PRMG IS NOW PART OF RAFTELIS

November 13, 2019

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

Subject: **SRF Loan Application and Projected Debt Service Coverage**

Ladies and Gentlemen:

The City of Stuart (the "City") requested that Raftelis Financial Consultants, Inc. (Raftelis) develop a projection of the estimated water and wastewater operating results (the "Analysis") through Fiscal Year 2024 for inclusion in the City's State Revolving Fund (SRF) Loan Application for the Floridan Aquifer Test Production Well FA-1 with an estimated project cost of $2.34 million. The Analysis was prepared based on information provided by City staff, which included the City's Audited Comprehensive Annual Financial Reports, Adopted Operating and Capital Budgets, and assumptions related to the proposed construction and operation of the City's planned Reverse Osmosis (RO) Facility. In addition, the Analysis was predicated upon the City's adopted water and wastewater rates through Fiscal Year 2022 that were established during a rate study that concluded on August 14, 2017 (the "Rate Study").

The Rate Study that concluded on August 14, 2017 was based on a five-year forecast of operating, capital and debt service needs of the water and wastewater systems (the "System") through Fiscal Year 2022. The study identified the need to increase water and wastewater rates over time to meet the net revenue requirements of the System, including the estimated annual debt service payments anticipated to be incurred based on a series of proposed SRF Loans. To date, two (2) of the proposed loans for the water system anion exchange and the engineering and design of the proposed RO Facility have already been approved. This application includes the request to fund the test production well. Based on the Rate Study recommendations, the City Commission adopted a schedule of water and wastewater rates through Fiscal Year 2022 that are necessary to fund the projected revenue requirements of the System, including the proposed SRF Loans. As of the date of this letter, no changes to the schedule of adopted rates through Fiscal Year 2022 are currently proposed; however, the City should consider implementing its annual indexing provision beyond Fiscal Year 2022.

-Remainder of this page intentionally left blank-

In order to satisfy the requirements of the SRF Loan Application, City staff requested that Raftelis update its projection of the estimated net revenues available to pay debt service through Fiscal Year 2024 (the "Projection Period"). The Analysis was predicated on the Rate Study results, but was updated to account for the most recent Adopted Operating and Capital Budgets and revised assumptions regarding the construction and operation of the planned RO Facility. To the extent we have performed our analyses using the data and information obtained from the City, we have relied upon such information to be accurate and no assurances are intended and no representation or warranties are made with respect thereto or the use made herein.

The Analysis is summarized in Pages 7 through 10 of the SRF Loan Application. In addition, the following supporting attachments have been provided to the City for inclusion in the SRF Loan Application:

- Attachment 5 – 2017 and 2018 Comprehensive Annual Financial Reports
- Attachment 6 – Updated Water and Wastewater Financial Forecast

As shown on Page 8 of the SRF Loan Application, the City's actual water and wastewater net revenues exceeded the existing debt service payments, including required coverage, for all prior and parity lien obligations for Fiscal Years 2017 and 2018, which represented the audited periods evaluated.

Based on information provided by City staff, the City is estimated to borrow approximately $2.34 million for the Floridan Aquifer Test Production Well FA-1. Based on an assumed interest rate of 2.5% per year for 20 years and the estimated capitalized interest costs during the construction period, we estimate the proposed annual debt service, including required coverage of 15%, to be approximately $179,000 per year beginning on or after Fiscal Year 2021.

As shown on Page 9 of the SRF Loan Application, the City is projected to have net revenues over the Projection Period above the amount needed to fund the proposed SRF Loan, including required coverage. The amounts shown for each fiscal year are then available to fund the capital needs of the utility system and make the required transfer to the General Fund. The projected net revenues include additional revenue derived from the implementation of the adopted water and wastewater rate increases through Fiscal Year 2022 and an assumed 2% annual rate index in Fiscal Years 2023 and 2024. No additional rate increases were identified for the Projection Period based on the Analysis. Table 15 of Attachment 6 provides a summary of the total annual cash flow for each fiscal year and the estimated year-ending cash reserve fund balances for the period.

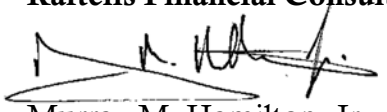
-Remainder of this page intentionally left blank-

Since actual results beyond the date of this letter may be different, we provide no assurance that the projected operating results will actually occur as estimated. We recommend that the City continue to evaluate its water and wastewater rates periodically to ensure they remain adequate to meet the annual needs as planned.

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

Respectfully submitted,

Raftelis Financial Consultants, Inc.



Murray M. Hamilton, Jr.
Senior Manager