August 26, 2020

Honorable Mayor and
Members of the City Commission
City of Stuart
121 SW Flagler Avenue
Stuart, FL 34994-2139

Subject: **Review of Proposed Fiscal Year 2021 Sanitation Budget**

Ladies and Gentlemen:

On August 14, 2017, the City of Stuart (the "City") concluded a sanitation rate study (the "Rate Study"), which was prepared by Public Resources Management Group, Inc. (PRMG), now Raftelis Financial Consultants, Inc. (Raftelis), to evaluate the adequacy of sanitation rates to meet the operating, capital and transfer expenditure requirements of the sanitation system (the "System"). The City's sanitation system is established as an enterprise fund. As such, the utility system should have revenues equal to the costs of the services provided, and should establish rates sufficient to cover the cost of operating, maintaining, repairing and financing system operations. According to the Governmental Accounting Standards Board, "Enterprise Funds should be used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that costs of providing services to the general public on a continuing basis should be financed or recovered primarily through user charges."

Based on the assumptions provided in the Rate Study related to the development of the revenue requirements for the System, Raftelis identified the need for the City to implement annual sanitation rate increases for Fiscal Years 2018 through 2022. The study recommendations were adopted by the City Commission, and the City has increased sanitation rates through Fiscal Year 2020. The primary reasons for the recommended annual rate adjustments include the following:

1. Minimal increase in System revenues due to the lack of growth customer growth within the City.
2. Increases in other operating expenses as a result of inflation.
3. The need to fund annual vehicle replacement requirements.
4. The desire to finance the proposed construction costs of a new Public Works Complex.

The Rate Study proposed annual rate increases equal to 5% per year through Fiscal Year 2022. The City implemented a 5% increase in Fiscal Years 2018 and 2019, but in Fiscal Year 2020, the City Commission adopted a lower rate increase of 2.36% based on the Florida Public Service Commission Index (the "FPSC Index"), because: i) commercial garbage revenues increased faster than the original projections; and ii) the City's planned construction of a new Public Works Complex was delayed.

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Based on recent discussions with City staff, the design of the Public Works Complex is estimated at $1.0 million and will be funded from operating reserves in Fiscal Year 2021. The proposed construction of the facility, which is estimated to cost approximately $5.5 million, is projected to take place in Fiscal Year 2022. Depending on the City's borrowing opportunities at the time of closing, including the loan terms and interest rates, the estimated annual debt service payments for the Public Works Complex could range between $500,000 and $700,000 per year beginning as early as Fiscal Year 2022 or 2023. As such, we recommend that the City consider implementing the originally proposed rate adjustments of 5% per year for Fiscal Years 2021 and 2022.

Authorization

The City authorized Raftelis to perform a review of the System's proposed budget for Fiscal Year 2021. The primary purposes of this review include evaluating the adequacy of projected revenues for Fiscal Year 2021, including the proposed rate increase of 5%, to meet the projected operating, capital and transfer requirements of the System, and identifying significant variances between the proposed budget and original Rate Study, if any. This review is limited to a single test year analysis based on the proposed budget and previously appropriated revenues and expenditures as provided by City staff.

Budget Review and the Adequacy of Revenues

Table 1 at the end of this letter report summarizes the proposed budget, which totals approximately $6.4 million. The budgeted amount includes the use of $1.0 million in operating reserves to fund the design costs of the Public Works Complex. Based on the proposed budget, the City estimates that the Fiscal Year 2021 sanitation operating revenues will be approximately $5.3 million. The estimated revenues are based on the implementation of a proposed 5% rate increase to become effective with bills rendered on or after October 1, 2020. In preparing the estimates, the City has recognized that commercial garbage revenues have increased faster than the original projections, plus a modest customer growth of one percent (1%). Table 1 at the end of this letter report provides a summary of gross revenues of the System, or $5.3 million for Fiscal Year 2021.

The various expenditures associated with operating and maintaining the System, as well as the cost of financing the renewal and replacement of vehicles, are generally referred to as the revenue requirements. The sum of these cost components represents the gross revenue requirements, which includes the following various cost components:

- Operating Expenses: These expenses include the tipping fees and other waste disposal costs, labor, materials, fuel, supplies, and other items necessary for the operation and maintenance of the System.

- Other Revenue Requirements: This component of cost includes, in general, any ongoing capital improvements such as vehicle replacements and minor capital outlay to be funded from revenues, and transfers to the General Fund. Future revenue requirements, beyond Fiscal Year 2021, may include principal and interest payments on the proposed Public Works Complex.

The gross revenue requirements as shown on Table 1 total $6.4 million, which include $4.1 million of operating expenses. The revenue shortfall between gross revenues of $5.3 million and the gross revenue requirements of $6.4 million is funded primarily from a $1.0 million transfer from existing operating reserves to cover the design of the Public Works Complex and a $100,000 contribution from the City's Community Redevelopment Agency (CRA). However, based on the projected cash flows of the System throughout Fiscal Year 2021 as shown on Table 2 at the end of this letter report, the projected (net) decrease in operating reserves is estimated at approximately $143,000, which demonstrates that approximately $857,000 of the Public Works Facility design costs may actually be funded from current year revenues while $143,000 could be funded from reserves. The following tabulation provides a summary of the adequacy of rates and other sources derived from Tables 1 and 2:

Projected Sufficiency of Revenues [1]

	Fiscal Year 2021
Net Revenues from Operations	
Gross Revenues	$5,302,044
Less: Operating Expenses	4,095,400
Net Revenues from Operations	$1,206,644
Less: Annual Debt Service Payments [2]	0
Net Revenues Available for Other Uses	$1,206,644
Less: General Fund Transfer	(318,048)
Projected Revenues Available for Capital	$888,596

[1] Amounts obtained from Tables 1 and 2 at the end of this letter report based on the Proposed Fiscal Year 2021 Budget.

[2] The System does not currently have outstanding debt, but future debt service payments beyond Fiscal Year 2021 are estimated between $500,000 and $700,000 per year depending on the actual financing terms of the proposed Public Works Complex.

Based upon the proposed Fiscal Year 2021 Budget and the proposed 5% rate increase effective on or after October 1, 2020, the projected net revenues above provide approximately $888,000 for capital improvements after satisfying the projected operating and General Fund Transfer requirements of the System. For Fiscal Year 2021, the City anticipates spending approximately $1,134,300 on capital outlay, including $1.0 million for the design of the Public Works Complex, which will be partially funded from income derived from the sale of existing assets and the use of existing operating reserves as shown below and on Table 2:

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Projected Sufficiency of Revenues (Cont.) [1]

	Fiscal Year 2021
Projected Revenues Available for Capital	$888,596
Other Sources of Revenues	
Disposition of Fixed Assets	$2,500
Grants & Other Sources of Income	100,000
Total Other Sources of Revenue	$102,500
Other Uses - Capital	$1,134,300
Other – Non-cash Appropriations	0
Net Budgetary Deficiency	($143,204)

[1] Amounts obtained from Table 2.

After consideration of all applicable revenues and sources of income to meet the planned capital expenditure needs and the additional budgetary appropriations anticipated by the City, the net deficiency as shown in Table 2 and summarized above is approximately $143,000. As discussed previously, while City staff is internally allocating $1.0 million of reserves for the design of the Public Works Complex, projected cash flows for the year demonstrates that approximately $857,000 of the Public Works Facility design costs may actually be funded from current year revenues while $143,000 could be funded from reserves.

The proposed budget, if achieved, is estimated to reduce the operating cash reserve balance by approximately $143,000 for the year. Based on a projection of the operating reserve fund balance, the System is projected to have an ending unappropriated balance of approximately $2.7 million as of September 30, 2021. This amount includes approximately $1.6 million above the minimum three (3) month (90 days) operating reserve fund requirement established by the City Commission, which has been accrued for future vehicle replacements. Based on recent discussions with City staff, at least $700,000 in vehicle replacements are planned in Fiscal Year 2023, and additional needs have been also identified in Fiscal Year 2026.

Conclusions and Recommendations

Based upon the foregoing information and analyses, we are of the opinion that the City's sanitation system financial operating results based on the proposed Fiscal Year 2021 Budget should provide adequate gross revenues to fund the operating expenses and transfer requirements. However, net revenues for the budget year will not be sufficient to fully fund all of the capital needs of the System as discussed, primarily related to the $1.0 million design costs of the proposed Public Works Complex. As provided for in the proposed Fiscal Year 2021 Budget, the City will need to use approximately $143,000 in operating cash reserves to fund the budgeted expenditures. Based on estimates provided by the City, after the planned use of reserves to meet the Fiscal Year 2021 budgetary needs, the System is estimated to retain operating reserves as of September 30, 2021 in excess of the City's minimum reserve fund requirement, which was accrued for future vehicle replacements.

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Our conclusions are based on the City implementing a 5% sanitation rate increase effective for bills rendered on and after October 1, 2020, and we recommend that the City also implement a 5% annual increase in Fiscal Year 2022 based on the construction timeline for the proposed Public Works Complex. The City should consider updating the Rate Study in Fiscal Year 2022.

We appreciate the opportunity to be of service to the City.

Respectfully submitted,

Raftelis Financial Consultants, Inc.



Murray M. Hamilton, Jr.
Senior Manager



Trevor McCarthy
Consultant

City of Stuart, Florida
List of Tables

TABLE NO.	DESCRIPTION
1	Summary of Proposed Budget and Net Revenues Available for Debt
2	Projected Adequacy of Net Revenues

Table 1
City of Stuart, Florida
Summary of Proposed Fiscal Year 2021 Sanitation Budget

RENEE ACCT	DIVISION	ACCOUNT	-----TITLE-----	TOTAL SOURCES [1]	GROSS REVENUE [2]
420-4200-343300	N/A	343401	RESIDENTIAL GARBARGE	$694,553	Yes
420-4200-343403	N/A	343403	COMMERCIAL GARBAGE	4,563,641	Yes
420-4200-343410	N/A	343410	DELINQUENT GARBAGE FEES	11,500	Yes
420-4200-343420	N/A	343420	TRASH COLLECTIONS	22,000	Yes
420-4200-343910	N/A	343910	UTILITY SERVICE CHARGES	9,100	Yes
420-4200-364000	N/A	364000	DISPOSITION OF FIXED ASSETS	2,500	
420-4200-369100	N/A	369100	MISCELLANEOUS REVENUE	1,250	Yes
420-4200-381107	N/A	381107	TRANSFER FROM STUART CRA	100,000	
420-4200-389972	N/A	389972	FUNDS FR RETAINED EARNINGS [3]	1,000,000	
				$6,404,544	$5,302,044

RENEE ACCT	DIVISION	ACCOUNT	-----TITLE-----	TOTAL USES [1]	OPERATING EXPENSES [2]
420-XXXX-512000	N/A	512	REGULAR SALARIES	$709,147	Yes
420-XXXX-514000	N/A	514	OVERTIME	46,500	Yes
420-XXXX-515000	N/A	515	SPECIAL PAY	18,670	Yes
420-XXXX-521000	N/A	521	FICA TAXES	59,988	Yes
420-XXXX-522000	N/A	522	RETIREMENT CONTRIBUTIONS	81,195	Yes
420-XXXX-523000	N/A	523	LIFE AND HEALTH INSURANCE	188,298	Yes
420-XXXX-524000	N/A	524	WORKERS' COMPENSATION	36,961	Yes
420-XXXX-531000	N/A	531	PROFESSIONAL SERVICES	0	Yes
420-XXXX-534000	N/A	534	OTHER CONTRACTUAL SERVICE	265,545	Yes
420-XXXX-540000	N/A	540	TRAVEL AND PER DIEM	5,600	Yes
420-XXXX-542000	N/A	541 & 542	COMMUNICATION AND FREIGHT	1,800	Yes
420-XXXX-543000	N/A	543	UTILITY SERVICES	1,419,026	Yes
420-XXXX-544000	N/A	544	RENTALS AND LEASES	5,940	Yes
420-XXXX-545000	N/A	545	INSURANCE	34,757	Yes
420-XXXX-546000	N/A	546	REPAIR AND MAINTENANCE	160,000	Yes
420-XXXX-547000	N/A	547	PRINTING AND BINDING	0	Yes
420-XXXX-548000	N/A	548	PROMOTIONAL ACTIVITIES	2,200	Yes
420-XXXX-550000	N/A	550	VEHICLE LEASES	3,080	Yes
420-XXXX-551000	N/A	551	OFFICE SUPPLIES	0	Yes
420-XXXX-552000	N/A	552	OPERATING SUPPLIES	299,407	Yes
420-XXXX-554000	N/A	554	BOOKS,EDUCATION,DUES	5,050	Yes
420-XXXX-555000	N/A	555	TRAINING	0	Yes
420-XXXX-557000	N/A	557	INDIRECT COST ALLOCATION	704,536	Yes
420-XXXX-562&563	N/A	562 & 563	BUILDINGS & INFRASTRUCTURE	1,100,000	
420-XXXX-564000	N/A	564	MACHINERY AND EQUIPMENT	34,300	
420-XXXX-591000	N/A	591	INTRAGOVERNMENTAL TRANSFERS	318,048	
420-XXXX-595000	N/A	595	TRANSFER TO RESERVES	856,796	
				$6,404,544	$4,095,400

Net Revenues Available for Lawful System Purposes:	Proposed Budget
Gross Revenues	$5,302,044
Operating Expenses	4,095,400
Total Net Revenues [4]	$1,206,644

Footnotes:

[1] Amounts provided by City staff on July 27, 2020.

[2] Indicates whether such revenues and/or expenses are associated with the operating results of the enterprise fund.

[3] Funds from Retained Earnings based on the following budgetary information:

Public Works Complex (Design)	$1,000,000
Public Works Construction ($5.5 million delayed to FY22)	0
Projected Transfer from Retained Earnings	$1,000,000

[4] Amount reflects the projected net revenues available to pay for other lawful system purposes after operating expenses.

Table 2
City of Stuart, Florida
Projected Adequacy of Net Revenues - Fiscal Year 2021

LINE NO.	DESCRIPTION	AMOUNT
	PROJECTED SUFFICIENCY OF NET REVENUES:	
	Net Revenues Available After Payment of Debt	
1	Net Revenues Available for Debt [1]	$1,206,644
2	Annual Debt Service Payments [2]	0
3	Total Net Revenues Available After Payment of Debt	$1,206,644
	Less Other Revenue Requirements of the System [1]	
4	Intragovernmental Transfers	$318,048
5	Sub-total Net Revenues After Payment of Required Transfers	$888,596
6	Capital Outlay - Buildings, Infrastructure, Machinery and/or Equipment	1,134,300
7	Projected Revenue Deficiency from Rates	($245,704)
	OTHER SOURCES OF REVENUES:	
	Other Non-operating Revenues [1]	
8	Disposition of Fixed Assets	$2,500
9	Transfer from CRA Fund	100,000
9	Donations from the Public	0
10	Grant Revenues	0
11	Total Other Non-operating Revenues	$102,500
12	USE OF CASH RESERVES TO FUND CAPITAL	($143,204)
	ADDITIONAL APPROPRIATION OF REVENUES / NON-CASH ADJUSTMENTS TO BUDGET	
13	Projected Loans	$0
14	Other Debt and Amortized Costs	0
15	Budget Adjustments	0
16	Total Other Appropriations of Revenues	$0
17	NET TRANSFER FROM RETAINED EARNINGS [3]	($143,204)

Footnotes:

[1] Amount derived from Table 1.

[2] The Sanitation System does not currently have outstanding debt.

[3] Amount reconciles to Table 1 as follows:

Transfers into Reserves from Fund 1790	$856,796
Less Transfers from Reserves to Fund Capital Needs & Operations	1,000,000
Projected Transfer from Retained Earnings	($143,204)