our customers and the community in which we operate, we must also ensure that all infrastructure is maintained to achieve maximum life cycle cost and is sustainable for future generations. In March of 2009 a selection committee chose a consultant to develop a business plan that will accomplish the following:

- Layout a 3-5 year plan for the development of an Enterprise (Authority wide) Asset Management System.
- Provide a mechanism for identifying and "weighing" all assets in Operations. This mechanism will provide a structure to help ensure we are doing the right thing at the right time.
- Purchase, set up, training for a computerized maintenance management system that will allow CFPUA to document all maintenance needs, costs, projections, work requests, system of work prioritizations, future needs, and budget projections based on maximum life cycle of all equipment above and below ground.
- Determine the most cost effective and practical method for establishing maintenance standards; capturing institutional knowledge and sustaining the future of our human assets by succession planning.
- Implementation is anticipated throughout FY 2010 and will begin in late fall of 2009.

OPERATING BUDGET

The recommended FY 2010 budget for operations is $37.97 million as compared to $38.17 in FY 2009. The decrease in budget comes despite the additional cost of $1.55 million for the operations of the new NANO water treatment plant and the advanced treatment processes at the Northside wastewater treatment plant. Without these increases, the budget for on-going operations would be 4.6% below the current year. The budget also includes $120,000 for an expanded root control program to help prevent sanitary sewer overflows and $200,000 for the cleaning of a digester at the Southside wastewater treatment plant.

In terms of personnel, the recommended budget includes the elimination of 5 vacant positions and freezing the hiring for 6 additional vacant positions. The FY 2010 budget does not include any funding for merit pay or pay plan adjustments. No merit raises or pay plan adjustments were made in FY 2009. Increases in health insurance costs were absorbed by an 11% increase in premiums paid by the employees.

Debt service on bonds and other installment financings for the Authority increases significantly this year with a full year of interest on the $187 million in revenue bond issued in August 2008. Debt service increases from $18.9 million to $23.6 million. The FY 2010 increase is offset by the appropriation of $7.0 million in fund balance that came from capitalized interest included in the revenue bond issue. In the FY 2009 fiscal year approximately $2.9 million in capitalized interest was used to offset interest expense on the revenue bonds. Capitalized interest allows an entity to more gradually increase rates over a period of several years before the full budgetary impact of a debt issuance is realized. Full debt service on the 2008 bonds will impact the FY 2012 budget when total debt service reaches $26 million with no capitalized interest offset.

The budget will continue to be monitored closely and aligned with any significant changes in the Authority's revenue projections. In addition staff will continue to look for opportunities to improve the efficiency of our operations.

REVENUES

Total revenues for the Authority are projected at $55.4 million in FY 2010 as compared to $59.22 million in FY 2009. The revenues reflect no increase in user charges for water and sewer or in system development charges.

Water revenues at $24.5 million are projected to remain virtually the same as the FY 2009 budget. The forecast includes the addition of approximately 750 customers by mid-year resulting from the acquisition of the Porters Neck water system. Actual consumption levels in FY 2009 have been approximately 3% below that experienced by the City and County in FY 2007 and FY 2008. Sewer revenues are projected at $25.6 million or approximately 3.3% below the adopted FY 2010 budget. The impact of the billing cap on sewer consumption (set at 30,000 gallons) was greater than anticipated and the number of flat rate customers was less than projected.

Weather patterns and the general economy have significant impacts on water and sewer revenues. With a year of consumption patterns now established the actual billings will be closely monitored over the next year and budget changes made proactively if revenues fall significantly below estimates.

The largest decrease in revenues from the adopted FY 2009 budget was in system development charges (SDCs) and resulted from the severe decline in construction activity. The adopted FY 2009 budget included an estimated $4.8 million in SDCs as compared to over $6.0 million collected by the City and County in FY 2008. Actual revenues from SDCs in FY 2009 are now estimated at $2.6 million. The FY 2010 budget is based on the collection of $2.1 million in SDCs as much uncertainty remains as to when construction activity will increase.

CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET

As part of the FY 2010 CIP budget preparation, projected capital expenditures (needs) are matched with available financial resources. The 2008 bond issuance provided funding for many previously approved CIP projects. The ability to issue future debt correlates to revenue from rate increases and other sources such as SDCs. The FY 2010 CIP budget is based on a 0% rate increase and issuance of additional debt in FY 2012. It is important to note that a cumulative rate increase up to 18% will be needed between FY 2011 and FY 2012 to continue the 5-year CIP budget presented. The exact amount of rate increase will be influenced by several factors including growth in customer base and the extent to which development-related revenues rebound from current levels.

Funding for the $28.17 million FY 2010 CIP comes from various sources. A transfer of $7.9 million is recommended from the Operating Fund with $2,949,752 from current revenues and $4,950,248 from capital reserves. Interest earnings on bond proceeds held in the 2008 construction escrow are estimated at $2,800,000. Proceeds from the planned FY 2012 revenue bond issue are budgeted at $18.17 million. Capital reserves have been earmarked to fund commitments made pursuant to the FY 2010 CIP if revenues are not sufficient to permit the FY 2012 bond issue. The CIP for FY 2011 and beyond would have to be significantly reduced without the availability of revenues from bond proceeds.

The developing asset management program, along with emerging issues, will identify additional capital improvement needs over upcoming years. Future fiscal cycles will see the CIP budget modified to address system demands, development trends, legal requirements and other factors that support projects competing for limited fiscal resources.

CIP Projects Completed in FY 2009

Several noteworthy projects were completed in FY 2009. These include 8th and Ann Streets sewer replacement ($358,000), 3rd and Castle Streets sewer replacement ($108,000), raw water transmission main repairs ($5 million), Northside Wastewater Treatment Plant expansion and upgrade ($78 million), Pump Station 77 force main construction ($1 million), Murrayville Road water and sewer construction ($1 million), and Crestwood Road water construction ($443,000).

Ongoing Projects

Currently, more than forty CIP projects are in various stages of planning, design or construction. Some of the more notable projects are listed below.

- Sweeney Water Treatment Plant Expansion ($73 million). This is an expansion and upgrade of the existing treatment plant. The plant rating would go to 44 mgd of finished water.
- Nano Water Treatment Plant Construction ($48 million). This is a new facility that will treat 6 mgd of groundwater for the Porters Neck area.
- Environmental Services Lab Building Construction ($4 million). Displaced from the Sweeney facility, a new lab building is being constructed on the Nano Plant site.
- Burnt Mill Creek Sewer Repairs ($4 million). Emergency repairs to a 48-inch gravity outfall were needed. Work included cleaning and lining a section, and replacing several structures. (Upcoming work will replace additional 48-inch pipe.)
- Asset Management Business Plan ($2 million). This will develop a formalized program for prioritizing, repairing, maintaining and programming the Authority's assets.

- Country Haven Pump Station Replacement ($2.1 million). The existing pump station, which serves much of Porters Neck and surrounding area, needs replacement for capacity reasons.
- Northern School Site Water and Sewer ($5.2 million). Joint project with school board ($1.0M contribution) for water and sewer to 2 new schools and surrounding area near Holly Shelter Road; includes a regional pump station and .5MG elevated water tank.
- Northern Route Force Main ($24 million). This project will construct a new 24-inch force main from PS 35 at Bradley Creek to the Northside Treatment Plant. The new FM will allow flows to be diverted from the Southside to Northside plants, and provide redundancy for event management.

Revised Projects

As part of the reduced CIP budget associated with a no rate increase budget, several FY 2009 projects have been either cut or delayed. Deferred or eliminated FY 2009 projected totaled $8.1 million. The FY 2010 and FY 2011 proposed CIP based on the 5% rate proposal has been reduced by $21.25 million to match revenues under the no rate increase budget. Projects cut from the adopted FY 2009 budget include:

- Barnards Creek Outfall Rehabilitation ($2 million). This existing 21-inch to 30-inch gravity line was installed in 1989. This project would clean, inspect and repair the pipe.
- Ogden Interceptor Manhole Rehabilitation ($750,000). Manholes along this interceptor are deteriorating and need repair. This project would rehabilitate the structures.

Comparison of FY 2010 CIP -- 0% Rate Increase to 5% Rate Increase

ID	Water	Rate Δ	FY 10	FY 11	FY 12	FY 13	FY 14
5	Annexation 95 & 98 Water Lines	0%			$676,000		
		5%	$676,000				
16	Ph I Carolina Bch Rd Transmission	0%		$485,000	$2,000,000		
		5%	$485,000	$2,000,000			
17	Ph II Carolina Bch Rd Transmission	0%		$250,000	$2,450,000		
		5%	$250,000	$2,450,000			
18	Ph III Carolina Bch Rd Transmission	0%			$376,000	$3,624,000	
		5%		$376,000	$3,624,000		
19	River Rd Loop Connector	0%					$4,584,000
		5%				$4,584,000	
25	Meter Replacement Program	0%			$500,000	$1,000,000	
		5%		$500,000	$1,000,000		
27	Aquifer Storage Retrieval (ASR)	0%			$2,167,000		
		5%	$2,167,000				
28	Blue Clay Rd Interconnect	0%			$750,000		
		5%	$750,000				
30	GIS As-built Integration	0%			$50,000	$50,000	$50,000
		5%	$50,000	$50,000	$50,000	$50,000	$50,000

33	Kerr Ave Waterline	0%			$90,000		
		5%	$90,000				
41	Raw Water Pump Station	0%	$1,210,000		$4,000,000	$3,500,000	
		5%	$1,210,000	$4,000,000	$3,500,000		

ID	Wastewater	Rat e Δ	FY 10	FY 11	FY 12	FY 13	FY 14
3	Downtown Sewer Rehab	0%				$3,000,000	$4,000,000
		5%			$3,000,000	$3,000,000	$4,000,000
5	Pump Station 11 Replacement	0%			$1,660,000		
		5%	$1,660,000				
19	Pump Station 13 Improvements	0%			$360,000		
		5%	$360,000				
27	Thickened Alum Sludge Storage	0%			$538,000		
		5%		$538,000			
29	Greenfield Lake Outfall Rehab	0%		$250,000	$2,000,000		
		5%	$250,000	$2,000,000			
30	Infiltration/Inflow Elimination	0%			$250,000	$250,000	$250,000
		5%		$250,000	$250,000	$250,000	$250,000
31	GIS As-built Integration	0%			$50,000	$50,000	$50,000
		5%	$50,000	$50,000	$50,000	$50,000	$50,000
32	Annexation 98 Sewer Completion	0%	$500,000	$690,000	$2,000,000		
		5%	$2,500,000	$690,000			
42	Const & participation w/developers	0%				$2,000,000	$4,000,000
		5%			$2,000,000	$2,000,000	$4,000,000
48	Asset Management Implementation	0%	$1,000,000	$500,000	$500,000		
		5%	$1,000,000	$1,000,000			
53	SCADA Telemetry Enhancement	0%	$500,000		$275,000	$275,000	$275,000
		5%	$500,000	$275,000	$275,000	$275,000	
57	Southside Operations Facility	0%			$3,000,000		
		5%	$250,000	$750,000	$2,000,000		

Total 0% Budget:	$3,210,000	$2,175,000	$23,692,000	$13,749,000	$13,209,000
Total 5% Budget:	$12,248,000	$14,929,000	$15,749,000	$10,209,000	$8,350,000

Funding for the $28.87 million FY 10 Capital Improvement Program comes from several sources. Interest earnings of $2.8 million are projected on the 2008 bond proceeds in the construction escrow account. A transfer of $7.9 million is recommended from the operating fund. This represents $2.95 million in current year revenues and $4.95 million from available capital reserves. The balance of the funding is $18.17 million in proceeds from future issuance of revenue bonds. If projected rate increases are not implemented to provide this bond financing, the aforementioned capital reserves will be held to fund any projects under contract. The implementation of the five-year CIP presented later in this document will also depend upon the capability of the Authority to incur future debt service expenditures.

ACCOMPLISHMENTS

In FY 2009, CFPUA served approximately 62,000 residential, commercial, and industrial customers. CFPUA service area includes the incorporated areas of the City of Wilmington as well as the majority of New Hanover County. The Authority also provides wholesale wastewater treatment to the Town of Wrightsville Beach and Pender County. The single largest accomplishment in FY 2009 was the joining of two significant work groups from New Hanover County and City of Wilmington with no interruption in service to the community.

Operations Accomplishments

Utility Services

- The pump stations, a total of 144, were brought under single management. Combined resources and focused management provided for increased preventative and corrective maintenance.
- Through the implementation of an aggressive pump station maintenance program staff has begun an effective in-house repair and rehabilitation process for all pump stations within the system.
- The cleaning and camera crews are averaging between 60-70k linear feet per month.
- Implemented a 3-year root control and management program.
- The addition of the new vacuum/jet truck(s) purchased in fiscal FY 2009 will enable forces to clean more lines, more effectively and efficiently.
- A large diameter cleaning and CCTV inspection program was developed.
- Began cleaning large diameter (in excess of 12") mains that were in need of maintenance
- The Water Quality group implemented an aggressive flushing program to improve water quality in areas where insufficient flow and dead-end lines have contributed to water quality issues in the past.
- Replaced approximately 5,700 linear feet of water lines.
- Initiation of an asset management program. The ultimate goal of asset management is to identify, assess, and manage all of our assets – physical assets, people, financial resources, and information – assuring they all function seamlessly together. For CFPUA staff, the development of the plan provides an opportunity for us to improve our effectiveness. For our customers, it preserves equity value, ensures transparency to rate payers so they can see how their money is being spent within the system, and it helps to assure that we are being wise stewards of their assets and resources.

Water Treatment

- Successfully integrated the City and County's seven water systems into four systems and maintained compliance throughout FY 2009.
- Developed a Water Shortage Response Plan

- Staff worked collectively with consultants to continue to move forward with the construction of the new Water Treatment Facility that will begin operation in summer 2009. This facility will improve water quality within the existing well system for our customers.
- Expanded the Water Conservation educational program to include a more proactive approach to water efficiency and to assist customers in identifying potential costly water problems within their residences.
- Created a combined Water System Management Plan and received approval from NCDENR – Public Water Supply.
- Began construction to upgrade the Sweeney water treatment facility.

Wastewater Treatment

- The NSWWTP Expansion/Upgrade project transforming the former 8 MGD secondary plant to the current 10 MGD facility. Once the effluent force main is completed, the facility will be operable at its design capacity of 16 MGD advanced plant.
- The SSWWTP Expansion/Upgrade project transforming the current 12 MGD secondary, trickling filter, plant to a proposed 16 MGD advanced plant is entering the design phase.
- The WHWWTP has received various process and safety improvements. Alternate processing and staffing arrangements are under evaluation to better utilize available resources while plans are developed for its eventual decommissioning and conveyance of flow to the NSWWTP.
- Work continues on Total Maximum Daily Loads (TMDLs) affecting our NPDES permits, and improvements to the odor corrosion control program and residuals management contracts.

Engineering Accomplishments

- The Administration Division successfully established a work unit to oversee administration of the Capacity Management and Capital Improvement Programs, Plan Review, Property Acquisitions and GIS Database.
- The Design division performed Property Acquisition, Geographical Information System (GIS) Management, Computer Aided Drafting/Design (CAD) and Records and Drawings Management.
- Project Management provided critical oversight to numerous capital improvement projects, and programmed long-term CIP budgets, provided oversight of planning and design work, and managed construction phase activities.
- Developed a 10-year, $600 million CIP composed of 34 water and 44 wastewater projects.
- Developed new processes for managing, tracking and controlling projects through their various phases.
- Developed and implemented the Property Acquisition Policy for the new Authority providing a consistent approach to acquisitions in support the CIP and development community.
- Completed the master planning required to begin final design of infrastructure to serve the 421 corridor.
- Completed review of 133 development plans to ensure compliance with Authority technical standards and details.
- Executed 10 developer agreements to provide for cost sharing with developers to install Authority owned infrastructure.
- Legally conveyed (accepted) from Developers $ 6,189,977 worth of water and sewer infrastructure that was added to the Authority's asset balance sheet.

- Initiated and/or completed successful property acquisition contributing to the Burnt Mill Creek, Raw Water Transmission, Carolina Beach Water Line, Northeast Interceptor, and Northern School Site projects

Customer Service Accomplishments

- The Customer Service Department has spent the initial year of operations striving to get on a regular schedule of meter reading and billing after a severe setback when the City and County data experienced significant and unanticipated errors during the software conversion. Currently the billing is resuming a normal schedule.
- Read 62,000 meters for six rounds of billing
- Produced 67,000 bills for each of six billing periods
- Processed payments
- Responded to customer service needs via phone calls, email and in person visits

Environmental and Safety Management Accomplishments

- Began Implementation of an Environmental Management System. The Cape Fear Public Utility Authority board members adopted the Authority's Environmental Policy in September of 2008. An Environmental Program Manager was hired and a cross-section of CFPUA employees from operations, engineering, and environmental management attended and completed the NC ESI Partnership Training by year end 2008. Awareness training was conducted for all departments on the Authority's ISO 14001 commitment and Environmental Policy. Environmental aspects and impacts have been developed for the activities conducted in the collections systems, and procedures have been developed and are being implemented including corrective and preventative action (C/PAR), document control, and aspect and impact analysis review. A recycling program is currently underway.
- Created and implemented the CFPUA Safety and Health policies manual, training schedules/requirements and new employee orientation training. Additionally, we have entered into a partnership with the North Carolina Industrial Commission on safety rules infractions that can be used when necessary for workers compensation claims.
- Created and implemented a safety committee that reviews accidents to determine preventability and to determine if any policies and/or processes need to be modified as a result of findings to prevent future re-occurrences.
- Successfully incorporated sampling and analysis for all four CFPUA water systems, 3 wastewater treatment plants and their associated distribution and collection systems into laboratory work schedules. Increases in laboratory sample workload compounded by the Authority's hiring freeze have been met with innovative approaches to remain efficient while achieving compliance with regulatory requirements and customer expectations.
- Laboratory staff has generated timely, accurate analytical data in support of the water, wastewater, and pretreatment monitoring programs.
- Backflow protection in the distribution system requires constant oversight to ensure quality of drinking water for Authority customers.
- The Pretreatment program has been challenged with monitoring industrial and commercial users to ensure protection of both wastewater treatment plants and workers in the collection system as well as with educating customers about impacts from fats, oil, and grease as a means of reducing Sanitary Sewer Overflows.

Human Resources Accomplishments

- Assisted Department Heads with developing organizational structures that combined the City and County workforces
- Secured employee benefits contracts
- Implemented the Authority approved classification and compensation plan
- Created and implemented the CFPUA Employee Personnel Policies and Procedures, Random Drug Testing Program, Driver's Standards Policy, and the Employee Appraisal Program
- Reported and managed position/employee information
- Began the process and implementation of a training program for employees which will enhance their skills, knowledge and abilities

Finance Accomplishments

- Established the initial budgetary and accounting system to process and report on financial transactions of the Authority
- Prepared the first operating budget and Capital Improvement Program budget for the Cape Fear Public Utility Authority
- Coordinated the Authority's first revenue bond sale of $187 million including receiving a AA/AA3 bond rating as a new organization
- Established a system for the timely requisitioning and purchase of goods and materials used in the operations of the various departments of the Authority

Information Technology Accomplishments

- Created the CFPUA domain, network, server room, GIS Database/Server and website.
- Transitioned all technology equipment (PC's, Phone's, UPS) from City of Wilmington/ New Hanover County staff (Customer Service, Engineering) to the new CFPUA administration building.
- Implemented virtual server technology which allows the reduction in server hardware costs, electricity usage, and most importantly replication.
- Created network redundancy to all remote facilities (Sweeney Water Treatment Plant, Northside Wastewater Plant, Southside Wastewater Plant, and Operations Complex) and dedicated landlines (for 911 services) to each facility.
- Managed approximately 250 SCADA assets in addition to 4 remote facilities (Sweeney Water Treatment Plant, Northside Wastewater Plant, Southside Wastewater Plant, and the future NANO plant) 14 Elevated Tanks, various wells and lift stations, the telemetry communication system, along with 11 servers used for reporting, analysis, and alarm notification
- Publishes the Authority Website in concert with CFPUA PIO, maintains the Authority Security server, and ensures Authority data back up at the Administration building and the Disaster Recovery Facility.

IN CLOSING

This Budget represents the combined efforts and guidance of the Authority Board, its Committees and Staff. We pledge to be faithful stewards of these allocated resources and will strive to employ these funds to service the customers and community we serve while remaining consistent with our guiding principles of *Stewardship, Sustainability, and Service*.

Respectfully submitted,

Matthew W. Jordan, P.E.
Chief Executive Officer
Cape Fear Public Utility Authority
Sustainability.Stewardship.Service

PURPOSE AND BACKGROUND

The Cape Fear Public Utility Authority is a regional water and sewer authority created by the City of Wilmington and New Hanover County pursuant to North Carolina General Statutes (160A-461). The Authority was incorporated on July 2, 2007. An inter-local agreement between the City, County, and the Authority was executed on January 30, 2008 to convey the water and sewer systems to the Authority. The systems were conveyed on July 1, 2008 and operations of the Authority began.

ORGANIZATION

The Authority is governed by an eleven member Board, which includes two elected officials from the City and two from the County. The members of the Authority serve staggered 3 to 1 year terms and are appointed by the City and County governing bodies with one member appointed jointly. The Authority is responsible for the adoption of the annual budget, setting water and sewer rates, setting policy for the Authority, enacting local ordinances, and appointment of officers (Chief Executive Officer and Authority Attorney).

The Authority's operations are managed by a Chief Executive Officer with six department heads overseeing the day-to-day operations. A total of 309.5 positions were authorized in the FY 09 budget. The recommended budget contains a reduction of five full-time positions for a total of 304.5 positions. The departments are Human Resources, Engineering, Operations, Customer Service, Finance/Administrative Services, and Environment/Safety Management. The largest department, Operations, has 185 authorized positions and is divided into three major units; water treatment, wastewater treatment, and utility services.

WATER SYSTEM

The Cape Fear Public Utility Authority operates a water system once divided between New Hanover County and City of Wilmington. The system is made up of approximately 62,000 connections, 925 miles of water distribution pipe, 11 elevated water storage tanks, the Sweeney Water Treatment Plant and by fall 2009, the Nano Filtration Plant. The demand for water in 2010 is projected at 22.6 million gallons per day (MGD) with a peak of 34.0 mgd.

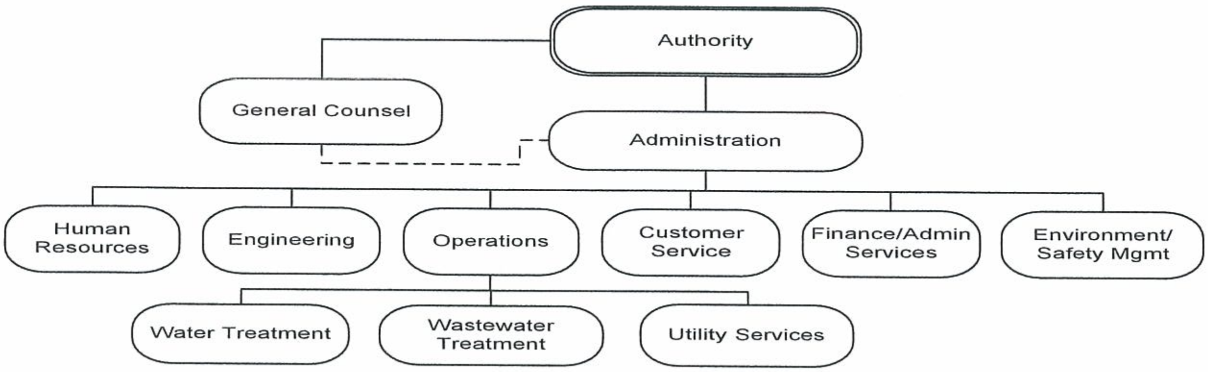
The city- wide system relies on the Cape Fear River as a source of raw water. There are several active and emergency wells within the system, but groundwater makes up only a small percentage of the overall amount of finished water. Raw water from an intake on the Cape Fear River is conveyed through a water main, consisting primarily of 30-inch pipe, to the Sweeny Water Treatment Plant (WTP) for treatment. Finished water is stored in two large reservoirs totaling 16.0 mgd and pumped into the distribution system.

The distribution system consists of a mix of water main size, material, age and condition. There are sections of the system that are approaching or have exceeded their useful life. Most of the old County ground water system has been installed in the past 20 years and is served by 5 separate well systems. With the new nano filtration plant coming on line, the old wells will be abandoned (preserving 8 for emergency) and 27 new wells will be placed in service. Interconnections between the City and County water systems are planned over the next two years to balance supply demands.

SEWER SYSTEM

The CFPUA wastewater collection system service area includes the incorporated areas of the City of Wilmington as well as the majority of New Hanover County, excluding Carolina and Kure Beach. The system serves in excess of 57,000 customers. The wastewater is treated at one of three facilities, North side WWTP permitted at 10 MGD (going to 16 mgd in 2010), Southside WWTP permitted at 12 mgd and Walnut Hills WWTP permitted at 100,000 gpd.

The CFPUA collection System consists of approximately 840 miles of gravity pipeline ranging from 4-inch to 48-inch diameter, 108 miles of force mains ranging from 4-inch to 30-inch diameter, and 140 wastewater pump stations. Approximately 44 percent of the gravity pipes, 23 percent of the force mains, and 22 percent of the wastewater pump stations were transferred from the City's system, with the remainder coming from the County. The City and County systems were interconnected prior to the formation of the Authority.



Staffing Summary

The Authority has authorized a total of 304.5 positions. Staffing level (full-time equivalents) by department is as follows:

	FY 09	FY 10
Administration	7	6
Finance/Administrative Services	16	15
Human Resources	4	4
Engineering	25	24
Operations	185	185
Environment/Safety Management	30.5	29.5
Customer Service	42	41
	309.5	304.5

Cape Fear Public Utility Authority
Stewardship. Sustainability. Service.

Operating and Capital Budget Summary

	CFPUA FY 09-10 Submitted
INCOME	
Water Charges	$ 24,513,835
Wastewater Charges	25,568,226
Other Charges for Service	1,713,000
Total Operating Income	**51,795,061**
Interest Earnings	1,539,380
System Development Charges	2,110,000
Total Non-Operating Income	**3,649,380**
Total Income	**55,444,441**
EXPENSES	
General and Administrative Expenses	3,451,413
Operations Expenses	30,766,253
Total Expense before Debt Service	**34,217,666**
Net Income before Debt Service	**21,226,775**
Debt Service Coverage	**1.28**
Long Term Debt Principal & Interest Payments (Note 1)	16,611,423
Total Expenses	**50,829,089**
NET INCOME	
Income after Debt Service Available for Capital Use	4,615,352
EQUIPMENT AND CONSTRUCTION EXPENDITURES	
Funded by Operations:	
Capital Outlay	1,665,600
Capital Projects	2,949,752
Total Capital Uses	**4,615,352**
Increase (Decrease) in Reserves	**$ -**

Note 1: Debt Service shown net of $7,005,850 in capitalized interest.

Cape Fear Public Utility Authority
Stewardship. Sustainability. Service.

Statement of Revenues and Expenditures (Budget Basis)

	CFPUA FY 08-09 Adjusted	CFPUA FY 09-10 Submitted
REVENUE AND OTHER FINANCING SOURCES		
Water Charges	$ 24,307,324	$ 24,513,835
Wastewater Charges	26,414,260	25,568,226
Other Charges for Service	2,318,030	1,713,000
Operating Grants and Contributions	66,320	-
System Development Charges	4,800,000	2,110,000
Interest Earnings	1,315,000	1,539,380
Total Revenue	**59,220,934**	**55,444,441**
Proceeds from Bonded Debt	3,441,638	-
Transfer from Other Funds	1,180,000	2,088,030
Appropriated Fund Balance - Capitalized Interest	-	7,005,850
Appropriated Fund Balance - Capital Projects	-	4,950,248
Total Revenues and Other Financing Sources	**63,842,572**	**69,488,569**
EXPENDITURES AND OTHER FINANCING USES		
Authority Board	62,675	53,773
Administration	1,010,600	959,571
Finance/Administrative Services	2,172,201	2,117,316
Human Resources	403,786	406,253
Engineering	2,199,224	2,088,030
Total General and Administrative	5,848,486	5,624,943
Operations - Administration	842,229	871,381
Operations - Water Treatment	6,552,056	7,408,034
Operations - Wastewater Treatment	5,391,826	5,524,000
Operations - Utility Services	12,544,663	11,874,476
Environment/Safety Management	2,358,674	2,237,023
Customer Service	2,684,621	2,427,439
Nondepartmental	1,948,000	2,004,000
Total Operations	32,322,069	32,346,353
Debt Service	18,916,359	23,617,273
Total Expenditures	**57,086,914**	**61,588,569**
Transfers to Capital Project Funds	-	7,900,000
Transfer to Capital Reserve for Future Use	6,755,658	-
Total Expenditures and Other Financing Uses	**63,842,572**	**69,488,569**

Cape Fear Public Utility Authority
Stewardship. Sustainability. Service.

BUDGET SUMMARY

	CFPUA FY 08-09 Adjusted	CFPUA FY 09-10 Submitted	Percentage Change
REVENUES			
Water Revenues	$ 24,307,324	$ 24,513,835	
Wastewater Revenues	26,414,260	25,568,226	
Interest Earnings	1,315,000	1,539,380	
Other Charges for Service	2,318,030	1,713,000	
Operating Grants and Contributions	66,320	-	
System Development Charges	4,800,000	2,110,000	
Transfers from Other Funds	1,180,000	2,088,030	
Bond Proceeds	3,441,638	-	
Appropriated Fund Balance - Capitalized Interest	-	7,005,850	
Appropriated Fund Balance - Capital Projects	-	4,950,248	
TOTAL REVENUES	**$ 63,842,572**	**$ 69,488,569**	9%
EXPENDITURES			
Authority Board	$ 62,675	$ 53,773	
Administrative	1,010,600	959,571	
Finance/Administrative Services	2,172,201	2,117,316	
Human Resources	403,786	406,253	
Engineering	2,199,224	2,088,030	
Operations - Administration	842,229	871,381	
Operations - Water Treatment	6,552,056	7,408,034	
Operations - Wastewater Treatment	5,391,826	5,524,000	
Operations - Utility Services	12,544,663	11,874,476	
Environment/Safety Management	2,358,674	2,237,023	
Customer Service	2,684,621	2,427,439	
Nondepartmental	1,448,000	1,504,000	
Debt Service	18,916,359	23,617,273	
Contingency	500,000	500,000	
Transfers to Capital Projects	-	7,900,000	
Capital Reserve	6,755,658	-	
TOTAL EXPENDITURES	**$ 63,842,572**	**$ 69,488,569**	9%

Cape Fear
Public Utility Authority
Stewardship. Sustainability. Service.

EXPENDITURE SUMMARY

	CFPUA FY 08-09 Adjusted	CFPUA FY 09-10 Submitted	Percentage Change
EXPENDITURES BY DEPARTMENT			
Authority Board	$ 62,675	$ 53,773	-14%
Administration	1,010,600	959,571	-5%
Finance/Administrative Services	2,172,201	2,117,316	-3%
Human Resources	403,786	406,253	1%
Engineering	2,199,224	2,088,030	-5%
Operations - Administration	842,229	871,381	3%
Operations - Water Treatment	6,552,056	7,408,034	13%
Operations - Wastewater Treatment	5,391,826	5,524,000	2%
Operations - Utility Services	12,544,663	11,874,476	-5%
Environment/Safety Management	2,358,674	2,237,023	-5%
Customer Service	2,684,621	2,427,439	-10%
Nondepartmental	1,448,000	1,504,000	4%
Debt Service	18,916,359	23,617,273	25%
Contingency	500,000	500,000	0%
Transfers to Capital Projects	-	7,900,000	
Capital Reserve	6,755,658	-	
TOTAL	**$ 63,842,572**	**$ 69,488,569**	9%
EXPENDITURES BY CATEGORY			
Personnel	$ 13,689,165	$ 13,757,937	1%
Benefits	4,448,376	4,237,458	-5%
Operating	16,122,400	16,306,301	1%
Capital Outlay	1,962,614	1,665,600	-15%
Nondepartmental	1,448,000	1,504,000	4%
Debt Service	18,916,359	23,617,273	25%
Contingency	500,000	500,000	0%
Transfers to Capital Projects	-	7,900,000	
Capital Reserve	6,755,658	-	
TOTAL	**$ 63,842,572**	**$ 69,488,569**	9%

Cape Fear
Public Utility Authority
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EXPENDITURE DETAIL BY DEPARTMENT

EXPENDITURES BY DEPARTMENT	CFPUA FY 08-09 Adjusted	CFPUA FY 09-10 Submitted	Percentage Change
Authority Board			
Personnel	$ 33,000	$ 33,000	0%
Benefits	2,525	2,523	0%
Operating	27,150	18,250	-33%
Total Authority Board	**62,675**	**53,773**	**-14%**
Administration			
Personnel	404,780	527,049	30%
Benefits	131,820	120,022	-9%
Operating	469,000	307,500	-34%
Capital Outlay	5,000	5,000	0%
Total Administration	**1,010,600**	**959,571**	**-5%**
Finance/Administrative Services			
Personnel	957,060	914,063	-4%
Benefits	268,635	243,974	-9%
Operating	884,340	896,279	1%
Capital Outlay	62,166	63,000	1%
Total Finance/Administrative Services	**2,172,201**	**2,117,316**	**-3%**
Human Resources			
Personnel	248,569	248,069	0%
Benefits	68,917	62,284	-10%
Operating	86,300	95,900	11%
Total Human Resources	**403,786**	**406,253**	**1%**
Engineering			
Personnel	1,519,540	1,502,751	-1%
Benefits	424,218	396,807	-6%
Operating	220,466	170,972	-22%
Capital Outlay	35,000	17,500	-50%
Total Engineering	**2,199,224**	**2,088,030**	**-5%**
Operations - Administration			
Personnel	591,260	624,357	6%
Benefits	160,069	166,224	4%
Operating	90,900	80,800	-11%
Total Operations - Administration	**842,229**	**871,381**	**3%**
Operations - Water Treatment			
Personnel	1,230,369	1,316,908	7%
Benefits	413,329	425,275	3%
Operating	4,861,818	5,544,851	14%
Capital Outlay	46,540	121,000	160%
Total Operations - Water Treatment	**6,552,056**	**7,408,034**	**13%**

Cape Fear
Public Utility Authority
Stewardship. Sustainability. Service.

EXPENDITURE DETAIL BY DEPARTMENT

		CFPUA FY 08-09 Adjusted		CFPUA FY 09-10 Submitted	Percentage Change
EXPENDITURES BY DEPARTMENT					
Operations - Wastewater Treatment					
Personnel	$	1,718,519	$	1,780,529	4%
Benefits		586,710		574,004	-2%
Operating		2,607,497		2,612,067	0%
Capital Outlay		479,100		557,400	16%
Total Operations - Wastewater Treatment		**5,391,826**		**5,524,000**	**2%**
Operations - Utility Services					
Personnel		4,149,777		4,121,406	-1%
Benefits		1,401,485		1,353,413	-3%
Operating		5,700,193		5,508,557	-3%
Capital Outlay		1,293,208		891,100	-31%
Total Operations - Utility Services		**12,544,663**		**11,874,476**	**-5%**
Environment/Safety Management					
Personnel		1,343,859		1,259,375	-6%
Benefits		446,854		396,568	-11%
Operating		540,761		580,580	7%
Capital Outlay		27,200		500	-98%
Total Environment/Safety Management		**2,358,674**		**2,237,023**	**-5%**
Customer Service					
Personnel		1,492,432		1,430,430	-4%
Benefits		543,814		496,364	-9%
Operating		633,975		490,545	-23%
Capital Outlay		14,400		10,100	-30%
Total Customer Service		**2,684,621**		**2,427,439**	**-10%**
Nondepartmental		**1,448,000**		**1,504,000**	**4%**
TOTAL	**$**	**37,670,555**	**$**	**37,471,296**	-1%

Cape Fear Public Utility Authority
Water and Wastewater Capital Improvement Program
FY 2010 Capital Budget

ID	Project	Project Cost	FY 10	FY 11	FY 12	FY 13	FY 14
	Water						
1	Downtown Water Line Rehabilitation	1,200,000			400,000	400,000	400,000
2	N. 3rd St Streetscape - cut	1,200,000	1,200,000				
3	Annexation 1995 and 1998 Water Lines	676,000			676,000		
4	Bald Eagle Water Line Extension	1,270,000			1,270,000		
5	System Interconnects	2,015,500	1,000,000	1,015,500			
6	Aquifer Sustainability & Monitoring	470,000	470,000				
7	Water Valve Replacement	500,000	100,000	100,000	100,000	100,000	100,000
8	Water Laterals and Services	375,000	75,000	75,000	75,000	75,000	75,000
9	Phase I CB Rd Transmission Main	2,485,000		485,000	2,000,000		
10	Phase II CB Rd Transmission Main	2,700,000		250,000	2,450,000		
11	Phase III Carolina Beach Road Transmission Main	4,000,000			376,000	3,624,000	
12	River Rd Loop Connector - CFPUA Participation	4,584,000					4,584,000
13	2 MG Southeast Elevated Tank @ College Rd & Bragg Dr	5,650,000			650,000	5,000,000	
14	30" Raw Water Main Rehabilitation	3,500,000	500,000	1,000,000	1,000,000	500,000	500,000
15	Meter Replacement Program	1,500,000			500,000	1,000,000	
16	Aquifer Storage Retrieval (ASR)	2,167,000			2,167,000		
17	Blue Clay Road Interconnect	750,000			750,000		
18	City - County Water System Integration Study and Improvements	1,400,000			400,000	500,000	500,000
19	GIS and AS-built Integration, Easement Survey/Mapping	150,000			50,000	50,000	50,000
20	Kerr Ave Waterline	90,000			90,000		
21	Porters Neck Water System Purchase & Interconnects	981,000	981,000				
22	Water Emergency Repair	100,000	100,000				
23	Raw Water Pump Station	8,710,000	1,210,000		4,000,000	3,500,000	
	Water Sub-Total	**46,473,500**	**5,636,000**	**2,925,500**	**16,954,000**	**14,749,000**	**6,209,000**

ID	Project	Project Cost	FY 10	FY 11	FY 12	FY 13	FY 14
	Wastewater						
1	Downtown Sewer Rehab & Sewer Assessment	7,000,000				3,000,000	4,000,000
2	PS - 11 (Downtown Sewershed)	1,660,000			1,660,000		
3	PS - 10 and 12 (Downtown Sewershed)	2,977,000		2,977,000			
4	N. Third St Streetscape	1,200,000	1,200,000				
5	Middle Sound Sewer (NHC)	511,000	511,000				
6	Heritage Park PS Developer Contribution	410,000	410,000				
7	Pump 14 Grit Removal	100,000		100,000			
8	Pump Station 26 & 27 Site Work	50,000	50,000				
9	Pump Station 13 Improvements	360,000			360,000		
10	Pump Renewal Project	500,000	100,000	100,000	100,000	100,000	100,000
11	Relocation of Utility Lines per NCDOT Agreements	350,000	350,000				
12	Burnt Mill Creek Outfall Repair	2,700,000	2,700,000				
13	Thickened Alum Sludge Storage at WWTP	538,000			538,000		
14	Pump Station VFD Replacements	200,000		100,000	100,000		
15	Greenfield Lake Outfall Rehabilitation	2,250,000		250,000	2,000,000		
16	Infiltration Inflow Investigation and Elimination Program	750,000			250,000	250,000	250,000
17	GIS As-built entry and mapping maintenance contract	150,000			50,000	50,000	50,000
18	Annexation 98 - Completion of Sewer Extensions	3,190,000	500,000	690,000	2,000,000		
19	NSWWTP Force Main	300,000	300,000				
20	NEI Rehab - including PS 35 Expansion	2,400,000		2,400,000			
21	Northern Route Force Main	9,200,000	9,200,000				
22	Systemwide OCCP	180,000	180,000				
23	Southside WWTP Rehabilitation and Upgrade	83,845,000			18,615,000	34,615,000	30,615,000
24	Const of collector systems/participation with developers	6,000,000				2,000,000	4,000,000
25	River Road Force Main	560,000	560,000				
26	Asset Management Implementation Study & CMMS	2,000,000	1,000,000	500,000	500,000		
27	Wastewater Pump Station Replacement Projects (sewer master plan)	5,000,000					5,000,000
28	Sewer Emergency Repair	100,000	100,000				
29	PS 34 Barscreen	650,000	650,000				
30	Find-It, Fix-It Repairs	1,000,000	500,000	500,000			
31	SCADA Telemetry Enhancement	1,325,000	500,000		275,000	275,000	275,000
32	U.S. 421 Regional WWTP	6,900,000	400,000			6,500,000	
33	W&S Bore, PS Upgrade - Pt. Harbor Developer Agreement	1,250,000		750,000	500,000		
34	Vactor Bay Building	550,000	550,000				
35	Southside Operations Facility - in addition to budgeted lease amt	3,000,000			3,000,000		
36	Walnut Hills WWTP - Decommission	4,000,000				4,000,000	
37	Manhole Rehabilitation	300,000	150,000	150,000			
38	ARV Replacement	100,000	100,000				
39	PS - Country Haven	2,080,000	2,080,000				
40	PS-21	720,000			720,000		
41	PS - Kirkland	1,925,000			1,925,000		
42	PS - Northchase NE	100,000			100,000		
43	PS - Wrightsville Sound	65,000			65,000		
44	PS - 8	2,300,000			2,300,000		
45	PS - Bernards Creek & Motts Creek	6,950,000	1,150,000	3,000,000	2,800,000		
46	PS - Whiskey Creek	1,485,000				1,485,000	
47	PS - Oak Landing	215,000				215,000	
48	PS - Pine Grove	1,430,000				1,430,000	
	Wastewater Sub-Total	**170,826,000**	**23,241,000**	**11,517,000**	**37,858,000**	**53,920,000**	**44,290,000**
	Total Capital Improvement Projects	**$ 217,299,500**	**$ 28,877,000**	**$ 14,442,500**	**$ 54,812,000**	**$ 68,669,000**	**$ 50,499,000**

Following are brief descriptions of proposed FY 10 capital improvement projects with budgets that exceed $1 million. Descriptions of lower budget and future year projects are not included for clarity. Project ID numbers correspond with the Capital Improvement Program budget worksheets.

ID	Water Projects	FY 10 Project Cost	Description
2	N. 3rd St Streetscape	$1,200,000	The City is designing streetscape improvements for 3rd St between Market and Front streets. This project will replace existing water lines and service connections as part of the City project.
5	System Interconnects	$2,015,500	At the start-up of the nano plant, connecting to existing systems will allow better distribution of flow to accommodate seasonal demands. The interconnections will include main extensions, valves, booster pumps, and SCADA controlled water tank valves.
23	Raw Water Pump Station	$1,210,000	With the Sweeney Water Treatment Plant expansion underway, additional raw water will need to be available. This project will construct a booster station near U.S. 421 at the Lower Cape Fear Sewer Authority meter vault. FY 10 funding is for design only. Construction is estimated to cost $7.5 million

ID	Wastewater Projects	FY 10 Project Cost	Description
4	N. 3rd St Streetscape	$1,200,000	The City is designing streetscape improvements for 3rd St between Market and Front streets. This project will replace existing sewer lines and laterals as part of the City project.
12	Burnt Mill Creek Outfall Repair	$2,700,000	This 48" gravity line needs rehabilitation due to age and internal corrosion. A portion of the deteriorated section has been repaired. This project will line the remaining section and replace manholes.
21	Northern Route Force Main	$9,200,000	The NEI force main has been identified as needing expansion to meet capacity requirements, and to provide flow management capabilities. This project will install a 24" FM from PS 35 to Northside Treatment Plant, allowing flows to be diverted as needed.
26	Asset Management & CMMS	$1,000,000	Management of existing and proposed hard assets is critical. This program will purchase CMMS software and begin the implementation phase of an asset management program. This will help with budgeting,

			cost control, and maintenance activities.
39	Country Haven Pump Station	$2,080,000	The Country Haven pump station, which sits along Market St near Marsh Oaks, is over capacity. This project will construct a new regional pump station and force main to the Bay Shore area.
45	Barnards Creek PS & Motts Creek PS	$1,150,000	The Motts Creek and Barnards Creek pump stations and force mains need to be upgraded to provide additional capacity to much of the southern service area. This effort will be shared in some fashion with an adjacent developer.

Revenues

The Authority operates the System as an independent business enterprise. The Authority does not have any taxing authority and therefore must cover the full cost of constructing, maintaining and operating the System through user fees, rates and charges. The revenues of the Authority are comprised of operating revenues (user charges) and other revenues of the System such as facility fees and interest income.

Operating Revenues

Operating revenues are derived from the rates and fees charged to customers for water and sewer services provided by the Authority. The Authority sets water and sewer rates, fees and charges to fully cover the cost of operating the System. The Authority's user rate structure for water and sewer services include the following:

- Fixed bi-monthly minimum charges for water and sewer based on water meter size;
- Inclining block volume rates for residential water accounts;
- Uniform water volume rates for non-residential water accounts;
- Uniform sewer volume rates based on metered quantities of water capped at 30,000 gallons per bi-monthly period for residential sewer accounts; and
- Uniform sewer volume rates based on metered quantities of water for non-residential sewer accounts.

The Authority's current fee schedule became effective July 1, 2008. Revenues are subject to future economic events and other conditions, which are unpredictable. The rate structure adopted by the Authority is intended to allocate costs to the Authority's customers based on the costs that they cause the Authority to incur. The inclining block volume rates may cause residential customers to alter their usage thereby reducing the annual billable quantities of water sold. To account for this possibility the projected billed quantities of water sales are reduced by twenty percent in the highest block. The Authority will annually review customer user rates as part of the Authority's budget process, so that customer rates may be timely revised to ensure sufficient revenues to provide for operating costs, debt service and other obligations.

All customers are billed on a bi-monthly basis. Previously collected data on water demand for residential customers, based on a review of sample of single family and multi-family residences water consumption, estimated an average consumption rate of 200 gallons per day per equivalent dwelling unit (EDU) or 12,000 gallons per bi-monthly period. The data also indicated that approximately 84% of CFPUA customers average less than 18,000 gallons per bimonthly billing cycle on an annual basis. Data from the first ten months of billings by CFPUA indicate that the actual percentage may be higher than this projection.

The projected water and sewer rates represent "across the board" annual increases. A 9% increase was adopted for FY 2009. As previously discussed in the introductory section no increase is planned for the FY 2010 budget. The allocations of costs between the various components of the rates are not altered over the projection period. The projected water and sewer volumetric user rates are shown in the following tables:

Cape Fear
Public Utility Authority
Stewardship Sustainability Service

Projected Water User Rates

	Fiscal Year				
	2009	2010	2011	2012	2013
Residential (per 1,000 gallons)					
Block 1 (0 - 9,000 gallons)	$ 1.95	$ 1.95	$ 2.13	$ 2.32	$ 2.43
Block 2 (9,001 - 18000 gallons)	$ 2.95	$ 2.95	$ 3.22	$ 3.50	$ 3.68
Block 3 (over 18,000 gallons)	$ 3.95	$ 3.95	$ 4.31	$ 4.69	$ 4.93
Non-Residential (per 1,000 gallons)	$ 2.95	$ 2.95	$ 3.22	$ 3.50	$ 3.68
Irrigation (per 1,000 gallons)	$ 3.95	$ 3.95	$ 4.31	$ 4.69	$ 4.93
Annual Increase	*9%*	*0%*	*9%*	*9%*	*5%*

Projected Sewer User Rates

	Fiscal Year				
	2009	2010	2011	2012	2013
Usage Rate (per 1,000 gallons)	$ 2.75	$ 2.75	$ 3.00	$ 3.27	$ 3.50
Bi-Monthly Flat Rate	$ 82.50	$ 82.50	$ 89.93	$ 98.02	$ 104.88
Annual Increase	*9%*	*0%*	*9%*	*9%*	*7%*

The Authority provides sewer service to approximately 1,600 accounts that receive water from a private well or a private water system. These customers are charged a bi-monthly flat rate charge for sewer service as shown in the table above.

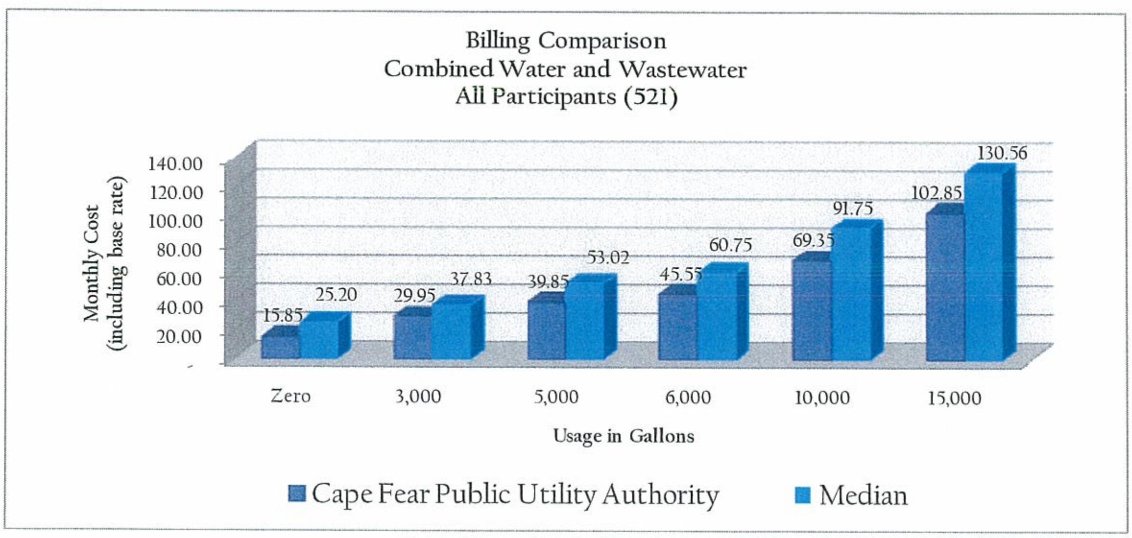
Projected Bi-Monthly Fixed Charges by Meter Size (Combined Water and Sewer)

	Fiscal Year				
Water Meter Size	2009	2010	2011	2012	2013
5/8"	$ 31.70	$ 31.70	$ 34.55	$ 37.66	$ 39.55
3/4"	$ 31.70	$ 31.70	$ 34.55	$ 37.66	$ 39.55
1"	$ 79.25	$ 79.25	$ 86.38	$ 94.16	$ 98.86
1-1/2"	$ 158.50	$ 158.50	$ 172.77	$ 188.31	$ 197.73
2"	$ 253.60	$ 253.60	$ 276.42	$ 301.30	$ 316.37
3"	$ 475.50	$ 475.50	$ 518.30	$ 564.94	$ 593.19
4"	$ 792.50	$ 792.50	$ 863.83	$ 941.57	$ 988.65
6"	$1,585.00	$ 1,585.00	$ 1,727.65	$ 1,883.14	$ 1,977.30
8"	$2,536.00	$ 2,536.00	$ 2,764.24	$ 3,013.02	$ 3,163.67
10"	$3,962.50	$ 3,962.50	$ 4,319.13	$ 4,707.85	$ 4,943.24
Annual Increase	*9%*	*0%*	*9%*	*9%*	*5%*

The annual adjustments to the water and sewer rates are based on the requirements to meet the operating and capital costs anticipated over the projection period for the Authority. The Authority has not adopted the FY 2010 water and sewer rates. The rates in subsequent fiscal years are presented as a projection. These rates will be subject to the annual budget process and to broader economic trends. The projection is based on current operations and forecast of the multi-year capital improvements program.

Rate Comparison

The tiered rate structure affected former City and County customers very differently based on their consumption patterns. High seasonal demand, primarily driven by irrigation and other outdoor uses, did result in some customers having significant increases. However, the Authority's rates at all consumption levels are among the lowest in southeastern North Carolina and across the state. The UNC Environmental Finance Center and the North Carolina League of Municipalities conduct an annual survey of water and sewer rates across North Carolina. This includes municipalities, counties, authorities, and special districts. Over 500 entities participated in the survey. CFPUA ranked in the lower 40% of rates for water and in the lower 20% of charges for sewer. The following chart compares CFPUA's rate on a monthly basis to the median charge for various consumption levels included in the survey.



Other Operating Revenues

Other operating revenue sources consist of fees and charges other than water and sewer user rates. These revenues include fire line charges, service turn on fees, water line repair charges, connection fees, collection of bad debt, service application fees, sewer line repair charges, other water charges, permit fees, penalty fees and Northeast Interceptor charges. The Northeast Interceptor charges represent charges to the Town of Wrightsville Beach based on the Town's metered wastewater flow into the Northeast Interceptor.

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Non-Operating Revenues

Non-operating revenues consist of interest earned on investments and system development charges. System development charges (SDCs) are a form of impact fee that are intended to pay for the amount of capacity in the Authority's systems which will be used by new customers. The current system development charges for the Authority are shown in the following table. No increase to the system development charges has been recommended for FY 2010.

Water and Sewer System Development Charges

Water Meter Size	Water System Development Charge	Sewer System Development Charge
5/8"	$ 2,000.00	$ 2,500.00
3/4"	$ 3,000.00	$ 3,750.00
1"	$ 5,000.00	$ 6,250.00
1-1/2"	$ 10,000.00	$ 12,500.00
2"	$ 16,000.00	$ 20,000.00
3"	$ 30,000.00	$ 37,500.00
4"	$ 50,000.00	$ 62,500.00
6"	$ 100,000.00	$ 125,000.00
8"	$ 160,000.00	$ 200,000.00
10"	$ 250,000.00	$ 312,500.00

Revenues from system development charges were estimated at $4.8 million in FY 2009. The current economic situation and resulting slowdown of construction is expected to reduce revenues from SDCs to $2.4 million in FY 2009 and $2.1 in FY 2010. In comparison, the City of Wilmington and New Hanover County jointly collected amount $7.0 million in FY 2008.

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SCHEDULE OF DEBT SERVICE

Cape Fear Public Utility Authority Revenue Bonds	Original Par Amount	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Series 1999 Water & Sewer Revenue Bonds	1,525,000	819,780	0	0	0	0
Series 2003B Water & Sewer Refunding Revenue Bonds	4,603,686	531,758	531,758	531,758	531,758	531,758
Series 2005 Water & Sewer Refunding Revenue Bonds	61,080,000	4,047,728	4,862,128	4,871,603	4,868,040	4,865,790
Series 2008 Water & Sewer Revenue Bonds	187,765,000	9,147,600	10,051,500	13,453,138	13,454,175	12,241,775
Total Cape Fear Public Utility Authority Revenue Bonds	254,973,686	14,546,866	15,445,386	18,856,499	18,853,973	17,639,323
Principal portion of Cape Fear Public Utility Authority Revenue Bonds		2,320,562	3,329,579	6,919,113	7,179,182	6,249,806
Interest portion of Cape Fear Public Utility Authority Revenue Bonds		12,226,304	12,115,806	11,937,386	11,674,792	11,389,518
		14,546,866	15,445,386	18,856,499	18,853,973	17,639,323

City of Wilmington GO Debt	Original Par Amount	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Series 1997B GO Refunding Bonds	993,870	568,608	0	0	0	0
Series 2002 GO Refunding Bonds-Variable Rate	19,870,000	3,724,041	3,567,112	3,411,708	3,257,830	3,100,478
Total City of Wilmington Bonded Debt	20,863,870	4,292,649	3,567,112	3,411,708	3,257,830	3,100,478
Principal portion of City of Wilmington Bonded Debt		3,606,532	3,025,000	2,985,000	2,945,000	2,900,000
Interest portion of City of Wilmington Bonded Debt		686,118	542,112	426,708	312,830	200,478
		4,292,649	3,567,112	3,411,708	3,257,830	3,100,478

City of Wilmington Installment Debt	Original Par Amount	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Series 2006A Refunding Certificates of Participation	17,135,000	1,611,120	1,608,320	1,609,320	1,613,920	1,616,920
Principal portion of City of Wilmington Installment Debt		820,000	850,000	885,000	925,000	965,000
Interest portion of City of Wilmington Installment Debt		791,120	758,320	724,320	688,920	651,920
		1,611,120	1,608,320	1,609,320	1,613,920	1,616,920

New Hanover County GO Debt	Original Par Amount	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Series 2003 GO Refunding Bonds	6,565,000	1,948,288	1,890,644	1,158,750	0	0
Principal portion of New Hanover County Bonded Debt		1,815,000	1,805,000	1,125,000		
Interest portion of New Hanover County Bonded Debt		133,288	85,644	33,750		
		1,948,288	1,890,644	1,158,750	0	0

New Hanover County Installment Debt	Original Par Amount	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Coastal Carolina & G&F Utilities	67,998	37,089	0	0	0	0
Series 2003 Certificates of Participation	22,250,000	2,061,794	2,028,344	1,992,107	1,954,475	1,915,450
Series 2005A Certificates of Participation	6,996,600	913,657	912,074	910,949	914,115	912,750
New Hanover County Debt Payment Reduction	0	(1,900,000)	(1,900,000)	(1,900,000)	(1,900,000)	(1,577,000)
Total New Hanover County Installment Debt	29,314,598	1,112,540	1,040,418	1,003,056	968,590	1,251,200
Principal portion of New Hanover County Installment Debt		1,818,190	1,804,000	1,827,400	1,856,000	1,882,000
Interest portion of New Hanover County Installment Debt		1,194,350	1,136,418	1,075,656	1,012,590	946,200
New Hanover County Debt Payment Reduction		(1,900,000)	(1,900,000)	(1,900,000)	(1,900,000)	(1,577,000)
		1,112,540	1,040,418	1,003,056	968,590	1,251,200
Total Debt Service	328,852,154	23,511,463	23,551,879	26,039,333	24,694,313	23,607,922