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November 6, 2013

Ms. Bonnie Schwerd  
Finance Director  
Town of Oak Island  
4601 East Oak Island Drive  
Oak Island, NC 28465

Dear Ms. Schwerd,

Raftelis Financial Consultants, Inc. is pleased to submit this letter report (Report) to the Town of Oak Island, North Carolina (Town) documenting the update of the Water and Wastewater Financial Forecast Model (Model). This Report presents a revised projection of revenues, expenses, debt service, and debt service coverage over a 5-year forecast period. Longer-term projections have also been revised for planning purposes.

We have enjoyed this opportunity to provide continued assistance to the Town and wish to acknowledge the significant efforts by you and Town staff in providing timely and accurate input needed during the project.

If you have any questions, comments, or concerns, please do not hesitate to contact me at (704) 373-1199.

Sincerely,  
RAFTELIS FINANCIAL CONSULTANTS, INC.

A handwritten signature in black ink, appearing to read 'Bart Kreps', is centered on the page.

Bart Kreps  
Project Manager

## **I. Introduction**

In 2007, RFC was engaged by the Town of Oak Island (Town) to develop a financial forecast and feasibility report for the Series 2008A Revenue Bonds that provided funding for the initial phase of design and construction of the Town's new wastewater system. In 2008, RFC revised the forecast and feasibility report for the Series 2009 Bonds, which provided funding for the second phase of the wastewater collection system and a portion of the Town's contribution for conveyance and treatment capacity in the West Brunswick Regional System. Most recently, RFC assisted the Town in revising the financial forecast and feasibility report for the Series 2011 Revenue Bonds, which were issued to fund, at that time, the remaining costs associated with the wastewater system.

Each financial forecast and feasibility report developed in support of securing the financing necessary for the system required various assumptions related to the projected demand for water and wastewater services; the timing of connections and start-up of the new wastewater collection system; projections of revenues from levying wastewater assessments; projections of operating costs; and projections of rates over the forecast period. With the new wastewater system essentially complete, the Town wanted to update the financial forecast to reflect current conditions, particularly new information available related to the collection of wastewater assessments, overall project costs, connection of wastewater customers, demand, operating costs, and changes in anticipated funding sources, to assess the liquidity position of the water and wastewater utility and financial sufficiency of rates and charges over both short-term and long-term planning periods.

The following Report summarizes the results of the updated forecast.

## **II. Background Information**

The Town identified a need for a centralized wastewater collection system capable of meeting the demands of the Town's entire existing and projected customer base. Initial capital project ordinances reflect an anticipated cost of approximately \$57 million. Current cost estimates are approximately \$130 million, which represents an increase over 128%. As noted above, the financial forecast developed to help secure financing for the project required numerous assumptions for the creation of a new utility essentially. Changing conditions associated with the expected date for project completion, funding sources, project costs, the timing of customer connections, and forecasted demand have made prior rate projections insufficient to sustain required revenue bond coverage without more significant increases in rates and charges. In particular, an increased reliance on wastewater assessment revenue, due to lower levels of demand and delayed customer connections, in particular, has created an accumulated need for user charge increases.

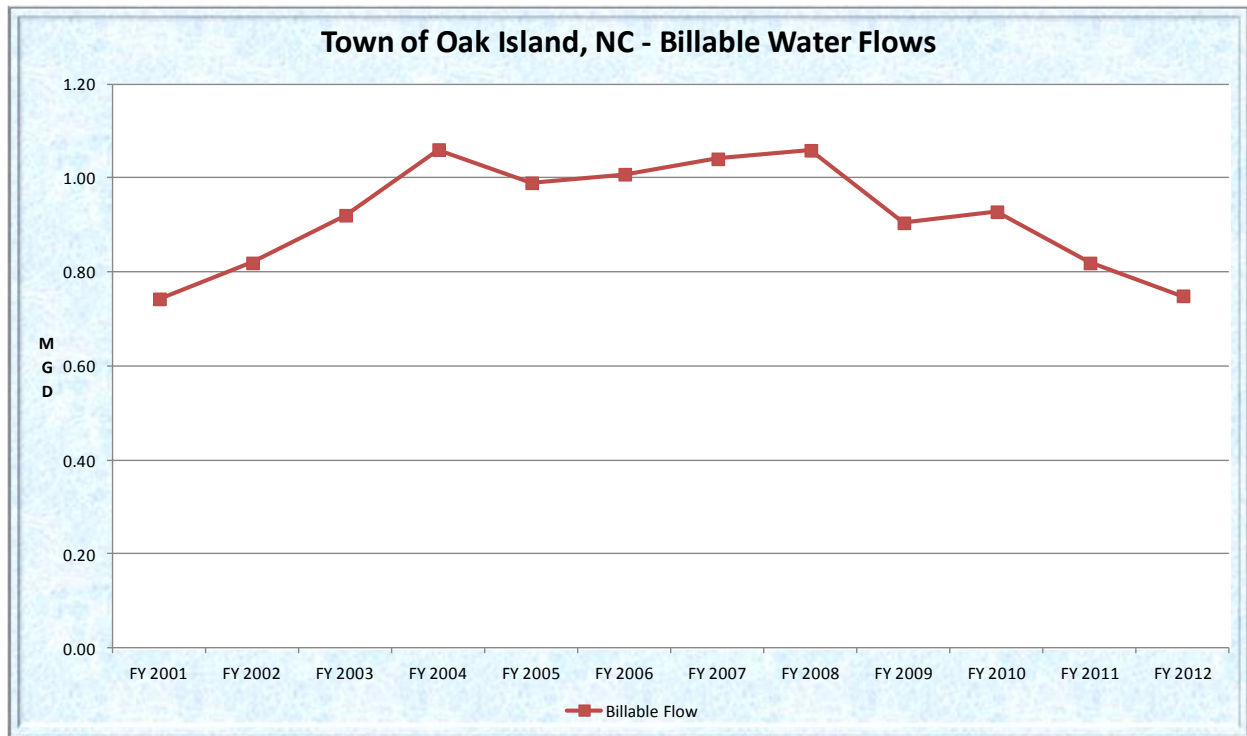
Currently, due to the amount of system leverage, the Town has limited capacity to issue new debt to fund additional project costs. The Town will need to rely on funds generated internally from user charges to support projected capital expenditures in the foreseeable future. Additionally, the

Town was not able to secure the amount of funding from the North Carolina State Revolving Fund (SRF) loan program that was contemplated in the original financing plan. As a result, a \$3.5 million funding gap must be financed with wastewater assessments, or through other means, as recommended in this report, to improve liquidity and allow the application of these revenues for debt service coverage purposes.

### III. Demand for Services

Challenging economic conditions have constrained growth in the Town’s service area since 2008. As a resort community, the Town relies heavily on its seasonal customers, and it is particularly susceptible to decreased discretionary spending for travel and leisure, which has impacted billable water demand over the past several years. However, more recently, as economic conditions have improved slowly and the seasonal population has started to recover, the Town’s billable water consumption has not returned to levels experienced during the majority of the past decade, suggesting a continued decline in per capita demand.

**Table 1: Historical Demand (FY 2001 – FY 2012)**



It is difficult to determine precisely the reasons for the significant reduction in billable water demand since FY 2008. In our experience conducting numerous water and wastewater rate and financial planning studies across both the state and the region, the most common variables identified include the use and prevalence of high efficiency fixtures, price elasticity, economic

conditions, climate change, and a broader awareness of resource conservation. For the Town, it appears reasonable to assume that one of the most significant factors affecting demand, particularly over the past several years, is price elasticity. Price elasticity is a measure of the responsiveness of a quantity of demand of a good or service associated with a change in price. Prior to FY 2010, the majority of the Town’s water customers received sewer services from septic systems. In FY 2010, the Town began connecting customers to its new wastewater system and billing for services by a measurement of water demand. Thus, it is plausible that the additional cost for centralized wastewater services has driven customers to use significantly less water.

While it is unclear if this change in customer behavior is transitory, from a planning perspective, it is difficult to assume that demand will return to historical levels in the foreseeable future without a significant increase in customer accounts. As a result, the forecast assumes a baseline level of billable water flows of 280 million gallons, or approximately 0.77 million gallons per day (MGD), which is consistent with actual flows in FY 2012 and projected flows in FY 2013. The forecast assumes no future growth in billable flows. Since forecasting demand is very challenging, it is important to note that the Town should carefully monitor system billable water flows on an annual basis to determine whether consumption patterns return to a more normalized level. This could have a material impact on the future level of water and wastewater user charges.

By the end of FY 2013, almost all of the Town’s water customers had the ability to connect to the new wastewater system. However, total retail wastewater flows were approximately 0.7 MGD or around 90% billable water flows based on estimated revenues in FY 2013. The difference is likely due primarily to irrigation only customers and customers with a wastewater connection becoming available at some point during the fiscal year. In FY 2014, it is assumed that billable wastewater flows will increase to 265 million gallons, or approximately 0.73 MGD, with the difference representing irrigation only customers.

Table 2 presents actual and projected water and wastewater accounts over the forecast period.

**Table 2: Water and Wastewater Accounts (FY 2013 – FY 2018)**

	Actual	Projected				
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Customer Accounts</b>						
Water Customers	8,021	8,021	8,021	8,021	8,061	8,101
<i>% Change</i>		<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.5%</i>	<i>0.5%</i>
Wastewater Customers (1)	7,974	7,974	7,974	7,974	8,014	8,054
<i>% Change</i>		<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.5%</i>	<i>0.5%</i>

(1) The forecast assumes that all of these customers will be assessed the minimum charge for services.

Table 3 presents actual and projected water and wastewater billable demand over the forecast period.

**Table 3: Water and Wastewater Billable Demand (FY 2013 – FY 2018)**

	Actual	Projected				
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Water Flows (1,000 gallons) (1)</b>						
Usage (0 - 2,000 gallons)	117,392	113,344	113,344	113,344	113,344	113,344
Usage (2,000 - 4,000 gallons)	56,848	54,887	54,887	54,887	54,887	54,887
Usage (4,000 - 10,000 gallons)	26,002	25,105	25,105	25,105	25,105	25,105
Usage (10,000 - 12,500 gallons)	7,551	7,291	7,291	7,291	7,291	7,291
Usage (Above 12,500 gallons)	82,208	79,373	79,373	79,373	79,373	79,373
<b>Total Water Flows</b>	<b>290,000</b>	<b>280,000</b>	<b>280,000</b>	<b>280,000</b>	<b>280,000</b>	<b>280,000</b>
<i>% Change</i>		-3.4%	0.0%	0.0%	0.0%	0.0%
<b>Wastewater Flows (1,000 gallons) (1)</b>						
Existing System	55,750	55,750	55,750	55,750	55,750	55,750
New System						
Flows (0 - 2,000 gallons)	80,347	84,704	84,704	84,704	84,704	84,704
Flows (2,000 - 4,000 gallons)	38,909	41,019	41,019	41,019	41,019	41,019
Flows (4,000 - 10,000 gallons)	17,796	18,761	18,761	18,761	18,761	18,761
Flows (10,000 - 12,500 gallons)	5,168	5,449	5,449	5,449	5,449	5,449
Flows (Above 12,500 gallons)	56,266	59,317	59,317	59,317	59,317	59,317
<i>Subtotal</i>	<i>198,486</i>	<i>209,250</i>	<i>209,250</i>	<i>209,250</i>	<i>209,250</i>	<i>209,250</i>
<b>Total Retail Wastewater Flows</b>	<b>254,236</b>	<b>265,000</b>	<b>265,000</b>	<b>265,000</b>	<b>265,000</b>	<b>265,000</b>
<i>% Change</i>		4.2%	0.0%	0.0%	0.0%	0.0%
Wholesale Flows (Caswell Beach) (2)	36,200	36,200	36,200	36,200	36,200	36,200
<b>Total Wastewater Flows</b>	<b>290,436</b>	<b>301,200</b>	<b>301,200</b>	<b>301,200</b>	<b>301,200</b>	<b>301,200</b>
<i>% Change</i>		3.7%	0.0%	0.0%	0.0%	0.0%

- (1) Billable water flows in FY 2013 are based on information provided by Town staff with an adjustment to reconcile with estimated revenues.
- (2) Projected wholesale flows from Caswell Beach are based on information provided by Town Staff.

#### **IV. Operating and Non-Operating Expenses, Expenditures, and Payments**

Expenses are categorized as operating expenses, non-operating expenses, other budgeted expenditures, or payments and reimbursements. Operating expenses represent normal recurring expenses incurred during the Town’s annual accounting cycle based upon its fiscal year ending June 30th. Projected operating expenses are based on budgeted costs in FY 2014 with certain assumptions related to the timing of additional costs of the new wastewater system and wholesale treatment costs from the West Brunswick County (County) Regional Wastewater Conveyance and Treatment System (West Brunswick System). The majority of projected O&M costs are escalated at a compound rate of 3.0% per year. The costs associated with purchasing water on a wholesale basis from the County are escalated at a rate of 4.0% per year. The costs associated with delivering wastewater for treatment to the West Brunswick System are projected assuming a wholesale rate of \$2.65 per 1,000 gallons (kgal) multiplied by projected billable flows. The projected wholesale

rate is assumed to remain at \$2.65 until FY 2016 and then increase 4.0% thereafter. Since the Town's wastewater system is a vacuum system, no adjustment for infiltration and inflow has been assumed in the projected flows delivered to the County. However, actual wastewater flows (metered) will not equal billed water consumption until FY 2016. It is assumed by this point that all customers will be delivering wastewater through the Town's system. Currently, a certain number of customers are being billed for wastewater based on water consumption even though there is not a physical connection to the system. The Town has the authority to bill these customers since service is available.

Based on a Sewer Agreement with Brunswick County, in order to assist with the construction, financing, and operation of the West Brunswick System, the Town has agreed to contract with the County for sewer service in order to provide, among other things, for payment by the Town of (1) a portion of the capital costs of the West Brunswick System costs through a capital charge on a basis that equitably allocates to the Town the project costs, and (2) a monthly service charge to cover O&M, reserves, and such other rate components as are appropriate for similar systems (as noted above, item 2 is listed as an O&M expense – see Table 4).

**Table 4: Operating Expenses**

	Budget	Budget	Projected			
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Operating Expenses</b>						
Water						
Water Administration	\$ 1,037,977	\$ 985,715	\$ 1,023,536	\$ 1,062,822	\$ 1,103,630	\$ 1,146,019
Water Maintenance	731,171	671,787	691,941	712,699	734,080	756,102
<i>Subtotal Water O&amp;M</i>	<i>\$ 1,769,148</i>	<i>\$ 1,657,502</i>	<i>\$ 1,715,477</i>	<i>\$ 1,775,521</i>	<i>\$ 1,837,710</i>	<i>\$ 1,902,122</i>
Wastewater						
Wastewater Expenses (1)	\$ 1,959,144	\$ 1,961,954	\$ 2,146,925	\$ 2,269,600	\$ 2,345,669	\$ 2,424,341
<i>Subtotal Wastewater O&amp;M</i>	<i>\$ 1,959,144</i>	<i>\$ 1,961,954</i>	<i>\$ 2,146,925</i>	<i>\$ 2,269,600</i>	<i>\$ 2,345,669</i>	<i>\$ 2,424,341</i>
Total O&M Expenses	\$ 3,728,292	\$ 3,619,456	\$ 3,862,402	\$ 4,045,121	\$ 4,183,380	\$ 4,326,462
<i>% Change</i>		<i>-2.9%</i>	<i>6.7%</i>	<i>4.7%</i>	<i>3.4%</i>	<i>3.4%</i>
Other Operating Expense						
Payment to Brunswick County (2)	\$ 2,901,346	\$ 2,907,370	\$ 2,909,697	\$ 2,908,384	\$ 2,911,079	\$ 2,909,286
<b>Total Operating Expense</b>	<b>\$ 6,629,638</b>	<b>\$ 6,526,826</b>	<b>\$ 6,772,099</b>	<b>\$ 6,953,505</b>	<b>\$ 7,094,459</b>	<b>\$ 7,235,748</b>
<i>% Change</i>		<i>-1.6%</i>	<i>3.8%</i>	<i>2.7%</i>	<i>2.0%</i>	<i>2.0%</i>

(1) Includes projected wholesale costs for the West Brunswick System.

Non-operating expenses include existing and proposed debt service payments. There are several changes when compared to projections prepared for the Series 2011 Bonds. Specifically, SRF debt service is based on final schedules provided by the Town with a lower level of principal repayment. There is an additional debt service payment in the Water Fund through FY 2014. An assumption is made that an internal loan will be provided by the Town's Occupancy Tax Fund to bridge the

funding gap as a result of not receiving the full \$17.5 million in SRF funding contemplated in the original financing plan. The internal loan is assumed to be \$3.5 million and repaid over a 10-year period. The internal loan will allow the Town to utilize accumulated reserves from wastewater assessments for future debt service coverage.

Other budgeted expenditures include capital outlays and payments and reimbursements. Capital outlays in FY 2014 are based on budgeted costs and increased to reflect additional capital needs in FY 2015 and beyond. It is important to note that these projected capital expenditures represent the only source of funding for future water and wastewater capital projects. No additional borrowing or use of existing reserves for capital improvements are assumed in the forecast. The other payments and reimbursements represent predominantly a payment to the Town's General Fund for administration and support services. Payments and reimbursements also expected to increase at 3.0% over the forecast period.

**Table 5: Non-Operating Expenses, Other Budgeted Expenditures, Transfers/Reimbursements**

	Budget	Budget	Projected			
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Non Operating Expenses</b>						
Debt Service						
Revenue Bonds						
Series 2008A Revenue Bonds	\$ 2,205,788	\$ 2,208,588	\$ 2,206,588	\$ 2,206,388	\$ 2,209,363	\$ 2,206,363
Series 2009 Revenue Bonds	3,771,187	3,771,787	3,770,587	3,771,087	3,772,962	3,774,237
Series 2011 Revenue Bonds	778,551	782,176	779,226	780,451	780,651	779,051
<i>Subtotal Revenue Bonds</i>	<u>\$ 6,755,525</u>	<u>\$ 6,762,550</u>	<u>\$ 6,756,400</u>	<u>\$ 6,757,925</u>	<u>\$ 6,762,975</u>	<u>\$ 6,759,650</u>
Other Indebtedness						
Water Debt Service (3)	\$ 141,900	\$ 141,900	\$ -	\$ -	\$ -	\$ -
BB& T - Enterprise Fund	169,254	163,614	-	-	-	-
Revenue Notes-Old Wastewater System	114,598	114,598	114,598	114,598	114,598	-
2007 SRF Loan (1)	464,648	464,648	464,648	464,648	464,648	464,648
2008 SRF Loan (1)	419,233	419,233	419,233	419,233	419,233	419,233
Internal Loan (4)	-	369,537	369,537	369,537	369,537	369,537
<i>Subtotal Other Indebtedness</i>	<u>\$ 1,309,632</u>	<u>\$ 1,673,530</u>	<u>\$ 1,368,016</u>	<u>\$ 1,368,016</u>	<u>\$ 1,368,016</u>	<u>\$ 1,253,418</u>
Total Debt Service	\$ 8,065,158	\$ 8,436,080	\$ 8,124,416	\$ 8,125,941	\$ 8,130,991	\$ 8,013,068
<b>Other Budgeted Expenditures</b>						
Capital Outlays	\$ 141,900	\$ 56,000	\$ 514,420	\$ 764,853	\$ 765,298	\$ 1,015,757
<i>Subtotal Other Budgeted Expenditures</i>	<u>\$ 141,900</u>	<u>\$ 56,000</u>	<u>\$ 514,420</u>	<u>\$ 764,853</u>	<u>\$ 765,298</u>	<u>\$ 1,015,757</u>
<b>Indirect Expenses</b>						
General Fund Reimbursement (2)	\$ 176,089	\$ 176,089	\$ 181,372	\$ 186,813	\$ 192,417	\$ 198,190
<b>Total Non Operating Expenses, Other Budgeted Expenditures, and Transfers/Reimbursements</b>	<b>\$ 8,383,147</b>	<b>\$ 8,668,169</b>	<b>\$ 8,820,208</b>	<b>\$ 9,077,607</b>	<b>\$ 9,088,707</b>	<b>\$ 9,227,015</b>
<i>% Change</i>		<i>3.4%</i>	<i>1.8%</i>	<i>2.9%</i>	<i>0.1%</i>	<i>1.5%</i>

- (1) Final payment schedules provided by Town Staff.
- (2) Represents a transfer to the General Fund for support services.
- (3) New debt service payment for the water system provided by Town staff.

- (4) Represents an internal, temporary loan from the Town's Occupancy Tax Fund, which will be repaid over a ten-year period with an interest rate of 1.0%.

## **V. Rates and Charges**

As an enterprise fund, water and wastewater operations are financed and operated as a distinct business enterprise. Fees and charges must be established to ensure that the water and wastewater operations can function on a self-sustaining basis. The Town's user charge structure for water and wastewater service consists of the following.

- Water base charge and wastewater base charge that both include a minimum usage allowance;
- Increasing block water volumetric rate for various levels of consumption above the minimum allowance and uniform wastewater volumetric rate for all usage above the minimum allowance;
- Water and wastewater tap fees that vary by meter size;
- Water and wastewater impact fees that vary by meter size and customer type;
- Sewer district fee for undeveloped parcels; and
- Wastewater assessment for each parcel.

### **Base Charges**

The base charge is billed monthly to all active water and wastewater accounts, regardless of usage level. The water base charge includes a minimum usage allowance of 2,000 gallons per month while the wastewater base charge includes a minimum usage allowance of 4,000 gallons per month. As of July 1, 2013, the water base charge is \$22.05 per month and the wastewater base charge is \$55.94 per month.

The current and projected base charges for water and wastewater customers are shown in Tables 6 and 7, respectively.

### **Volume Charges**

The water and wastewater volumetric rates are billed monthly to all active water and wastewater accounts based on metered water consumption. As of July 1, 2013, the block 1 water volumetric rate is \$3.43 per kgal; the block 2 water volumetric rate is \$3.78 per kgal; the block 3 volumetric rate is \$4.15 per kgal; and block 4 volumetric rate is \$4.57 per kgal. The wastewater volumetric rate is \$12.12 per kgal.

The current and projected volumetric charges for water and wastewater customers are shown in Tables 6 and 7, respectively.



### **Tap Fees, Impact Fees, and Sewer District Fee**

The Town collects impact fees and tap fees for new water and wastewater connections to the system based on customer characteristics. For a ¾-inch meter water customer, the current tap fee is \$568 and the current impact fee is \$592. For wastewater customers, tap fees apply only to customers with 4-inch meters and larger, and impact fees apply only to specific customer types including multi-family residential customers and commercial customers. The forecast does not assume any increases to the water and wastewater tap and impact fees. The sewer district fee, which is levied on the property tax bill, is assessed to 3,459 undeveloped parcels for the availability of sewer service. As of July 1, 2013, the Sewer District Fee is \$576. The current and projected water and wastewater tap and impact fees and the sewer district fee are shown in Tables 6 and 7 respectively.

### **Wastewater Assessments**

In order to address the significant capital requirements associated with the wastewater capital program, Council approved a wastewater assessment designed specifically to recover a portion of the capital costs associated with the new wastewater collection system and the treatment costs to the County that are not covered by grants or other similar revenue sources. Wastewater assessments are \$4,200 and are assessed on an equal rate per lot. A lot is defined as a tax parcel of record as of January 1, 2005, which contains a structure (residence, commercial, or business) or is able to contain a structure. The amount of the wastewater assessment is not projected to change over the forecast period (See Table 7).

**Table 6: Water Rates and Charges**

	Actual	Projected				
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Water</b>						
<b>User Charges (1)</b>						
Base Charge (Includes 2,000 gallons)	\$ 22.05	\$ 24.65	\$ 27.55	\$ 30.79	\$ 31.72	\$ 32.68
% Change		11.8%	11.8%	11.8%	3.0%	3.0%
<b>Volume Charge (per 1,000 gallons)</b>						
Block 1 (2,000-4,000 gallons)	\$ 3.43	\$ 3.83	\$ 4.28	\$ 4.79	\$ 4.93	\$ 5.08
Block 2 (4,000-10,000 gallons)	\$ 3.78	\$ 4.22	\$ 4.72	\$ 5.28	\$ 5.43	\$ 5.60
Block 3 (10,000-12,500 gallons)	\$ 4.15	\$ 4.64	\$ 5.18	\$ 5.79	\$ 5.97	\$ 6.14
Block 4 (Over 12,500 gallons)	\$ 4.57	\$ 5.11	\$ 5.71	\$ 6.38	\$ 6.57	\$ 6.77
% Change		11.8%	11.8%	11.8%	3.0%	3.0%
<b>Tap Fees</b>						
<b>Meter Size</b>						
3/4"	\$ 568.00	\$ 568.00	\$ 568.00	\$ 568.00	\$ 568.00	\$ 568.00
1"	\$ 1,430.00	\$ 1,430.00	\$ 1,430.00	\$ 1,430.00	\$ 1,430.00	\$ 1,430.00
1 1/2"	\$ 2,140.00	\$ 2,140.00	\$ 2,140.00	\$ 2,140.00	\$ 2,140.00	\$ 2,140.00
2"	\$ 3,221.00	\$ 3,221.00	\$ 3,221.00	\$ 3,221.00	\$ 3,221.00	\$ 3,221.00
All Others	Cost + 25%	Cost + 25%	Cost + 25%	Cost + 25%	Cost + 25%	Cost + 25%
% Change		0.0%	0.0%	0.0%	0.0%	0.0%
<b>Impact Fees (1)</b>						
<b>Meter Size</b>						
3/4"	\$ 592.00	\$ 592.00	\$ 592.00	\$ 592.00	\$ 592.00	\$ 592.00
1"	\$ 1,478.00	\$ 1,478.00	\$ 1,478.00	\$ 1,478.00	\$ 1,478.00	\$ 1,478.00
1 1/2"	\$ 2,957.00	\$ 2,957.00	\$ 2,957.00	\$ 2,957.00	\$ 2,957.00	\$ 2,957.00
2"	\$ 4,730.00	\$ 4,730.00	\$ 4,730.00	\$ 4,730.00	\$ 4,730.00	\$ 4,730.00
3"	\$ 9,907.00	\$ 9,907.00	\$ 9,907.00	\$ 9,907.00	\$ 9,907.00	\$ 9,907.00
4"	\$ 16,265.00	\$ 16,265.00	\$ 16,265.00	\$ 16,265.00	\$ 16,265.00	\$ 16,265.00
6"	\$ 33,372.00	\$ 33,372.00	\$ 33,372.00	\$ 33,372.00	\$ 33,372.00	\$ 33,372.00
8"	\$ 50,276.00	\$ 50,276.00	\$ 50,276.00	\$ 50,276.00	\$ 50,276.00	\$ 50,276.00
10"	\$ 70,894.00	\$ 70,894.00	\$ 70,894.00	\$ 70,894.00	\$ 70,894.00	\$ 70,894.00
% Change		0.0%	0.0%	0.0%	0.0%	0.0%

**Table 7: Wastewater Rates and Charges**

	Actual	Projected				
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Wastewater</b>						
<b>User Charges</b>						
Base Charge (Includes 4,000 gallons)	\$ 55.94	\$ 62.52	\$ 69.87	\$ 78.08	\$ 80.43	\$ 82.85
		<i>11.8%</i>	<i>11.8%</i>	<i>11.8%</i>	<i>3.0%</i>	<i>3.0%</i>
Volume Charge (per 1,000 gallons)	\$ 12.12	\$ 13.55	\$ 15.15	\$ 16.94	\$ 17.45	\$ 17.98
% Change		<i>11.8%</i>	<i>11.8%</i>	<i>11.8%</i>	<i>3.0%</i>	<i>3.0%</i>
<b>Tap Fees</b>						
<b>Meter Size</b>						
4"	\$ 1,380.00	\$ 1,380.00	\$ 1,380.00	\$ 1,380.00	\$ 1,380.00	\$ 1,380.00
6"	\$ 1,520.00	\$ 1,520.00	\$ 1,520.00	\$ 1,520.00	\$ 1,520.00	\$ 1,520.00
All Others	Cost	Cost	Cost	Cost	Cost	Cost
% Change		<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
<b>Impact Fees (1)</b>						
<b>Residential</b>						
Class II-Duplex	\$ 3,523.00	\$ 3,523.00	\$ 3,523.00	\$ 3,523.00	\$ 3,523.00	\$ 3,523.00
Class III-Triplex	\$ 4,147.00	\$ 4,147.00	\$ 4,147.00	\$ 4,147.00	\$ 4,147.00	\$ 4,147.00
Class IV-Quadplex	\$ 4,944.00	\$ 4,944.00	\$ 4,944.00	\$ 4,944.00	\$ 4,944.00	\$ 4,944.00
Class V-Condo or Townhouse	\$ 4,492.00	\$ 4,492.00	\$ 4,492.00	\$ 4,492.00	\$ 4,492.00	\$ 4,492.00
Class VI-Apartment, more than 4 Units	\$ 4,492.00	\$ 4,492.00	\$ 4,492.00	\$ 4,492.00	\$ 4,492.00	\$ 4,492.00
<b>Commercial</b>						
Class I	\$ 4,055.00	\$ 4,055.00	\$ 4,055.00	\$ 4,055.00	\$ 4,055.00	\$ 4,055.00
Class II	\$ 4,529.00	\$ 4,529.00	\$ 4,529.00	\$ 4,529.00	\$ 4,529.00	\$ 4,529.00
Class III	\$ 5,174.00	\$ 5,174.00	\$ 5,174.00	\$ 5,174.00	\$ 5,174.00	\$ 5,174.00
Class IV (General)	\$ 6,146.00	\$ 6,146.00	\$ 6,146.00	\$ 6,146.00	\$ 6,146.00	\$ 6,146.00
Class IV (Motel/Home)	\$ 6,146.00	\$ 6,146.00	\$ 6,146.00	\$ 6,146.00	\$ 6,146.00	\$ 6,146.00
% Change		<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Wastewater Assessment	\$ 4,200.00	\$ 4,200.00	\$ 4,200.00	\$ 4,200.00	\$ 4,200.00	\$ 4,200.00
% Change		<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Sewer District Fee (1)	\$ 576.00	\$ 643.68	\$ 719.31	\$ 803.83	\$ 827.95	\$ 852.78
% Change		<i>11.8%</i>	<i>11.8%</i>	<i>11.8%</i>	<i>3.0%</i>	<i>3.0%</i>

(1) Fee is assessed annually.

## VI. Revenues

The Town must recover all of its cost of operating, maintaining, and capitalizing the water and wastewater system through revenues generated exclusively from these systems. Revenues are defined in the Town’s Trust Agreement, which secures its outstanding revenue bonds, and include operating revenues (charges for services and other operating revenues) and non-operating revenues as identified in the forecast.

## Water

As presented in Table 8, operating revenues consist primarily of revenues from base charges and volumetric charges. Forecasts of water revenues generated from base charges are based on the number of annual customer bills multiplied times the base charge. Forecasts of water revenues generated from volumetric charges are based on projected billable flows in each usage block, expressed in kgal, less demand that occurs below the minimum usage allowance of 2,000 gallons per month, multiplied by the volumetric rate for each respective usage block above the minimum allowance. Projected water revenues from charges for service reflect projected rate increases and demand over the forecast period.

Other operating revenues include miscellaneous income, penalties and late fees, tap fees, reconnection charges, and water tower leases. Other operating revenues are projected to remain constant over the forecast period.

Non-operating revenues include interest earned on investments and water impact fees. Investments include unrestricted fund balances, which are discussed in Section VII. However, the amounts for interest earned presented in Table 8 are based on estimated results in FY 2013, which are held constant over the forecast period.

## Wastewater

As presented in Table 8, operating revenues consist primarily of revenues from base charges and volumetric charges. Forecasts of wastewater revenues generated from base charges are based on the number of annual customer bills multiplied by the base charge. Forecasts of wastewater revenues generated from volumetric charges are based on projected billable flows, expressed in kgal, less demand that occurs below the minimum usage allowance of 4,000 gallons per month multiplied by the uniform volumetric rate. Projected wastewater revenues from charges for service reflect projected rate increases and slight increase in demand as a result of any customers that were not connected to the new wastewater system for a full year in FY 2013.

The Town has an agreement to provide wastewater collection and treatment services for the Town of Caswell Beach. The inter-local agreement between the municipalities requires that Caswell Beach be responsible for a proportionate share of operating and maintenance costs of the Town's existing wastewater collection facilities as well as operating costs paid to the County for conveyance and treatment services. The Town of Caswell Beach will also be responsible for paying approximately 6.4% of system capacity, which includes debt service costs associated with the Town's debt service payment to the County, both the 2007 and 2008 SRF Loans and other existing obligations outstanding, excluding the Series 2008, Series 2009, and Series 2011 Bonds. Projected annual flows for the Town of Caswell Beach were provided by Town Staff.

Other operating revenues include miscellaneous income, penalties and late fees, and tap fees. Non-operating revenues include interest earned on investments, wastewater assessments, and sewer

district fees. Similar to water interest earnings, projected earnings from investments are based on estimated results in FY 2013, which are held constant over the forecast period. The sewer district fee is no longer assessed once a parcel is developed. As such, the forecast of revenue from the sewer district fee reflects both projected increases in the fee and slight growth in customer accounts.

Revenues collected from wastewater assessments represent a source of funding to support the Town's projected revenue requirements. As discussed previously, the Town approved a wastewater assessment of \$4,200 per lot intended specifically to recover the capital costs associated with the new wastewater collection system and the payment to the County for the Town's share of debt service for the expansion of the West Brunswick System. Wastewater assessments are levied to customers when centralized service is available at their lot's point of connection. All customers are required to connect to the new system and pay the wastewater assessment.

The Town has levied wastewater assessments to a total of 10,185 parcels. As of May 28, 2013, 843 parcels have made no payment<sup>1</sup>, 5,798 parcels have paid the wastewater assessment in full, and 3,544 had made a partial payment. The estimated remaining balance due for wastewater assessments at the end of FY 2013 is \$13,551,437.35.

In order to provide a reasonable projection of wastewater assessment revenues, it was necessary to make certain assumptions related to the timing of payments. Specifically, for the 3,544 customers choosing to pay over time, a baseline payment stream was developed based on an annual payment of \$557.20 for the remaining 7 years of amortization on a 10-year payment plan. The \$557.20 was the original assumption used in the forecast to reflect a customer paying over time, which is based on a principal balance of \$4,200, rate of 5.5%, and a term of 10 years. However, it was assumed over the next two years (FY 2014 and FY 2015) the Town would collect only 80% and 90%, respectively, of these projected payments, with the cumulative balance recovered proportionality over the final 5 years of payments. For the 643 customers having made no payments (843 parcels less 200 held in abeyance), it was assumed that none of the outstanding annual balance, which was based on the \$4,200 assessment per parcel plus accumulated interest (average of two years), would be collected in FY 2014; 25% would be collected in FY 2015; 50% would be collected in FY 2016; 75% would be collected in FY 2017; and 100% collected in FY 2018. It was also assumed that the Town would not collect any of the cumulative balance due until FY 2017, at which point the cumulative balance would be collected proportionately from FY 2017 through FY 2020. The result of these assumptions provided a baseline annual payment stream that was applied proportionately to the total outstanding balance of \$13,551,437.35 over the next 7 years (FY 2014 through FY 2020). Although the assumptions described above are the basis of developing a projected payment stream for wastewater assessments, the Town should continue to exhaust all legal mechanisms of enforcement to collect both delinquent wastewater assessments and user charges as soon as possible.

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<sup>1</sup> Includes approximately 200 parcels held in abeyance.

As allowed in the Trust Agreement, the Town has some flexibility in how it uses revenue from wastewater assessments and how these revenues are treated for calculating debt service coverage. (An Officer's Certificate filed with the Town is required for each fiscal year in which receipts from wastewater assessments are deferred, identifying the amounts to be deferred, and a separate Officer's Certificate filed with the Town is required for each fiscal year in which any deferred receipts from wastewater assessments are to be applied as revenues, identifying the amounts to be applied). For this forecast, it is estimated that the Town has approximately \$4.6 million in wastewater assessment reserves which can be applied for debt service coverage in future years. However, it should be noted that this level of wastewater assessments reserves is contingent on the Town providing an internal loan from the Occupancy Tax Fund to the Wastewater Fund, so the financing gap from a lower level of SRF funding can be addressed. If this does not occur, the Town would need to use available wastewater assessment reserves to fund the deficit, and these funds would not be available for the purpose of debt service coverage. Water and wastewater user charge increases would need to be significantly higher in the short-term than presented in this report. Revenues from wastewater assessments are allowed to be used to address any current expense for the operation and maintenance of the Enterprise System, as well as the Town's debt service obligations or the payment to the County for the Town's share of the County's debt service costs for the expansion of the West Brunswick System.

**Table 8: Projected Revenues**

	Estimated	Projected				
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Operating Revenues</b>						
Charges for Water Service						
Base Charge		\$ 2,135,351	\$ 2,386,568	\$ 2,667,239	\$ 2,761,541	\$ 2,859,344
Volume Charge		680,039	759,944	849,238	874,715	900,956
<i>Subtotal Charges for Water Services</i>	\$ 2,706,615	\$ 2,815,390	\$ 3,146,512	\$ 3,516,477	\$ 3,636,256	\$ 3,760,300
<i>% Change</i>		4.0%	11.8%	11.8%	3.4%	3.4%
Charges for Wastewater Service						
Base Charge		\$ 5,384,172	\$ 6,017,149	\$ 6,724,187	\$ 6,961,200	\$ 7,206,504
Volume Charge		1,290,000	1,442,325	1,612,738	1,661,291	1,711,749
<i>Subtotal Charges for Wastewater Services</i>	\$ 6,056,157	\$ 6,674,172	\$ 7,459,473	\$ 8,336,925	\$ 8,622,492	\$ 8,918,253
<i>% Change</i>		10.2%	11.8%	11.8%	3.4%	3.4%
Wholesale	\$ 405,000	\$ 405,000	\$ 457,980	\$ 452,338	\$ 458,465	\$ 457,176
Other Operating Revenues	\$ 535,791	\$ 535,791	\$ 535,791	\$ 535,791	\$ 535,791	\$ 535,791
<b>Total Operating Revenues</b>	<b>\$ 9,703,563</b>	<b>\$ 10,430,354</b>	<b>\$ 11,599,757</b>	<b>\$ 12,841,531</b>	<b>\$ 13,253,004</b>	<b>\$ 13,671,521</b>
<i>% Change</i>		7.5%	11.2%	10.7%	3.2%	3.2%
<b>Non Operating Revenues</b>						
Water	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006
Wastewater						
Sewer District Fee	\$ 1,832,993	\$ 2,003,840	\$ 2,239,291	\$ 2,502,408	\$ 2,547,596	\$ 2,593,089
Wastewater Assessments	4,200,000	3,971,551	2,976,490	2,188,831	2,011,511	2,113,756
All Other	5,986	5,986	5,986	5,986	5,986	5,986
<b>Total Non Operating Revenues</b>	<b>\$ 6,041,985</b>	<b>\$ 5,984,383</b>	<b>\$ 5,224,773</b>	<b>\$ 4,700,231</b>	<b>\$ 4,568,099</b>	<b>\$ 4,715,837</b>
<i>% Change</i>		-1.0%	-12.7%	-10.0%	-2.8%	3.2%
<b>Total Revenues</b>	<b>\$ 15,745,548</b>	<b>\$ 16,414,736</b>	<b>\$ 16,824,530</b>	<b>\$ 17,541,762</b>	<b>\$ 17,821,103</b>	<b>\$ 18,387,358</b>
<i>% Change</i>		4.3%	2.5%	4.3%	1.6%	3.2%

**Table 9: Wastewater Assessments**

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
<u>Parcels Paying Over Time</u>							
Parcel Count	3,544	3,544	3,544	3,544	3,544	3,544	3,544
Annual Payment (1)	\$ 557.20	\$ 557.20	\$ 557.20	\$ 557.20	\$ 557.20	\$ 557.20	\$ 557.20
Gross Projected Payments	\$ 1,974,733	\$ 1,974,733	\$ 1,974,733	\$ 1,974,733	\$ 1,974,733	\$ 1,974,733	\$ 1,974,733
Percent Collected	80.0%	90.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net Projected Payments	\$ 1,579,787	\$ 1,777,260	\$ 1,974,733	\$ 1,974,733	\$ 1,974,733	\$ 1,974,733	\$ 1,974,733
Annual Balance Due	\$ 394,947	\$ 197,473	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative Balance Due	\$ 394,947	\$ 592,420	\$ 473,936	\$ 355,452	\$ 236,968	\$ 118,484	\$ -
Percent Annual Cumulative Balance Recovered	0.0%	0.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Dollar Annual Cumulative Balance Recovered	\$ -	\$ -	\$ 118,484	\$ 118,484	\$ 118,484	\$ 118,484	\$ 118,484
Total Projected Payments (3)	\$ 1,579,787	\$ 1,777,260	\$ 2,093,217	\$ 2,093,217	\$ 2,093,217	\$ 2,093,217	\$ 2,093,217
<u>Parcels Paying Nothing as of 5/28/13</u>							
Parcel Count	643	643	643	643	643	643	643
Annual Payment (2)	\$ 822.58	\$ 822.58	\$ 822.58	\$ 822.58	\$ 822.58	\$ 822.58	\$ 822.58
Gross Projected Payments	\$ 528,920	\$ 528,920	\$ 528,920	\$ 528,920	\$ 528,920	\$ 528,920	\$ 528,920
Percent Collected	0.0%	25.0%	50.0%	75.0%	100.0%	100.0%	100.0%
Net Projected Payments	\$ -	\$ 132,230	\$ 264,460	\$ 396,690	\$ 528,920	\$ 528,920	\$ 528,920
Annual Balance Due	\$ 528,920	\$ 396,690	\$ 264,460	\$ 132,230	\$ -	\$ -	\$ -
Cumulative Balance Due	\$ 528,920	\$ 925,610	\$ 1,190,070	\$ 991,725	\$ 661,150	\$ 330,575	\$ -
Percent Annual Cumulative Balance Recovered	0.0%	0.0%	0.0%	25.0%	25.0%	25.0%	25.0%
Dollar Annual Cumulative Balance Recovered	\$ -	\$ -	\$ -	\$ 330,575	\$ 330,575	\$ 330,575	\$ 330,575
Total Projected Payments (4)	\$ -	\$ 132,230	\$ 264,460	\$ 727,265	\$ 859,495	\$ 859,495	\$ 859,495
Combined Projected Payments	\$ 1,579,787	\$ 1,909,490	\$ 2,357,677	\$ 2,820,482	\$ 2,952,712	\$ 2,952,712	\$ 2,952,712
Percent Collected Per Year	9.0%	10.9%	13.5%	16.1%	16.8%	16.8%	16.8%
Outstanding Balance as of 5/28/13	\$ 13,551,437	\$ 1,221,551	\$ 1,476,490	\$ 1,823,045	\$ 2,180,904	\$ 2,283,149	\$ 2,283,149
Less: Allowance for Doubtful Accounts @ 5%	(677,572)			(169,393)	(169,393)	(169,393)	(169,393)
Net Outstanding Balance as of 5/28/13	\$ 12,873,865	\$ 1,221,551	\$ 1,476,490	\$ 1,823,045	\$ 2,011,511	\$ 2,113,756	\$ 2,113,756
<b>Wastewater Assessment Revenue (5)</b>	<b>\$ 12,873,865</b>	<b>\$ 1,221,551</b>	<b>\$ 1,476,490</b>	<b>\$ 1,823,045</b>	<b>\$ 2,011,511</b>	<b>\$ 2,113,756</b>	<b>\$ 2,113,756</b>
Percent Collected Per Year	9.5%	11.5%	14.2%	15.6%	16.4%	16.4%	16.4%

- (1) Assumes \$4,200 principal balance with a 10 year term at a rate of 5.5%.
- (2) Assumes a \$4,674.71 principal balance (includes two years of accumulated interest) with a 7 year repayment term at a rate of 5.5%.
- (3) Assumes all customers paying the Town over time are entering the fourth year of a repayment plan and are making level payments. It should be noted that this assumption was made to help facilitate projections. Customers are actually making partial payments of various amounts.
- (4) Assumes all customers making no payment have accumulated two years (on average) of accrued interest. The accumulated balance of \$4,674.71 is financed over 7 years at a rate of 5.5%. It should be noted that this assumption was made to help facilitate projections. The ultimate level of collection of these delinquent customers relates directly to the Town's recourse for non-payment.
- (5) Represents an estimated distribution of the outstanding balance of wastewater assessments from FY 2014 through FY 2020.



## VII. Fund Balance

The Town maintains a separate Water Fund and Wastewater Fund as an operating fund for each utility. For the purpose of this forecast, which is consistent with prior forecasts developed for the Town's outstanding revenue bonds, reserve funds available in the Water Fund and Wastewater Fund are referred to collectively as the Revenue Fund. As of the end of FY 2012, the Town had a combined balance of cash and cash equivalents in the Revenue Fund of \$7.7 million. The Town has also established a Wastewater Assessment Reserve to identify revenues collected from wastewater assessments that have been deferred and applied for operating costs and debt service in future years. Based on discussion with Town staff and information from the general ledger, it is estimated that approximately \$4.4 million of reserves in the Revenue Fund are from wastewater assessments, with the remaining balance of approximately \$3.3 million remaining in the Revenue Fund. Based on estimated results in FY 2013, the projected balance in the Wastewater Assessment Reserve will increase to approximately \$4.6 million and the projected balance in the Revenue Fund will increase to approximately \$4.0 million. Thus, the forecast assumes that the Town will have approximately \$4.6 million in wastewater assessments that can be applied for the purpose of calculating debt service coverage in future years. However, as noted previously, this assumes an internal loan will be provided to the Wastewater Fund in the amount of \$3.5 million rather than using wastewater assessment reserves to fill the capital financing gap from reduced SRF loans.

Projected reserve balances are provided in Table 10.

**Table 10: Reserve Balances**

	Estimated		Projected			
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Revenue Fund</b>						
Beginning Balance - Cash & Cash Equivalents	\$ 3,271,136	\$ 4,003,899	\$ 5,223,640	\$ 6,455,863	\$ 7,966,514	\$ 9,604,451
Additions:						
Annual Cash Surplus/Deficit	732,763	1,219,741	1,232,223	1,510,651	1,637,937	1,924,594
Subtractions:						
Transfer to Fund Capital Projects	-	-	-	-	-	-
Ending Balance - Cash & Cash Equivalents	\$ 4,003,899	\$ 5,223,640	\$ 6,455,863	\$ 7,966,514	\$ 9,604,451	\$ 11,529,046
Average Balance	\$ 3,637,518	\$ 4,613,770	\$ 5,839,752	\$ 7,211,189	\$ 8,785,483	\$ 10,566,748
15% of Revenue Fund Balance (1)	\$ 490,670	\$ 600,585	\$ 783,546	\$ 968,380	\$ 1,194,977	\$ 1,440,668
<b>Wastewater Assessment Reserve</b>						
Beginning Balance - Cash & Cash Equivalents	\$ 4,402,582	\$ 4,615,786	\$ 1,865,786	\$ 365,786	\$ -	\$ -
Additions:						
Surplus Wastewater Assessments Collected	213,204	-	-	-	-	-
Subtractions:						
Transfers for Wastewater Debt Service	-	2,750,000	1,500,000	365,786	-	-
Ending Balance - Cash & Cash Equivalents	\$ 4,615,786	\$ 1,865,786	\$ 365,786	\$ -	\$ -	\$ -
Average Balance	\$ 4,509,184	\$ 3,240,786	\$ 1,115,786	\$ 182,893	\$ -	\$ -
<b>Total Account Interest Income on Cash Investments</b>						
Average Cash Balance	\$ 8,146,702	\$ 7,854,556	\$ 6,955,538	\$ 7,394,082	\$ 8,785,483	\$ 10,566,748
Annual Earnings Rate	0.5%	0.5%	0.8%	1.0%	1.0%	1.0%
Investments Income	\$ 40,734	\$ 39,273	\$ 52,167	\$ 73,941	\$ 87,855	\$ 105,667

(1) Represents an amount equal to 15% of the Revenue Fund as of the last day of the preceding fiscal year.

## VIII. Financial Forecast

The financial forecast provided in Table 11 provides a revised projection of revenues, expenses, debt service, and debt service coverage over a 5-year forecast period.

**Table 11: Financial Forecast (FY 2012 – FY 2018)**

**Town of Oak Island, North Carolina**  
**Enterprise Systems**  
**Forecast Statement of Revenues, Expenses, Debt, and Debt Service Coverage**  
**For Fiscal Year Ending June 30**

	2012	2013	2014	2015	2016	2017	2018
<b>Combined Water and Wastewater</b>							
<i>Actual</i>							
<b>Operating Revenues</b>							
Charges for Services							
Water Sales	\$ 2,853,576	\$ 2,706,615	\$ 2,815,390	\$ 3,146,512	\$ 3,516,477	\$ 3,636,256	\$ 3,760,300
Wastewater Sales	5,203,467	6,056,157	6,674,172	7,459,473	8,336,925	8,622,492	8,918,253
Wholesale	457,477	405,000	405,000	457,980	452,338	458,465	457,176
<i>Subtotal: Charges for Services</i>	<u>\$ 8,514,520</u>	<u>\$ 9,167,772</u>	<u>\$ 9,894,562</u>	<u>\$ 11,063,966</u>	<u>\$ 12,305,740</u>	<u>\$ 12,717,213</u>	<u>\$ 13,135,729</u>
Other Operating Revenue							
Water	\$ 262,571	\$ 485,177	\$ 485,177	\$ 485,177	\$ 485,177	\$ 485,177	\$ 485,177
Wastewater	3,067	50,614	50,614	50,614	50,614	50,614	50,614
<i>Subtotal: Other Operating Revenue</i>	<u>\$ 265,638</u>	<u>\$ 535,791</u>	<u>\$ 535,791</u>	<u>\$ 535,791</u>	<u>\$ 535,791</u>	<u>\$ 535,791</u>	<u>\$ 535,791</u>
<b>Non-Operating Revenue</b>							
Water	\$ 4,252	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006
Wastewater							
Wastewater Assessments	5,544,371	4,200,000	3,971,551	2,976,490	2,188,831	2,011,511	2,113,756
Other Non-Operating Revenues	9,462	5,986	5,986	5,986	5,986	5,986	5,986
<i>Subtotal: Non-Operating Revenues</i>	<u>\$ 5,558,085</u>	<u>\$ 4,208,992</u>	<u>\$ 3,980,543</u>	<u>\$ 2,985,482</u>	<u>\$ 2,197,823</u>	<u>\$ 2,020,503</u>	<u>\$ 2,122,748</u>
<b>Sewer District Fee</b>	\$ 496,361	\$ 1,832,993	\$ 2,003,840	\$ 2,239,291	\$ 2,502,408	\$ 2,547,596	\$ 2,593,089
<b>Total Revenues</b>	<u><b>\$ 14,834,604</b></u>	<u><b>\$ 15,745,548</b></u>	<u><b>\$ 16,414,736</b></u>	<u><b>\$ 16,824,530</b></u>	<u><b>\$ 17,541,762</b></u>	<u><b>\$ 17,821,103</b></u>	<u><b>\$ 18,387,358</b></u>
<b>Current Expenses</b>							
Operating Expenses							
Water Operating Expenses	\$ 2,222,040	\$ 1,769,148	\$ 1,657,502	\$ 1,715,477	\$ 1,775,521	\$ 1,837,710	\$ 1,902,122
Wastewater Operating Expenses	1,777,491	1,959,144	1,961,954	2,146,925	2,269,600	2,345,669	2,424,341
<i>Subtotal: Current Expenses</i>	<u>\$ 3,999,531</u>	<u>\$ 3,728,292</u>	<u>\$ 3,619,456</u>	<u>\$ 3,862,402</u>	<u>\$ 4,045,121</u>	<u>\$ 4,183,380</u>	<u>\$ 4,326,462</u>
Indirect Expenses - General Fund Reimbursement							
Water	\$ -	\$ 176,089	\$ 176,089	\$ 181,372	\$ 186,813	\$ 192,417	\$ 198,190
Wastewater	-	-	-	-	-	-	-
<i>Subtotal: Indirect Expenses</i>	<u>\$ -</u>	<u>\$ 176,089</u>	<u>\$ 176,089</u>	<u>\$ 181,372</u>	<u>\$ 186,813</u>	<u>\$ 192,417</u>	<u>\$ 198,190</u>
Debt Service Payments to Brunswick County	3,081,246	2,901,346	2,907,370	2,909,697	2,908,384	2,911,079	2,909,286
Depreciation and Amortization	8,259,800	8,257,526	8,140,662	8,010,755	7,704,896	7,655,095	7,619,603
<b>Total Current Expenses</b>	<u><b>\$ 15,340,577</b></u>	<u><b>\$ 15,063,254</b></u>	<u><b>\$ 14,843,577</b></u>	<u><b>\$ 14,964,226</b></u>	<u><b>\$ 14,845,214</b></u>	<u><b>\$ 14,941,971</b></u>	<u><b>\$ 15,053,541</b></u>
<b>Income (loss) Before Contributions and Transfers</b>	\$ (505,973)	\$ 682,295	\$ 1,571,159	\$ 1,860,304	\$ 2,696,549	\$ 2,879,132	\$ 3,333,816
Adjustments							
Plus: Depreciation	\$ 3,302,662	\$ 3,303,688	\$ 3,303,688	\$ 3,303,688	\$ 3,303,688	\$ 3,303,688	\$ 3,303,688
Plus: Interest Expense	4,957,138	4,953,839	4,836,974	4,707,068	4,401,208	4,351,407	4,315,916
<b>Net Revenues (Income Available for Debt Service)</b>	<u><b>\$ 7,753,827</b></u>	<u><b>\$ 8,939,821</b></u>	<u><b>\$ 9,711,821</b></u>	<u><b>\$ 9,871,059</b></u>	<u><b>\$ 10,401,445</b></u>	<u><b>\$ 10,534,227</b></u>	<u><b>\$ 10,953,420</b></u>
Plus 15% of Revenue Fund Balance	568,061	490,670	600,585	783,546	968,380	1,194,977	1,440,668
<b>Net Revenues Plus 15% of Revenue Fund Balance</b>	<u><b>\$ 8,321,888</b></u>	<u><b>\$ 9,430,491</b></u>	<u><b>\$ 10,312,406</b></u>	<u><b>\$ 10,654,605</b></u>	<u><b>\$ 11,369,824</b></u>	<u><b>\$ 11,729,204</b></u>	<u><b>\$ 12,394,087</b></u>
<b>Parity Bond Indebtedness</b>							
Series 2008A Bonds		\$ 2,205,788	\$ 2,208,588	\$ 2,206,588	\$ 2,206,388	\$ 2,209,363	\$ 2,206,363
Series 2009 Bonds		3,771,187	3,771,787	3,770,587	3,771,087	3,772,962	3,774,237
Series 2011 Bonds		778,551	782,176	779,226	780,451	780,651	779,051
<i>Subtotal: Parity Indebtedness</i>	<u>\$ 5,723,341</u>	<u>\$ 6,755,525</u>	<u>\$ 6,762,550</u>	<u>\$ 6,756,400</u>	<u>\$ 6,757,925</u>	<u>\$ 6,762,975</u>	<u>\$ 6,759,650</u>
<b>Debt Service Coverage - Parity Indebtedness</b>							
<b>Calculated Using Net Revenues</b>	<b>1.35</b>	<b>1.32</b>	<b>1.44</b>	<b>1.46</b>	<b>1.54</b>	<b>1.56</b>	<b>1.62</b>
<b>Calculated Using Net Revenues Plus 15% of Revenue Fund Balance</b>	<b>1.45</b>	<b>1.40</b>	<b>1.52</b>	<b>1.58</b>	<b>1.68</b>	<b>1.73</b>	<b>1.83</b>
Net Revenues Available for All Other System Indebtedness	\$ 2,030,485	\$ 2,184,296	\$ 2,949,271	\$ 3,114,659	\$ 3,643,519	\$ 3,771,251	\$ 4,193,769
<b>All Other System Indebtedness</b>							
2007 SRF Loan		\$ 464,648	\$ 464,648	\$ 464,648	\$ 464,648	\$ 464,648	\$ 464,648
2008 SRF Loan		419,233	419,233	419,233	419,233	419,233	419,233
Revenue Notes - Old Wastewater System		169,254	163,614	-	-	-	-
BB&T - Enterprise Fund (Land for Utility Plant)		114,598	114,598	114,598	114,598	114,598	-
Water Debt Service		141,900	141,900	-	-	-	-
Additional Funding		-	369,537	369,537	369,537	369,537	369,537
<i>Subtotal: All Other System Indebtedness</i>	<u>\$ 986,535</u>	<u>\$ 1,309,632</u>	<u>\$ 1,673,530</u>	<u>\$ 1,368,016</u>	<u>\$ 1,368,016</u>	<u>\$ 1,368,016</u>	<u>\$ 1,253,418</u>
<b>Debt Service Coverage: All Other System Indebtedness</b>	<b>2.06</b>	<b>1.67</b>	<b>1.76</b>	<b>2.28</b>	<b>2.66</b>	<b>2.76</b>	<b>3.35</b>
<b>Total Debt Service Coverage</b>	<b>1.16</b>	<b>1.11</b>	<b>1.15</b>	<b>1.21</b>	<b>1.28</b>	<b>1.30</b>	<b>1.37</b>

**Table 11: Financial Forecast Continued (FY 2012 – FY 2017)**

Town of Oak Island, North Carolina Enterprise Systems Forecast Statement of Revenues, Expenses, Debt, and Debt Service Coverage For Fiscal Year Ending June 30							
	2012	2013	2014	2015	2016	2017	2018
	<i>Actual</i>						
Total Parity Plus All Other System Indebtedness	\$ 6,709,876	\$ 8,065,158	\$ 8,436,080	\$ 8,124,416	\$ 8,125,941	\$ 8,130,991	\$ 8,013,068
120% of Parity Indebtedness Plus 100% of All Other System Indebtedness	\$ 7,854,545	\$ 9,416,263	\$ 9,788,590	\$ 9,475,696	\$ 9,477,526	\$ 9,483,586	\$ 9,364,998
<b>Rate Covenant Test 1 - Coverage of the Rate Covenant</b>							
Calculated Using Net Revenues Plus 15% of Revenue Fund Balance (Must be Greater Than 1.0)	<b>1.06</b>	<b>1.00</b>	<b>1.05</b>	<b>1.12</b>	<b>1.20</b>	<b>1.24</b>	<b>1.32</b>
<b>Rate Covenant Test 2 - Coverage of the Rate Covenant</b>							
Calculated Using Net Revenues (Must be Greater Than 1.0)	<b>1.16</b>	<b>1.11</b>	<b>1.15</b>	<b>1.21</b>	<b>1.28</b>	<b>1.30</b>	<b>1.37</b>
<b>Net Revenues After Total Debt</b>	<b>\$ 1,043,950</b>	<b>\$ 874,663</b>	<b>\$ 1,275,741</b>	<b>\$ 1,746,643</b>	<b>\$ 2,275,503</b>	<b>\$ 2,403,235</b>	<b>\$ 2,940,351</b>
Capital Outlays							
Water	\$ 304,274	\$ 141,900	\$ 14,000	\$ 14,420	\$ 14,853	\$ 15,298	\$ 15,757
Wastewater	274,713	-	42,000	500,000	750,000	750,000	1,000,000
<i>Subtotal: Other Budgeted Expenditures</i>	\$ 578,987	\$ 141,900	\$ 56,000	\$ 514,420	\$ 764,853	\$ 765,298	\$ 1,015,757
<b>Surplus Revenues Remaining After Total Cash Needs</b>	<b>\$ 464,963</b>	<b>\$ 732,763</b>	<b>\$ 1,219,741</b>	<b>\$ 1,232,223</b>	<b>\$ 1,510,651</b>	<b>\$ 1,637,937</b>	<b>\$ 1,924,594</b>
Transfer from Revenue Fund to Cover Shortfall	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assumed Rate Increases:							
Water			11.75%	11.75%	11.75%	3.00%	3.00%
Wastewater			11.75%	11.75%	11.75%	3.00%	3.00%
SDF			11.75%	11.75%	11.75%	3.00%	3.00%
Applied to Water and Wastewater Base Charges, Volumetric Rates, and SDF							
Beginning Year Revenue Fund Balance	\$ 3,271,136	\$ 4,003,899	\$ 5,223,640	\$ 6,455,863	\$ 7,966,514	\$ 9,604,451	\$ 11,529,046
Surplus/Deficit Remaining After Cash Needs	732,763	1,219,741	1,232,223	1,510,651	1,637,937	1,924,594	-
Transfer to Fund Capital Project Costs	-	-	-	-	-	-	-
<b>Ending Year Revenue Fund Balance</b>	<b>\$ 3,271,136</b>	<b>\$ 4,003,899</b>	<b>\$ 5,223,640</b>	<b>\$ 6,455,863</b>	<b>\$ 7,966,514</b>	<b>\$ 9,604,451</b>	<b>\$ 11,529,046</b>

As a result of the level of projected revenues from wastewater assessments and the expectation that these revenues will terminate in FY 2020, a long-term forecast was developed to demonstrate continued compliance with all respective bond covenants and to project the Revenue Fund balance over a long-term planning period. Table 12 presents an extended forecast of revenues, expenses, debt service, debt service coverage, and cash reserves through FY 2021. It should be noted that extended forecast is based on certain assumptions about future rate increases, demand, and revenue requirements. Although these assumptions are consistent with the five-year forecast, there is a higher degree of uncertainty associated with projecting results over a longer period of time.

**Table 12: Long-Term Financial Forecast (FY 2012 – FY 2021)**

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
<b>Combined Water and Wastewater</b>										
Operating Revenues										
Water	\$ 3,116,147	\$ 3,191,792	\$ 3,300,567	\$ 3,631,690	\$ 4,001,654	\$ 4,121,433	\$ 4,245,478	\$ 4,373,856	\$ 4,521,891	\$ 4,675,560
Wastewater	5,206,534	6,106,771	6,724,786	7,510,087	8,387,539	8,673,106	8,968,867	9,273,978	9,628,804	9,997,059
Wholesale	457,477	405,000	405,000	457,980	452,338	458,465	457,176	463,644	470,149	477,072
<b>Subtotal</b>	<b>\$ 8,780,158</b>	<b>\$ 9,703,563</b>	<b>\$ 10,430,354</b>	<b>\$ 11,599,757</b>	<b>\$ 12,841,531</b>	<b>\$ 13,253,004</b>	<b>\$ 13,671,521</b>	<b>\$ 14,111,479</b>	<b>\$ 14,620,844</b>	<b>\$ 15,149,692</b>
Non-Operating Revenues										
Water	\$ 4,252	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006	\$ 3,006
Wastewater										
Wastewater Assessments	5,544,371	4,200,000	3,971,551	2,976,490	2,188,831	2,011,511	2,113,756	2,113,756	2,113,756	-
Other Non-Operating Revenues	9,462	5,986	5,986	5,986	5,986	5,986	5,986	5,986	5,986	5,986
<b>Subtotal</b>	<b>\$ 5,558,085</b>	<b>\$ 4,208,992</b>	<b>\$ 3,980,543</b>	<b>\$ 2,985,482</b>	<b>\$ 2,197,823</b>	<b>\$ 2,020,503</b>	<b>\$ 2,122,748</b>	<b>\$ 2,122,748</b>	<b>\$ 2,122,748</b>	<b>\$ 8,992</b>
Sewer District Fee	\$ 496,361	\$ 1,832,993	\$ 2,003,840	\$ 2,239,291	\$ 2,502,408	\$ 2,547,596	\$ 2,593,089	\$ 2,638,860	\$ 2,651,730	\$ 2,662,315
<b>Total Revenues</b>	<b>\$ 14,834,604</b>	<b>\$ 15,745,548</b>	<b>\$ 16,414,736</b>	<b>\$ 16,824,530</b>	<b>\$ 17,541,762</b>	<b>\$ 17,821,103</b>	<b>\$ 18,387,358</b>	<b>\$ 18,873,086</b>	<b>\$ 19,395,322</b>	<b>\$ 17,820,998</b>
<b>Current Expenses</b>										
Operating Expenses										
Water	\$ 2,222,040	\$ 1,769,148	\$ 1,657,502	\$ 1,715,477	\$ 1,775,521	\$ 1,837,710	\$ 1,902,122	\$ 1,968,837	\$ 2,037,939	\$ 2,109,516
Wastewater	1,777,491	1,959,144	1,961,954	2,146,925	2,269,600	2,345,669	2,424,341	2,505,704	2,589,853	2,676,887
<b>Subtotal</b>	<b>\$ 3,999,531</b>	<b>\$ 3,728,292</b>	<b>\$ 3,619,456</b>	<b>\$ 3,862,402</b>	<b>\$ 4,045,121</b>	<b>\$ 4,183,380</b>	<b>\$ 4,326,462</b>	<b>\$ 4,474,541</b>	<b>\$ 4,627,793</b>	<b>\$ 4,786,403</b>
Indirect Expenses - General Fund Reimbursement										
Water	\$ -	\$ 176,089	\$ 176,089	\$ 181,372	\$ 186,813	\$ 192,417	\$ 198,190	\$ 204,135	\$ 210,259	\$ 216,567
Wastewater	-	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>\$ -</b>	<b>\$ 176,089</b>	<b>\$ 176,089</b>	<b>\$ 181,372</b>	<b>\$ 186,813</b>	<b>\$ 192,417</b>	<b>\$ 198,190</b>	<b>\$ 204,135</b>	<b>\$ 210,259</b>	<b>\$ 216,567</b>
Debt Service Payment to County	\$ 3,081,246	\$ 2,901,346	\$ 2,907,370	\$ 2,909,697	\$ 2,908,384	\$ 2,911,079	\$ 2,909,286	\$ 2,910,394	\$ 2,908,447	\$ 2,909,252
Depreciation and Amortization	\$ 8,259,800	\$ 8,257,526	\$ 8,140,662	\$ 8,010,755	\$ 7,704,896	\$ 7,655,095	\$ 7,619,603	\$ 7,582,636	\$ 7,544,122	\$ 6,896,275
<b>Total Current Expenses</b>	<b>\$ 15,340,577</b>	<b>\$ 15,063,254</b>	<b>\$ 14,843,577</b>	<b>\$ 14,964,226</b>	<b>\$ 14,845,214</b>	<b>\$ 14,941,971</b>	<b>\$ 15,053,541</b>	<b>\$ 15,171,705</b>	<b>\$ 15,290,621</b>	<b>\$ 14,808,497</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>\$ (505,973)</b>	<b>\$ 682,295</b>	<b>\$ 1,571,159</b>	<b>\$ 1,860,304</b>	<b>\$ 2,696,549</b>	<b>\$ 2,879,132</b>	<b>\$ 3,333,816</b>	<b>\$ 3,701,381</b>	<b>\$ 4,104,701</b>	<b>\$ 3,012,501</b>
Adjustments										
Plus: Depreciation	\$ 3,302,662	\$ 3,303,688	\$ 3,303,688	\$ 3,303,688	\$ 3,303,688	\$ 3,303,688	\$ 3,303,688	\$ 3,303,688	\$ 3,303,688	\$ 3,303,688
Plus: Interest Expense	4,957,138	4,953,839	4,836,974	4,707,068	4,401,208	4,351,407	4,315,916	4,278,948	4,240,434	3,592,588
<b>Net Revenues (Income Available for Debt Service)</b>	<b>\$ 7,753,827</b>	<b>\$ 8,939,821</b>	<b>\$ 9,711,821</b>	<b>\$ 9,871,059</b>	<b>\$ 10,401,445</b>	<b>\$ 10,534,227</b>	<b>\$ 10,953,420</b>	<b>\$ 11,284,016</b>	<b>\$ 11,648,823</b>	<b>\$ 9,908,776</b>
Plus 15% of Revenue Fund Balance	568,061	490,670	600,585	783,546	968,380	1,194,977	1,440,668	1,729,357	1,993,244	2,236,193
<b>Net Revenues Plus 15% of Revenue Fund Balance</b>	<b>\$ 8,321,888</b>	<b>\$ 9,430,491</b>	<b>\$ 10,312,406</b>	<b>\$ 10,654,605</b>	<b>\$ 11,369,824</b>	<b>\$ 11,729,204</b>	<b>\$ 12,394,087</b>	<b>\$ 13,013,373</b>	<b>\$ 13,642,067</b>	<b>\$ 12,144,969</b>
Parity Debt	\$ 5,723,341	\$ 6,755,525	\$ 6,762,550	\$ 6,756,400	\$ 6,757,925	\$ 6,762,975	\$ 6,759,650	\$ 6,755,119	\$ 6,759,032	\$ 6,762,219
<b>Debt Service Coverage: Parity Bonds</b>										
Calculated Using Net Revenues	<b>1.35</b>	<b>1.32</b>	<b>1.44</b>	<b>1.46</b>	<b>1.54</b>	<b>1.56</b>	<b>1.62</b>	<b>1.67</b>	<b>1.72</b>	<b>1.47</b>
Calculated Using Net Revenues Plus 15% of Revenue Fund Balance	<b>1.45</b>	<b>1.40</b>	<b>1.52</b>	<b>1.58</b>	<b>1.68</b>	<b>1.73</b>	<b>1.83</b>	<b>1.93</b>	<b>2.02</b>	<b>1.80</b>

**Table 12: Long-Term Financial Forecast Continued (FY 2012 – FY 2021)**

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Net Revenues Available for All Other System Indebtedness	\$ 2,030,485	\$ 2,184,296	\$ 2,949,271	\$ 3,114,659	\$ 3,643,519	\$ 3,771,251	\$ 4,193,769	\$ 4,528,897	\$ 4,889,791	\$ 3,146,557
All Other System Indebtedness	\$ 986,535	\$ 1,309,632	\$ 1,673,530	\$ 1,368,016	\$ 1,368,016	\$ 1,368,016	\$ 1,253,418	\$ 1,253,418	\$ 1,253,418	\$ 1,253,418
<b>Debt Service Coverage: All Other System Indebtedness</b>	<b>2.06</b>	<b>1.67</b>	<b>1.76</b>	<b>2.28</b>	<b>2.66</b>	<b>2.76</b>	<b>3.35</b>	<b>3.61</b>	<b>3.90</b>	<b>2.51</b>
<b>Total Debt Service Coverage</b>	<b>1.16</b>	<b>1.11</b>	<b>1.15</b>	<b>1.21</b>	<b>1.28</b>	<b>1.30</b>	<b>1.37</b>	<b>1.41</b>	<b>1.45</b>	<b>1.24</b>
Total Parity and All Other System Indebtedness	\$ 6,709,876	\$ 8,065,158	\$ 8,436,080	\$ 8,124,416	\$ 8,125,941	\$ 8,130,991	\$ 8,013,068	\$ 8,008,537	\$ 8,012,449	\$ 8,015,637
120% of Parity Indebtedness Plus 100% of All Other System Indebtedness	\$ 7,854,545	\$ 9,416,263	\$ 9,788,590	\$ 9,475,696	\$ 9,477,526	\$ 9,483,586	\$ 9,364,998	\$ 9,359,561	\$ 9,364,256	\$ 9,368,081
<b>Rate Covenant Test 1 - Coverage of the Rate Covenant Calculated Using Net Revenues Plus 15% of Revenue Fund Balance (1)</b>	<b>1.06</b>	<b>1.00</b>	<b>1.05</b>	<b>1.12</b>	<b>1.20</b>	<b>1.24</b>	<b>1.32</b>	<b>1.39</b>	<b>1.46</b>	<b>1.30</b>
<b>Rate Covenant Test 2 - Coverage of the Rate Covenant Calculated Using Net Revenues (2)</b>	<b>1.16</b>	<b>1.11</b>	<b>1.15</b>	<b>1.21</b>	<b>1.28</b>	<b>1.30</b>	<b>1.37</b>	<b>1.41</b>	<b>1.45</b>	<b>1.24</b>
Net Revenues After Total Debt	\$ 1,043,950	\$ 874,663	\$ 1,275,741	\$ 1,746,643	\$ 2,275,503	\$ 2,403,235	\$ 2,940,351	\$ 3,275,479	\$ 3,636,373	\$ 1,893,139
Capital Outlays	\$ 578,987	\$ 141,900	\$ 56,000	\$ 514,420	\$ 764,853	\$ 765,298	\$ 1,015,757	\$ 1,516,230	\$ 2,016,717	\$ 2,517,218
Surplus Revenues Available After Total Cash Needs	\$ 464,963	\$ 732,763	\$ 1,219,741	\$ 1,232,223	\$ 1,510,651	\$ 1,637,937	\$ 1,924,594	\$ 1,759,249	\$ 1,619,656	\$ (624,079)
Beginning Year Revenue Fund Balance	\$ -	\$ 3,271,136	\$ 4,003,899	\$ 5,223,640	\$ 6,455,863	\$ 7,966,514	\$ 9,604,451	\$ 11,529,046	\$ 13,288,295	\$ 14,907,951
Surplus/Deficit Remaining After Cash Needs	-	732,763	1,219,741	1,232,223	1,510,651	1,637,937	1,924,594	1,759,249	1,619,656	(624,079)
Transfer to Fund Capital Projects	-	-	-	-	-	-	-	-	-	-
<b>Ending Year Revenue Fund Balance</b>	<b>\$ 3,271,136</b>	<b>\$ 4,003,899</b>	<b>\$ 5,223,640</b>	<b>\$ 6,455,863</b>	<b>\$ 7,966,514</b>	<b>\$ 9,604,451</b>	<b>\$ 11,529,046</b>	<b>\$ 13,288,295</b>	<b>\$ 14,907,951</b>	<b>\$ 14,283,872</b>
<b>Assumed Rate Increases:</b>										
Water			11.75%	11.75%	11.75%	3.00%	3.00%	3.00%	3.00%	3.00%
Wastewater			11.75%	11.75%	11.75%	3.00%	3.00%	3.00%	3.00%	3.00%
SDF			11.75%	11.75%	11.75%	3.00%	3.00%	3.00%	3.00%	3.00%
Applied to Water and Wastewater Base Charges, Volumetric Rates, and SDF										