AGENDA

SPECIAL COMMISSION MEETING OF THE STUART CITY COMMISSION
SEPTEMBER 14, 2022
AT 5:00 PM
COMMISSION CHAMBERS
121 SW FLAGLER AVE.
STUART, FLORIDA 34994

CITY COMMISSION

Mayor Troy McDonald
Commissioner Becky Bruner
Commissioner Eula R. Clarke
Commissioner Christopher Collins
Commissioner Campbell Rich

ADMINISTRATIVE

City Manager, David Dyess
City Attorney, Michael J. Mortell
City Clerk, Mary R. Kindel

Agenda items are available on our website at http://www.cityofstuart.us
Phone: (772) 288-5306. Fax: (772) 288-5305. E-mail: mkindel@ci.stuart.fl.us

In compliance with the Americans with Disabilities Act (ADA), anyone who needs a special accommodation to attend this meeting should contact the City's ADA coordinator at 772-288-5306 at least 48 hours in advance of the meeting, excluding Saturday and Sunday.

If a person decides to appeal any decision made by the Board with respect to any matter considered at this meeting, he will need a record of the proceeding, and that for such purpose he may need to ensure that a verbatim record of the proceedings is made, which record includes the testimony and evidence upon which the appeal is to be based.

(RC) next to an item denotes there is a City Code requirement for a Roll Call vote.
(QJ) next to an item denotes that it is a quasi-judicial matter or public hearing.

WHAT IS CIVILITY? Civility is caring about one's identity, needs and beliefs without degrading someone else's in the process. Civility is more than merely being polite. Civility requires staying "present" even with those persons with whom we have deep-rooted and perhaps strong disagreements. It is about constantly being open to hear, learn, teach and change. It seeks common ground as a beginning point for dialogue. It is patience, grace, and strength of character. Civility is practiced in our City Hall.

PUBLIC COMMENT: If a member of the public wishes to comment upon ANY subject matter, including quasi-judicial matters, please submit a Request to Speak form. These forms are available in the back of the Commission Chambers, and should be given to the City Clerk prior to introduction of the item number you would like to address.

CONSENT CALENDAR: Those matters included under the Consent Calendar are self-explanatory, non-controversial, and are not expected to require review or discussion. All items will be enacted by one motion. If discussion on an item is desired by any City Commissioner that item may be removed by a City Commissioner from the Consent Calendar and considered separately. If an item is quasi-judicial it may be removed by a Commissioner or any member of the public from the Consent Calendar and considered separately.

QUASI-JUDICIAL HEARINGS: Some of the matters on the Agenda may be "quasi-judicial" in nature. City Commissioners will disclose all ex-parte communications, and may be subject to voir dire by any interested party reg3rding those communications. All witnesses testifying will be "sworn" prior to their testimony. However, the public is permitted to comment without being sworn. Unsworn testimony will be given appropriate weight and credibility by the City Commission.

ROLL CALL

PLEDGE OF ALLEGIANCE

COMMENTS BY CITY COMMISSIONERS

COMMENTS BY CITY MANAGER

APPROVAL OF AGENDA

COMMENTS FROM THE PUBLIC (3 Minutes Max.)

COMMISSION ACTION

1. WATER, WASTEWATER, SANITATION REVENUE SUFFICIENCY STUDY (RATE STUDY) (RC):

RESOLUTION NO. R76-2022; A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF STUART, FLORIDA, ADOPTING THE WATER, WASTEWATER, AND SANITATION REVENUE SUFFICIENCY STUDY, PREPARED AND SUBMITTED BY RAFTELIS DATED SEPTEMBER 14, 2022. PROVIDING FOR AN EFFECTIVE DATE AND FOR OTHER PURPOSES.

DISCUSSION AND DELIBERATION

ADJOURNMENT

CITY OF STUART, FLORIDA
AGENDA ITEM REQUEST
City Commission

Meeting Date: 9/14/2022 **Prepared by:** Timothy Voelker, Janine Wilde

Title of Item:
WATER, WASTEWATER, SANITATION REVENUE SUFFICIENCY STUDY (RATE STUDY) (RC):

RESOLUTION NO. R76-2022; A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF STUART, FLORIDA, ADOPTING THE WATER, WASTEWATER, AND SANITATION REVENUE SUFFICIENCY STUDY, PREPARED AND SUBMITTED BY RAFTELIS DATED SEPTEMBER 14, 2022. PROVIDING FOR AN EFFECTIVE DATE AND FOR OTHER PURPOSES.

Summary Explanation/Background Information on Agenda Request:

The City performed a Water, Wastewater, and Sanitation Revenue Sufficiency Study (Rate Study) through Fiscal Year 2027, which was completed by Raftelis Financial Consultants, Inc. Raftalis will be making a presentation on the following items regarding the completed Rate Study:

1. Background
2. Existing Financial Condition
3. Major Study Assumptions
4. Proposed Funding of the Capital Plan
5. Projected New Debt Service Payments
6. Working Capital Needs / Other Considerations
7. Sufficiency of Existing Monthly Service Rates
8. Evaluation of Cost Recovery Options / Conclusions

Funding Source:

City staff shall prepare a water, wastewater, and sanitation rate resolution for Fiscal Year 2023 that increases the existing monthly rates, fees, and charges by the Florida Public Service Commission (FPSC) Index of 4.53%. The rate resolution shall be presented for the City Commission's approval on September 26, 2022.

Recommended Action:

Adopt Resolution No. 76-2022.

ATTACHMENTS:
1. R76-2022 Adopt Water, Wastewater, Sanitation Revenue Sufficiency Study
2. Rate Study Presentation 9-14-22

BEFORE THE CITY COMMISSION
CITY OF STUART, FLORIDA

RESOLUTION NUMBER 76-2022

A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF STUART, FLORIDA, ADOPTING THE WATER, WASTEWATER, AND SANITATION REVENUE SUFFICIENCY STUDY, PREPARED AND SUBMITTED BY RAFTELIS DATED SEPTEMBER 14, 2022. PROVIDING FOR AN EFFECTIVE DATE AND FOR OTHER PURPOSES.

* * * * *

WHEREAS, the City of Stuart, Florida (City) provides water, wastewater, and sanitation services to certain areas within and without the City Limits; and

WHEREAS, the City has the responsibility to operate its public utilities in a fiscally sound manner; and

WHEREAS, pursuant to increases in operating costs and various planned capital improvement projects, the City performed a Water, Wastewater, and Sanitation Revenue Sufficiency Study (Rate Study) completed by Raftelis Financial Consultants, Inc. (Raftelis) on September 14, 2022. Based on the recommendations of the Rate Study, the City Commission has determined that water, wastewater, and sanitation rates must be adjusted to offset the increased costs and proposed debt service.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF STUART, FLORIDA that:

SECTION 1: Pursuant to the Rate Study recommendations, City staff shall prepare a water, wastewater, and sanitation rate resolution for Fiscal Year 2023 that increases the existing monthly rates, fees and charges by the Florida Public Service Commission (FPSC) Index of 4.53%. The rate resolution shall be presented for the City Commission's approval on September 26, 2022.

SECTION 2: For each fiscal year beyond 2023 (Fiscal Years 2024 through 2027), City staff shall monitor the actual operating results of each utility system when compared to the planning estimates included in the Rate Study. City staff shall prepare an annual budget for each utility system based on City staff's findings and provide recommendations to the City Commission.

SECTION 3: Before October 1, 2023, and each October 1 thereafter, City staff shall prepare an updated rate resolution in each fiscal year for consideration by the City Commission that funds the approved expenditures included in the budget.

SECTION 4: This resolution shall take effect on adoption.

(The remainder of this page intentionally left blank)

Commissioner ____________ offered the foregoing resolution and moved its adoption. The motion was seconded by Commissioner ____________ and upon being put to a roll call vote, the vote was as follows:

	YES	NO	ABSENT	ABSTAIN
MERRITT MATHESON, MAYOR				
TROY MCDONALD, VICE MAYOR				
BECKY BRUNER, COMMISSIONER				
EULA R. CLARKE, COMMISSIONER				
MIKE MEIER, COMMISSIONER				

ADOPTED this 14th day of September, 2022.

ATTEST:

____
MARY R. KINDEL
CITY CLERK

____
MERRITT MATHESON
MAYOR

APPROVED AS TO FORM
AND CORRECTNESS:

____
MICHAEL J. MORTELL, ESQ.
CITY ATTORNEY

City of Stuart

Water, Wastewater, and Sanitation Revenue Sufficiency Study

Presented on September 14, 2022

RAFTELIS

Background

- The City completed a comprehensive rate study in 2017 to evaluate the adequacy of utility rates to pay for system operations, major capital repairs & upgrades, and ongoing replacement of fleet & equipment

- The City Commission adopted the rate study recommendations estimated to fully fund the needs of each utility system through FY22
  - The rate study results included the following strategic initiatives:
    - Development of a new reverse osmosis (RO) water treatment plant
    - Construction of a new public works complex
    - Continued expansion of the wastewater system through septic to sewer conversions

Background (cont.)

- As the adopted water, wastewater, and sanitation rates were implemented from FY18 through FY22, the overall planning assumptions were updated
  - The estimated RO water treatment plant cost increased from $10.1 million to approximately $26.5 million
  - The estimated cost of the public works complex also increased from $4.5 million to approximately $12.5 million

- City staff have been monitoring the program changes to help identify alternative funding sources or strategies
  - To offset a portion of the increased RO costs, City staff obtained several grant awards and state appropriations, including a portion of debt forgiveness under the state revolving fund (SRF) loan program
  - To avoid the higher costs of a new public works complex, City staff are evaluating the feasibility of upgrading the existing vehicle maintenance facility at a cost of approximately $6.0 million

Background (cont.)

- Ongoing challenges
  - Maintain service reliability and safeguard public health and safety by maintaining or replacing aging infrastructure, fleet and equipment
  - Increase service capacity to meet the needs of new development and redevelopment
  - Meet regulatory requirements
- City staff have identified several capital improvements that need to be addressed over time
  - Replacement of the water reclamation facility (WRF) headworks, turbo blowers, and clarifier basins
  - Construction of RO well no. 2 to increase service reliability / resiliency
  - Replacement of aging fleet (a process that has been complicated by supply chain delays and overall cost increases due to market conditions)

Study Objective and Tasks

- Based on the updated planning criteria, City staff requested that Raftelis evaluate the sufficiency of utility rates over the next five years
  - Primary study tasks:
    - Develop a financial forecast through FY27, including a projection of:
      - Customers and revenues
      - Operating expenses and required transfers
      - Capital improvement requirements and funding
      - Existing and future debt service payments
    - Estimate the revenue requirements to be recovered from monthly service rates
    - Identify the need for rate adjustments during the study period

Discussion Topics

- Existing Financial Condition
- Major Study Assumptions
- Proposed Funding of the Capital Plan
- Projected New Debt Service Payments
- Working Capital Needs/ Other Considerations
- Sufficiency of Existing Monthly Service Rates
- Evaluation of Cost Recovery Options / Conclusions

Existing Financial Condition

- Sanitation System
  - Operating Cash & Investment Balances - $4.7 million (As of 09/30/2021)
    - More than 350 days of Operating Expenses and Transfers
  - FY22 Net Cashflow - $0.7 million
    - Gross Revenues: $5.6 million
    - Operating Expenses & Transfers: $4.6 million
    - Fleet Replacement & Equipment: $0.3 million

- Water and Wastewater System
  - Operating Cash & Investment Balances - $15.5 million (As of 09/30/2021)
    - More than 500 days of Operating Expenses and Transfers
  - FY22 Net Cashflow - ($0.2) million
    - Gross Revenues: $14.0 million
    - Operating Expenses & Transfers: $10.4 million
    - Existing Debt Service Payments: $2.2 million
    - Capital Funded from Rates: $1.6 million

- The current FY22 and proposed FY23 budgets served as the primary basis for the projected results over the study period among other planning assumptions provided by City staff

Major Study Assumptions

Projection of Revenues

- Existing revenues based on year-to-date results
  - Sanitation revenues below budget - ($0.3) million
  - Water and wastewater revenues above budget - $0.3 million

- Projected revenue growth of approximately 1% per year on average
  - Includes a decrease in the assumed connection rate for infill growth within the existing sewer basins (from 90 to 50 connections per year by FY27)

- Existing and future sewer expansion fee revenues used to fund the purchase of new grinder systems as connections are assumed to be made
  - Requires additional funding from operating reserves over the study period since most installment payments are made over 10-years

- Miscellaneous income generally held constant

Projection of Operating Expenses

- Based on the current FY22 & proposed FY23 Budgets
  - Proposed amounts include recent increases in tipping fees, fuel costs, labor expenses, and repairs and maintenance

- Expenses increased beyond FY23 as follows:
  - Labor: 3% per year [*]
  - Health Insurance: 4% per year
  - Workers' Compensation & Liability Insurance: 3% per year
  - Utility & Fuel Costs: 5% per year
  - Disposal Costs: 6% per year
  - Repairs & Maintenance Expenses: 3% per year
  - All other costs based on CPI or 2.4% per year on average

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[*] City staff's recommendation to meet the State's Minimum Wage Mandate. City staff's initial assessment showed the need for a 3.25% adjustment in FY27.

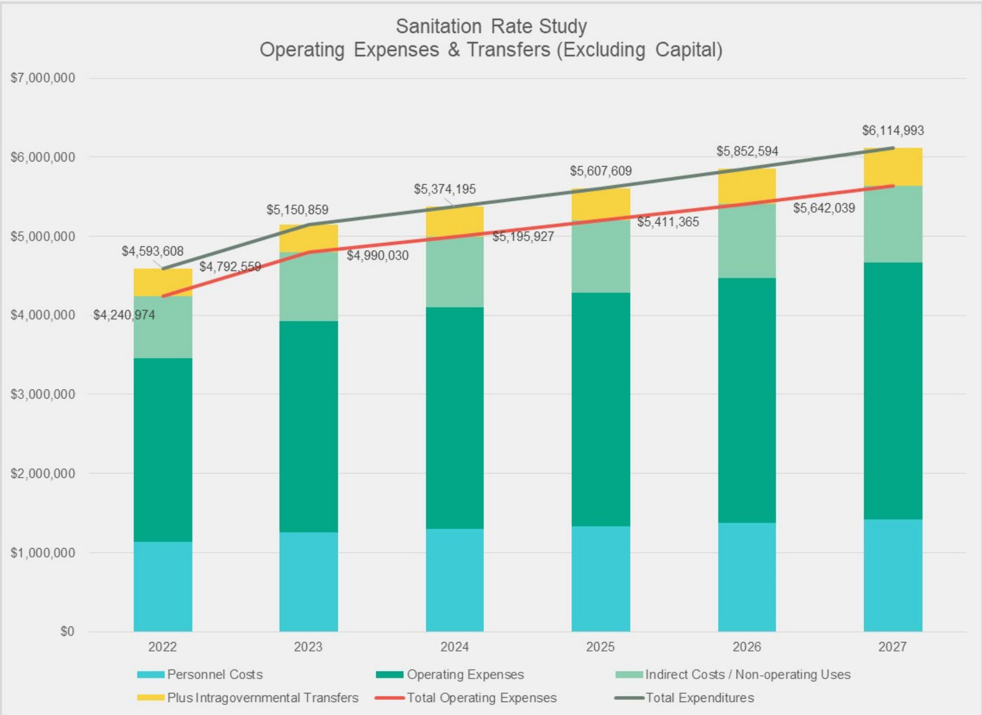
Projection of Operating Expenses (cont.)

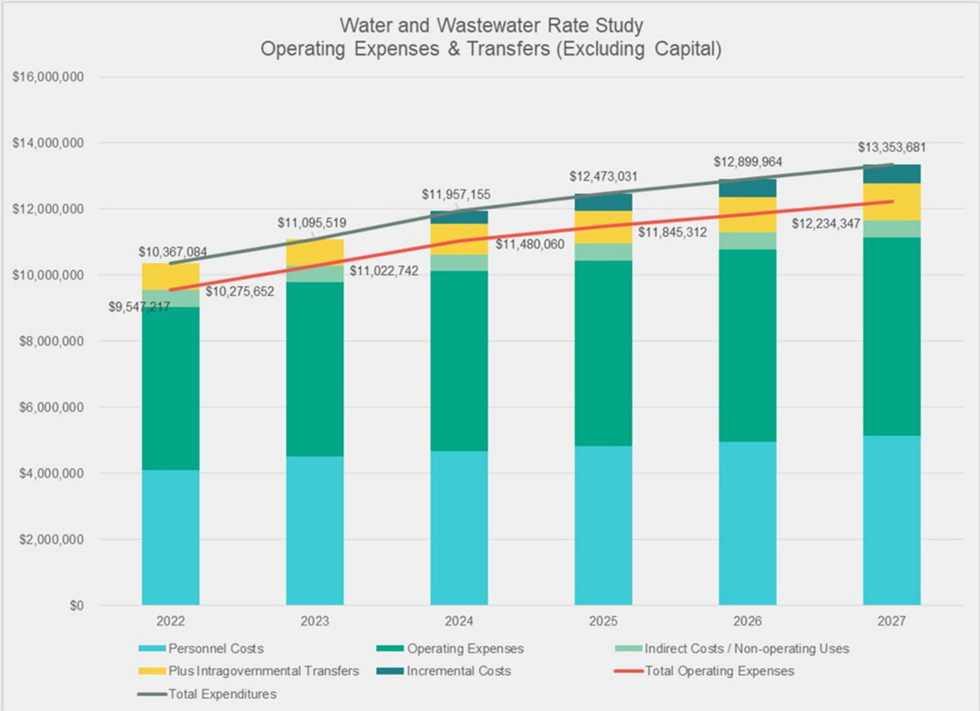
- Additional / incremental operating expenses assumed based on:
  - RO water treatment plant operation beginning in January 2024 at $410,000 per year and increasing to $447,000 by FY27
    - This includes two water plant personnel and increased operating costs
      - Instrumentation & Control Technician (1)
      - Utility Maintenance Worker (1)
  - Additional staffing needs FY24 of $107,000 per year:
    - WRF Utility Management Team Leader (1)
    - Distribution / Collection Utility Service Worker (1)

Projection of General Fund Transfers

- Based on the current FY22 & proposed FY23 Budgets or approximately 6.0% of Gross Revenues
  - Sanitation: $350,000 per year
  - Water and Wastewater: $820,000 per year

Projection of Expenses & Transfers





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Capital Improvement Program

- Sanitation: $16.8 million through FY27 [*]
  - Includes $12.5 million for public works complex (Base Case)
    - *We also examine an alternative based on a $6.0 million upgrade to an existing facility*
  - Capital plan primarily includes vehicle replacements
  - Established an informal Vehicle Replacement Fund with a current balance of $550,000 and funded $550,000 per year from rates based on the planned expenditures

- Water & Wastewater: $55.9 million through FY27 [*]
  - $26.5 million for RO water treatment plant improvements
  - $8.5 million for RO well no. 2 to provide reliability / resiliency
  - $7.4 million for WRF headworks, turbo blower, and clarifier basin replacements
  - $3.1 million for grinder systems for septic to sewer conversions
  - Force Main Replacements for Sailfish Phase II and Monterey Road
  - Additional amounts to fund recurring renewals and replacements of other system assets, infrastructure, fleet, and equipment

[*] Amounts as provided by City staff were adjusted to include a 3% annual allowance for construction inflation.

Projected New Debt Service Payments

- Proposed future water and wastewater debt
  - Series 2022 SRF Loan (DW430450) – Water Treatment Plant Improvements
    - $21.3 million in project costs after $5.3 million in grants, state appropriations, debt forgiveness and use of water availability fees
    - 20 years at 0.04% annual interest (actual)
    - $1.1 million annual payment beginning in May 2024 (actual)
  - Series 2025 SRF Loan – RO Well No. 2
    - $7.7 million in project costs after using $0.8 million of water availability fees
    - 20 years at 2.5% annual interest (assumed)
    - $0.5 million annual payment beginning in FY28 (assumed)
  - Series 2025 SRF Loan – WRF Turbo Blowers
    - $3.3 million in project costs
    - 20 years at 1.0% annual interest (assumed)
    - $0.2 million annual payment beginning in FY28 (assumed)

Projected New Debt Service Payments (cont.)

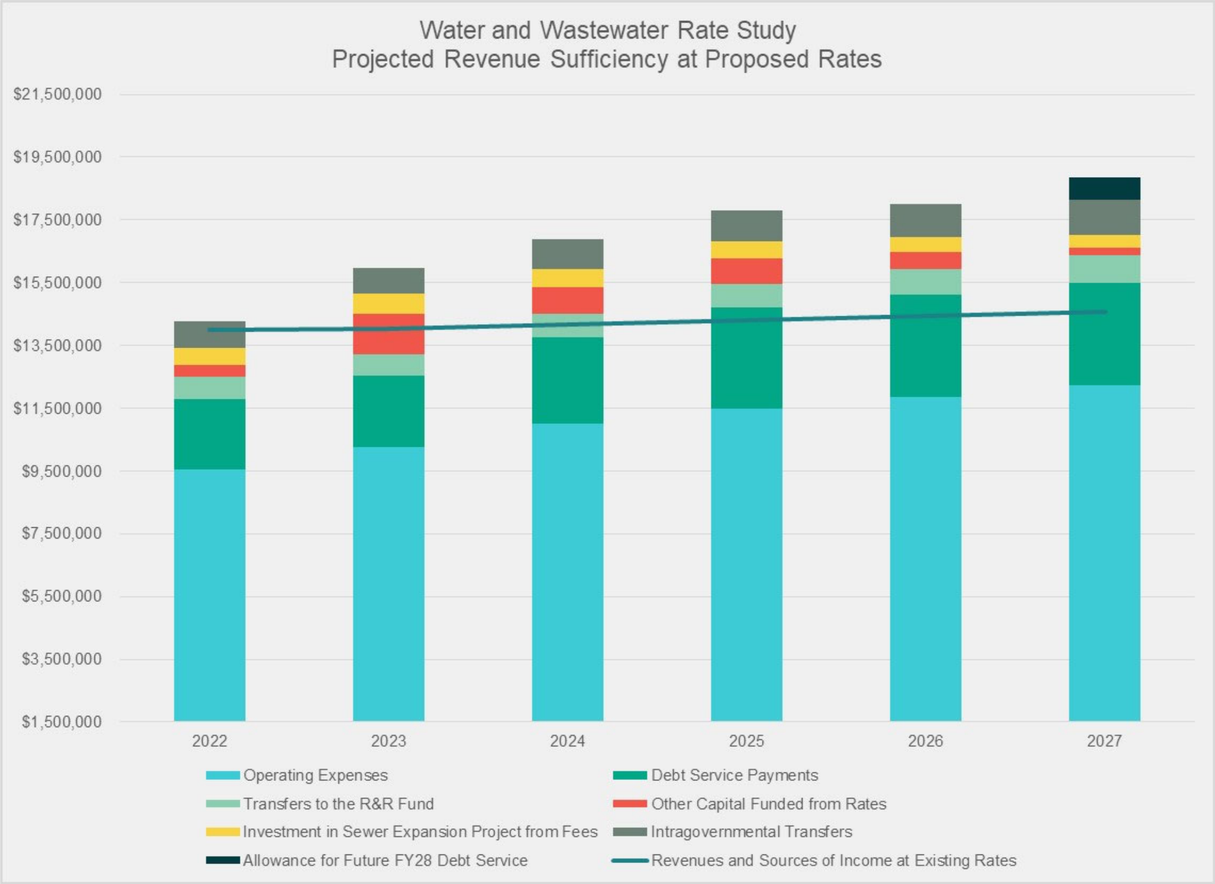
- Proposed future sanitation debt
  - Base Case (New Facility)
    - Series 2024 Bank Loan
      - $10.9 million in project costs after using $2.5 million in reserves
      - 15 years at 3.75% annual interest; 2-years capitalized interest
      - $1.2 million annual payment beginning in FY26
  - Alternative (Existing Facility Upgrade)
    - Series 2024 Bank Loan
      - $4.2 million in project costs after using $2.2 million in reserves
      - 10 years at 3.50% annual interest; 2-years capitalized interest
      - $0.7 million annual payment beginning in FY26

Study Considerations

- The proposed rates should meet the following criteria:
  - Fully fund the operating and capital requirements of each utility over the study period
  - Maintain at least 180 days of annual operating expenses and required transfers to provide:
    - Adequate working capital to meet the operating needs of each system
    - A contingency to respond to natural disasters or other unforeseen events
  - Comply with the minimum debt service coverage requirements
- Current reserves above the 180 day target were used to phase in the rate adjustments over the study period

Summary of Rate Study Results

Projected Adequacy of Existing Rates



Water and Wastewater Rate Increases

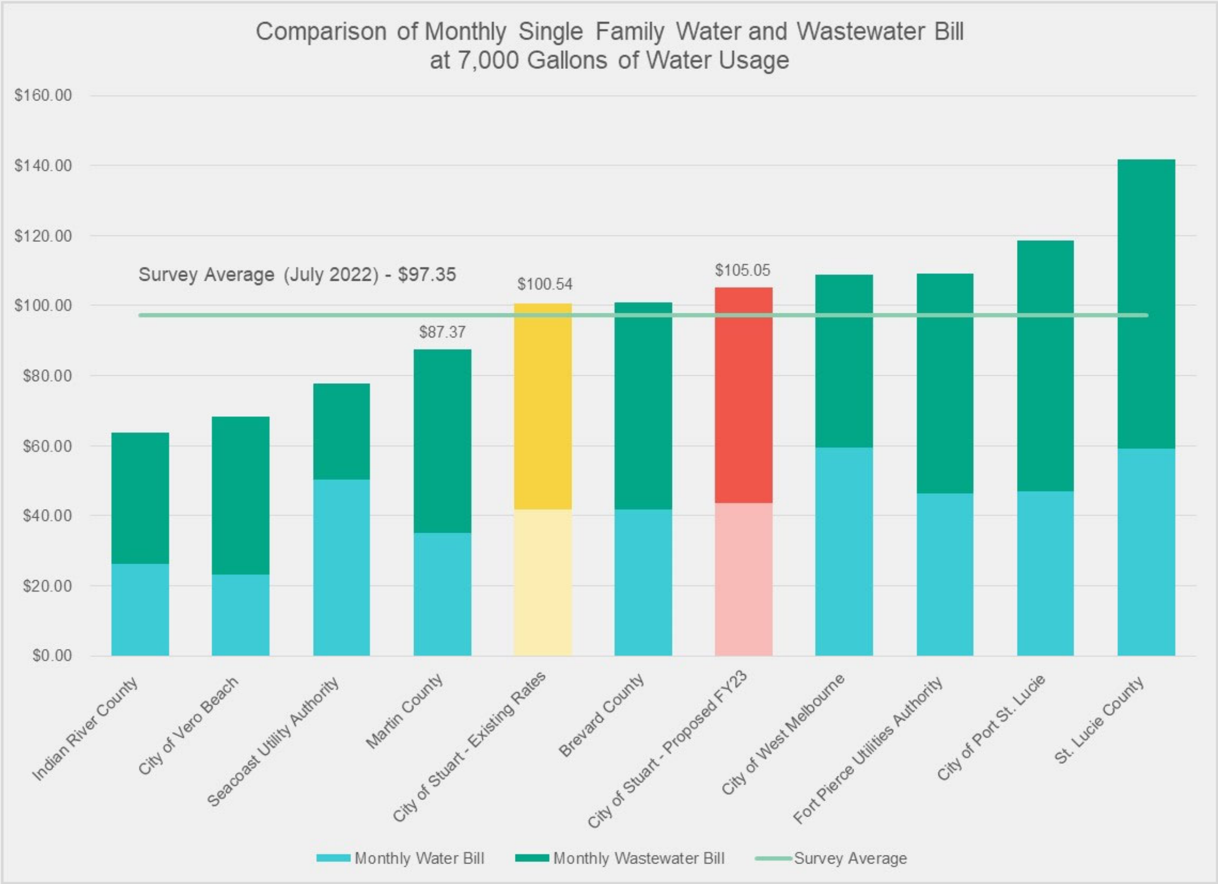
Description	Existing	FY23	FY24	FY25	FY26	FY27
Fully Funded Capital Plan includes Debts 1, 2 and 3		**Actual Index**				
Percent Rate Increase		4.53%	5.50%	5.50%	5.50%	5.50%
Increase in Residential Water and Wastewater Bill (7,000 Gallons)		**$4.51**	**$5.74**	**$6.06**	**$6.48**	**$6.78**
Existing/Projected Residential Bill	$100.54	$105.05	$110.79	$116.85	$123.33	$130.11
Operating Reserve – Days of Expenses & Transfers		409	346	298	253	180
Minimum Required Reserve		90	90	90	90	90

The City maintains an automatic indexing provision based on the Florida Public Service Commission (FPSC) Index.

For FY23, we recommend implementing the 4.53% index beginning on and after October 1, 2022.

For each year beyond FY23, City staff should monitor the actual operating results when compared to the rate study estimates and prepare a proposed annual budget based on City staff's findings. An update to the rate resolution should be prepared each year for consideration by the City Commission.

Comparison of Residential Water and Wastewater Bills



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Projected Adequacy of Existing Rates

Sanitation Rate Adjustments

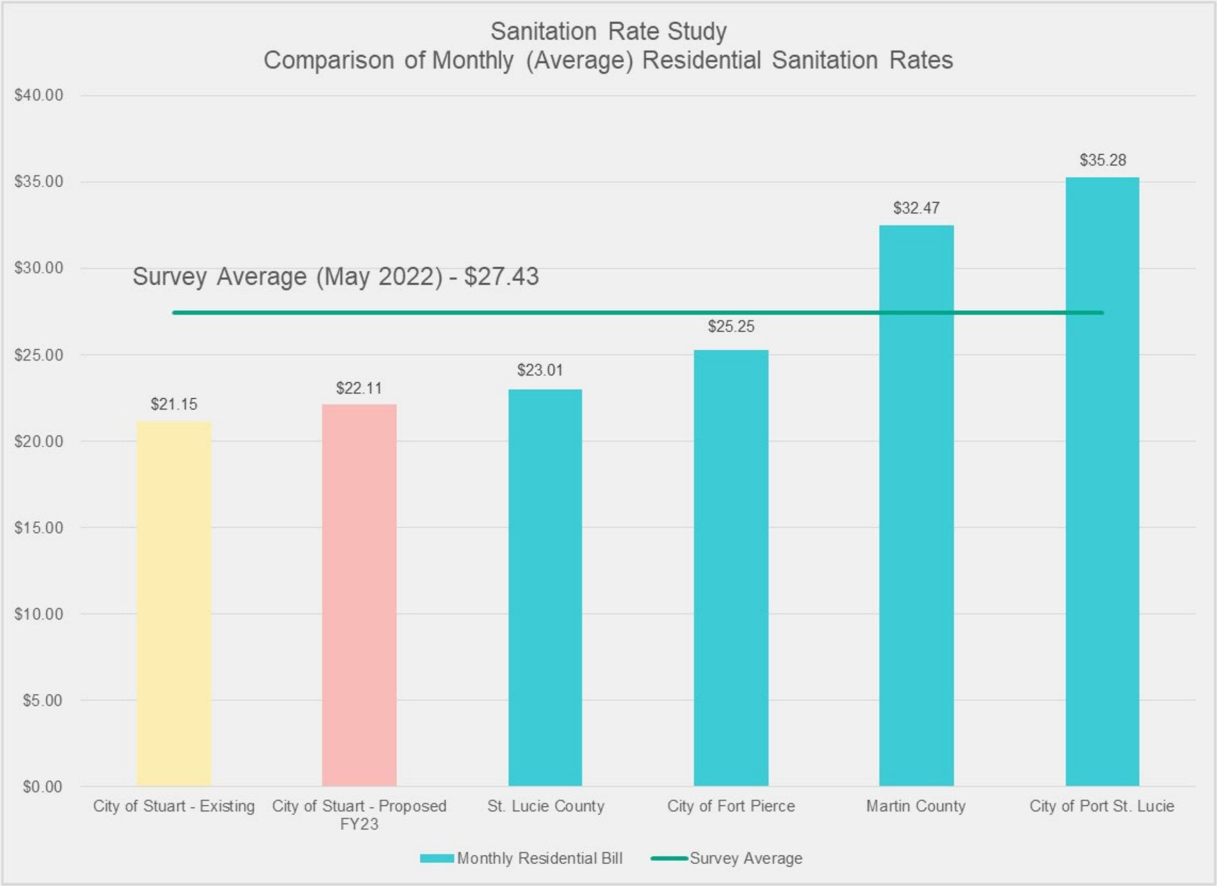
Description	Existing	FY23	FY24	FY25	FY26	FY27
Base Case (New Facility)		**Actual Index**				
Percent Rate Increase		4.53%	6.25%	6.25%	6.25%	6.25%
Increase in Monthly Residential Bill (1st Cart)		**$0.96**	**$1.38**	**$1.47**	**$1.56**	**$1.66**
Existing/Projected Residential Bill	$21.15	$22.11	$23.49	$24.96	$26.52	$28.18
Operating Reserve – Days of Expenses & Transfers		356	309	273	201	196
Minimum Required Reserve		90	90	90	90	90
Alternative (Existing Facility Upgrade)		**Actual Index**				
Percent Rate Increase		4.53%	4.25%	4.25%	4.25%	4.25%
Increase in Monthly Residential Bill (1st Cart)		**$0.96**	**$0.94**	**$0.98**	**$1.02**	**$1.06**
Existing/Proposed Residential Bill	$21.15	$22.11	$23.05	$24.03	$25.05	$26.11
Operating Reserve – Days of Expenses & Transfers		356	322	270	207	201
Minimum Required Reserve		90	90	90	90	90

The City maintains an automatic indexing provision based on the Florida Public Service Commission (FPSC) Index.

For FY23, we recommend implementing the 4.53% index beginning on and after October 1, 2022.

For each year beyond FY23, City staff should monitor the actual operating results when compared to the rate study estimates and prepare a proposed annual budget based on City staff's findings. An update to the rate resolution should be prepared each year for consideration by the City Commission.

Comparison of Residential Sanitation Bills



Conclusions

- The City's existing water, wastewater and sanitation rates are not adequate to meet the projected expenditure requirements of each system through FY27

- The City Commission should consider increasing the monthly service rates for water, wastewater and sanitation service based on the 4.53% FPSC Index beginning with bills rendered on or after October 1, 2022
  - The proposed rates for FY23 are competitive when compared to neighboring utility systems for similar services

- For years beyond FY23, City staff should monitor the actual operating results for each utility system when compared to the rate study estimates
  - An annual budget should be prepared based on City staff's findings and recommendations to the City Commission
  - Before October 1, 2023, and each October 1 thereafter, City staff should prepare an updated rate resolution in each fiscal year for consideration by the City Commission that funds the approved expenditures included in the budget

- The City should consider updating this study if actual results are significantly different from the estimates provided in this analysis or at least within five years

Q&A

Thank you!

Contact: Murray Hamilton or Trevor McCarthy
407 628 2600