

EAST LINCOLN WATER AND SEWER DISTRICT FUND

This fund is used to account for all of the activities of the East Lincoln Water and Sewer (ELWS) District. The ELWS District was established on June 15, 1992 in order to build a wastewater treatment plant, system of sewer lines, and pump stations to serve a portion of eastern Lincoln County. The District charged sewer tap fees, availability fees (i.e., capacity fees), and monthly charges for service based upon the amount of water consumed. In addition, to pay off the debt associated with beginning this system, those properties within the district boundaries were assessed a special tax levy. Over the years, some additional properties were annexed into the District and were provided sewer service.

On June 18, 2007, the ELWS District Board and the Lincoln County Board of Commissioners entered into an agreement transferring all the assets of the ELWS District to Lincoln County. The operating costs of the sewer system became a part of a combined Lincoln County Water and Sewer System and were funded in the Water and Sewer Fund annually. Under the agreement, the outstanding debt of the ELWS District remained with the ELWS District, to be paid each year from a tax levy on all the taxable property within the District boundaries.

The 2007 Agreement essentially changed this fund from the operating and capital budgets for the sewer system to a debt service fund for the District's existing debt, with the revenues to pay that debt coming from a tax levy within the District boundaries. The agreement calls for the District to formally dissolve once the last payment of principal and interest has been paid. At that point, this fund will no longer be needed. The operating and capital budgets for the sewer system can be found in the Water and Sewer Fund Operating Budget and the Water & Sewer Capital Projects Fund.

The June 18, 2007 Agreement converted the ELWS sewer system from small, stand alone enterprise to one that is part of a larger system. This is beneficial to the District property owners since it does not require them to pay for any new debt through the District tax levy. Any new debt from July 2007 forward has been, and will be, paid by the customers of the combined Lincoln County Water and Sewer System. A good example is the Killian Creek Wastewater Treatment Plant (WWTP), which began operation in October 2010. Its debt service is paid by the combined Water and Sewer System, and not just those customers residing within the old ELWS District.

In FY 2008 (July 2007 - June 2008) the tax rate was decreased from 11.0 cents to 7.5 cents per \$100 of assessed valuation. In FY 2009 the tax rate was decreased from 7.5 cents to 2.0 cents. In FY 2010 the tax rate was decreased to 1.75 cents. In FY 2011 the tax rate remained at 1.75 cents. In FY 2012 the tax rate was changed to the revenue neutral tax rate of 1.99 cents following a reappraisal. The tax rate for FY 2013 was 3.55 cents.

The chart on the next page shows the debt service payments for each remaining year, broken down by principal and interest, for each of the three debt instruments used to finance the system.

When the assets of this fund were transferred, there needed to be adequate working capital to assure that the sewer system could continue to operate on a sound financial basis. Once the assets had been transferred, and the combined system had operated for almost a year, it was apparent that cash was available in the combined system that could be used to repay some of the District's sewer debt.

The Board of Commissioners determined that this would be appropriate, as all the revenues within the ELWS District had come from tap fees, availability fees (i.e., capacity fees), monthly service charges, or the District tax. It could be argued that most of the capacity fees were earmarked for necessary expansions of the sewer system, and therefore should stay in the Water and Sewer Fund where they were transferred. However, any excess tap fees, monthly service charges, or District taxes that accumulated over the years could legitimately be seen as surplus from the customers of the sewer system - the same customers who still had to pay the District tax levy. In recognizing this, and the financial strength of the Water and Sewer Fund, the Board of Commissioners voted to transfer \$1,773,295 from the Water and Sewer Fund to the ELWS District Fund during FY 2009. When added to the estimated fund balance of \$226,705 at the end of FY 2008, it was projected to provide \$2,000,000 to help with debt service payments.

As the chart below indicates, there has been only modest growth of 3.01% and 0.98% in the district between the FY 2009 and FY 2012 years, in which revaluations took place. FY 2013 continued this trend at 1.32%, and FY 2014 is projected even lower at 0.98%. This reflects the depressed residential and commercial real estate markets.

Assessed Valuation History:

FY 2005	\$1,391,548,393	Revaluation Year
FY 2006	\$1,500,515,977	7.83% Increase
FY 2007	\$1,607,899,694	7.16% Increase
FY 2008	\$1,763,747,414	9.69% Increase
FY 2009	\$2,731,176,386	54.85% Increase in Revaluation Year
FY 2010	\$2,813,468,990	3.01% Increase
FY 2011	\$2,841,053,669	0.98% Increase
FY 2012	\$2,552,305,566	10.1% Decrease in Revaluation Year
FY 2013	\$2,586,014,059	1.32% Increase
FY 2014	\$2,611,450,004	0.98% Increase
FY 2015	\$2,651,182,308	0.01% Increase

If you look at the enclosed Debt Service Repayment Schedule, you will see that FY 2018 and FY 2019 repayments are small enough to be included with FY 2017, and pay off this debt in FY 2017. According to the Official Statement, all of the 1998 Sewer Bonds maturing on or after June 1, 2009 can be redeemed early by paying a 0.5% premium for

each year or portion of a year that the bonds would be repaid early. There will be \$150,000 in principal in 2018 paid one year early, costing \$750; and \$25,000 in principal in 2019 paid two years early, costing \$250. For that \$1,000 in combined premiums, we would not have to pay the \$9,501 in scheduled interest payments for those two years.

The chart on the next page shows the estimated tax rates in future years necessary to repay all the debt at the end of FY 2017. In previous years, we had been using over \$500,000 annually in available fund balance that came from the \$2,000,000 transfer from the Water and Sewer Fund noted above. That funding was down to only about \$35,000 by the end of FY 2012. Consequently, the tax rate had to be raised to 3.55 cents in FY 2013 to offset this loss of available fund balance.

In the chart showing future tax rates, we have assumed a very modest growth rate of 1.0% per year, which reflects the current economic situation. The economy may be better in future years if commercial and residential construction improves. This does not include any change in the revaluation scheduled in FY 2016. This is a very conservative projection. The required rates are shown in bold type on the chart. The rate would never go higher than 3.59 cents using this projection. At the end of FY 2017, the debt would be fully repaid, the ELWS District would be dissolved, and this tax would no longer need to be imposed on properties within this district.

**DEBT SERVICE REPAYMENT SCHEDULE
EAST LINCOLN WATER AND SEWER DISTRICT**

							TOTALS
		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 15-19
PROJECTED EXPENSES							
1995 State Clean Water Loan \$5,000,000	Prin	250,000	250,000	250,000			750,000
Dated 5/1/97 – 5/1/17 5.3% to 3.43% Fixed Rate	Int	25,725	17,150	8,575			51,450
1998 Sewer Bonds \$1,600,000	Prin	75,000	75,000	150,000	150,000	25,000	475,000
Dated 12/1/98 – 6/1/19 4.6% to 4.75% Fixed Rate	Int	22,563	19,000	15,438	8,313	1,188	66,502
2004 Sewer Refunding \$5,520,000	Prin	445,000	435,000	250,000			1,130,000
Dated 6/1/04 – 6/1/17 2.0% to 3.4% Fixed Rate	Int	35,770	22,420	8,500			66,690
TOTAL PRINCIPAL PAYMENTS		\$ 770,000	\$ 760,000	\$ 650,000	\$ 150,000	\$ 25,000	\$ 2,355,000
TOTAL INTEREST PAYMENTS		\$ 84,058	\$ 58,570	\$ 32,513	\$ 8,313	\$ 1,188	\$ 184,642
TOTAL EXPENSES		\$ 854,058	\$ 818,570	\$ 682,513	\$ 158,313	\$ 26,188	\$ 2,539,642

PROJECTED TAX RATES FOR THE ELWSD FUND

	FY 2015	FY 2016	FY 2017		
AVAILABLE FUND BALANCE	\$ -	\$ 1,364	\$ 23,216		
CURRENT YEAR PROPERTY TAXES	\$ 875,000	\$ 860,000	\$ 852,124		
ALL OTHER REVENUES	\$ 8,000	\$ 8,000	\$ 8,000		
TAX COLLECTION FEES	\$ (26,378)	\$ (26,378)	\$ (26,378)		
DEBT SERVICE PAYMENTS	\$ (855,258)	\$ (819,770)	\$ (858,713)		
ENDING FUND BALANCE	\$ 1,364	\$ 23,216	\$ (1,751)		
Assessed value growth of 1% divided by \$100				\$ 25,584,376	
FY 2015 to generate \$875,000 the tax rate would need to be				\$ 0.0342	
			3.42 cents		
Assessed value growth of 1% divided by \$100				\$ 25,840,219	
FY 2016 to generate \$860,000 the tax rate would need to be				\$ 0.0333	
			3.33 cents		
Assessed value growth of 1% divided by \$100				\$ 26,098,622	
FY 2017 to generate \$852,124 the tax rate would need to be				\$ 0.0327	
			3.27 cents		

COUNTY OF LINCOLN, NORTH CAROLINA
EAST LINCOLN WATER SEWER DISTRICT
FY 2015 BUDGET

Account Number	Account Description or Title	FY 2012 Actual	FY 2013 Actual	FY 2014 Budget	FY 2014 Thru 2/28/14	FY 2014 Projected	FY 2015 Requested	FY 2015 Recommended
AD VALOREM TAXES								
62-3183-4110	Property Taxes - 3rd Prior Year	\$ -	\$ -	\$ 1,500	\$ 1,010	\$ 1,500	\$ -	\$ -
62-3184-4110	Property Taxes - 2nd Prior Year	-	-	300	431	450	-	-
62-3185-4110	Property Taxes - 1st Prior Year	-	-	3,249	6,262	7,000	-	-
62-3186-4110	Property Taxes - Budget Year	495,073	878,437	910,000	886,317	910,000	928,456	928,456
	TOTAL AD VALOREM TAXES	495,073	878,437	915,049	894,020	918,950	928,456	928,456
INTERGOVERNMENTAL								
62-3474-4991	Fund Balance	471,467	46,439	2,312	-	-	-	-
	TOTAL INTERGOVERNMENTAL	471,467	46,439	2,312	-	-	-	-
INVESTMENT								
62-3474-4490	Interest on Investment	894	1,551	1,200	355	500	500	500
	TOTAL INVESTMENT	894	1,551	1,200	355	500	500	500
	TOTAL REVENUES	967,434	926,427	918,561	894,375	919,450	928,956	928,956
CURRENT OBLIGATIONS								
62-4720-5394	Property Tax Collection Fees	-	-	26,378	-	26,378	26,378	26,378
	TOTAL CURRENT OBLIGATIONS	-	-	26,378	-	26,378	26,378	26,378
DEBT SERVICE								
62-4720-5710-0111	Bond Principal	805,000	790,000	780,000	-	780,000	770,000	770,000
62-4720-5720-0112	Bond Interest	161,844	135,247	110,983	26,234	110,983	84,058	84,058
62-4720-5751	Service Charges	590	1,180	1,200	590	1,200	1,200	1,200
	TOTAL DEBT SERVICE	967,434	926,427	892,183	26,824	892,183	855,258	855,258
	TOTAL EXPENSES	\$ 967,434	\$ 926,427	\$ 918,561	\$ 26,824	\$ 918,561	\$ 881,636	\$ 881,636