

The City of Boca Raton Long-Range Financial Plan

The City develops a long-range financial plan to assist management in the planning and allocation of resources to achieve the City Council goals of maintaining a financially secure city government.

The City updates its long-range financial plan each year after the completion of the annual financial audit and prior to the adoption of the annual budget. Therefore, the amounts shown in the long-range financial plan for 2009 are shown as projections and do not agree with the budgeted amounts reflected in the other sections of this document.

GENERAL FUND

LONG-RANGE FINANCIAL PLAN RESULTS AND CONCLUSIONS

The Plan, Table I, predicts that our current revenue base will not support the City's existing quality and mix of

municipal services through the year 2012. The Plan model is a "baseline" projection; that is, future revenues and expenditures are estimated based on the City's current sources of revenue and level of services. The operating impact of additional recreation parks in FY 2009 and a new downtown library in FY 2010 have been included in this Plan.

This Plan provides us with an opportunity to change or influence current policies and practices before they create critical fiscal strains on the budgetary fabric. The best informed, fiscally sensitive decisions will be those deliberated with their longer-term implications in mind. To that end, we periodically update the Plan for the City Council.

Table I
Long Range Financial Plan
General Fund
(in thousands)

| | Actual 2007 | Budget 2008 | 2009* | Projected 2010 | 2011 | 2012 |
|--|------------------------|------------------------|--------------|---------------------------|-------------|-------------|
| Property Taxes (less 7% in 09) | \$ 53,791 | \$ 49,856 | \$ 44,227 | \$ 45,112 | \$ 46,014 | \$ 46,934 |
| Utility Taxes | 20,247 | 19,890 | 20,487 | 21,101 | 21,734 | 22,386 |
| Franchise Fees | 13,295 | 13,740 | 14,127 | 14,526 | 14,936 | 15,359 |
| Licenses and Permits | 14,159 | 7,919 | 7,125 | 7,337 | 7,556 | 7,781 |
| Intergovernmental | 11,076 | 10,622 | 10,075 | 10,233 | 10,395 | 10,561 |
| Fees, Charges, other | 11,502 | 11,067 | 11,725 | 12,312 | 12,927 | 13,574 |
| Fines | 1,090 | 1,175 | 1,221 | 1,268 | 1,317 | 1,368 |
| CRA Reimbursements | | | 3,045 | 3,197 | 3,357 | 3,525 |
| Interest | 3,037 | 2,500 | 2,060 | 2,122 | 2,185 | 2,251 |
| Resources Forward | | | 2,792 | 2,885 | 2,992 | 3,160 |
| Sub Total | \$ 128,197 | \$ 116,769 | \$ 116,885 | \$ 120,092 | \$ 123,414 | \$ 126,899 |
| Beginning Reserves | 38,658 | 50,640 | 38,853 | 33,850 | 23,823 | 9,881 |
| Total Revenue Funds Available | \$ 166,855 | \$ 167,409 | \$ 155,737 | \$ 153,942 | \$ 147,238 | \$ 136,780 |
| Personal Services (Wages & Benefits) | \$ 76,350 | \$ 78,929 | \$ 84,454 | \$ 90,366 | \$ 96,691 | \$ 103,460 |
| Other | 30,293 | 28,805 | 29,780 | 30,524 | 31,287 | 32,069 |
| Supplies | 2,746 | 3,147 | 3,226 | 3,306 | 3,389 | 3,474 |
| Capital | 692 | 587 | 655 | 704 | 672 | 688 |
| Major new CIP projects with op impact | | - | 206 | 566 | 566 | 729 |
| Transfers to other funds net | 6,134 | 17,088 | 3,568 | 4,653 | 4,752 | 4,880 |
| Designations/planned fund balances | 6,833 | 19,689 | 19,022 | 19,845 | 20,569 | 21,363 |
| Total Expenditures | 123,048 | 148,244 | 140,910 | 149,964 | 157,925 | 166,662 |
| Available (shortfall) for future years | \$ 43,807 | \$ 19,164 | \$ 14,828 | \$ 3,978 | \$ (10,688) | \$ (29,882) |

* 2009 has been adjusted for weakened economic activity

Boca Raton has enjoyed financial growth over recent years. Two recent annexations have proved financially beneficial with more revenues received than being expended. The City is attracting new businesses and commercial development is expanding. The commercial real estate vacancy rate is in the single digits. Property values in Boca Raton have reached over \$20.4 billion dollars and property tax rates are one of the lowest in the State of Florida, for cities of comparable size.

Boca Raton became the first city or county in Florida to receive the highest credit rating from all three credit rating agencies. All three rating agencies recently reaffirmed the triple A rating for General Obligation Bonds of the City.

Standard & Poor's, in announcing their affirmation, stated "the upgrade reflects the continuing substantial growth in local economic base, as well as the City's consistently strong financial performance." Other rating factors reflect the City's:

- Wealth and income levels, with per capita income levels at more than 216% of the state's and nation's averages combined with low unemployment
- Low tax rates with tremendous tax rate flexibility, and
- Low debt burden with a manageable capital improvement program
- Participation in West Palm Beach-Boca Raton MSA

All three credit rating agencies have recognized the City of Boca Raton's commitment to provide superior quality of life and services to the residents of the City while at the same time maintaining a strong financial position with a very low property tax rate. This accomplishment is something that all residents of the City should be very proud of.

In January 2008 the Water and Sewer finances were reviewed with the issuance of the 2008 Water and Sewer Revenue and Refunding Bonds. Standard & Poor's upgraded the credit rating from AA+ to AAA. Fitch Ratings reaffirmed the AAA on the issue while Moody's Investor Services maintained the aa¹. Again, the mission of the City of Boca Raton is to provide the highest quality of service to the community through responsible use of public resources to enhance our unique quality of life.

Maintenance of Current Mix and Level of Services

The decline of property values in FY 2009 combined with the recent approval of Amendment 1 to the Florida Constitution will result in limited resources to the City over the life of this Plan. Reserves built up by the City may be used to offset this shortfall. The Plan assumes property assessments will decrease by 7% in the FY 2009 proposed budget. The Plan also assumes \$2.3 million of

assessment value will be removed from doubling the homestead exemption related to Amendment 1.

In future years, the Plan anticipates that current assessments to grow at a 2.5% rate over the time span of the Plan. This will not provide the mix and level of services identified in the 2008 adopted budget. Operating costs for any major new park facilities have been included in the Plan. Other new programs will need to provide a revenue stream to meet their financial obligations.

Revenue and Expenditure Growth

The Plan projects expenditure growth rate will not match revenues. Projected revenues and expenditures for the forecast period are expected to grow at lower overall levels than have been experienced recently. It is this conclusion which leads to the expectation that during the Plan years, revenue growth will not cover a moderate growth in operating expenditures.

The two recent General Obligation Bond Issues for library facilities and fire station projects are nearing completion. The new Spanish River Library opened in early 2008. Land acquisition for the new downtown library is complete and an architect is completing the design of the downtown library. Only Fire Station No. 5 is remaining to be renovated and this will be completed in FY 2009.

Adjustments to Property Tax Millage

The City decreased the ad valorem millage rate by 7.88% to meet State mandated reductions in property taxed used to fund the FY 2008 General Fund budget.

For tax year 2007-2008, the County Property Appraiser certified the City's taxable assessed value for operations amount of \$20.4 billion. This is an increase of \$583,751,897 in the City's tax base over last year. Of this increase, \$198,408,370 represented new construction and \$385,343,527 related to re-assessments. The City has the highest assessed valuation of any municipality in Palm Beach County and the lowest property tax millage.

RECOMMENDATIONS

Maintain Recommended Fund Balance

The rating agencies have recognized the City's history of having strong fund balances. It is essential that fund balance be maintained and not used as a revenue source when new programs are added without an offsetting revenue source. At the end of the prior fiscal year, the City has accumulated a strong fund balance. However in the current fiscal year, several capital projects including the renovation of Fire State No. 5 a portion of the construction of a new Downtown Library and other capital projects are being funded with a transfer of \$9.5 million from General Fund Reserves.

The landfall of six hurricanes in Florida the last few years provided a tough lesson to most communities on the potential effects of our environment. Having a strong fund balance enabled the City to quickly react to emergencies and to provide for debris removal. This was done without cutting or curtailing programs or the need to borrow funds to maintain operations pending receipt of recovery funds from federal and state agencies.

Explore additional annexations

Future annexations of high-end assessed property requiring few additional services will significantly increase the revenue stream necessary to maintain a stable financial future. The City needs to examine areas that would benefit future City finances without diminishing future resources. The two most recent annexations have added substantial revenue without significant costs to operations.

Explore Other Fees for Services

With a substantial decrease in property taxes forecast over the first year of the Plan and the reality of drawing down our existing fund balance, the City needs to recover all costs related to providing services. This would include instituting a fee for the collection of garbage. This is a normal fee in almost all cities and a charge in the unincorporated areas of Palm Beach County.

Our fire assessment fee has helped to offset ongoing increased costs of operating fire services, but this fee needs to increase to more properly reflect the cost of fire services. The City has for the last two fiscal years assessed a small portion of the cost of providing fire services in the City to property owners of the City. These fire assessments have been collected through the uniform method of collection using the non-ad valorem process. That is, it is collected by the County as part of the annual property tax process, and remitted back to the City by the County.

The City performs substantial administrative services for the Greater Boca Raton Beach and Park District. These services include hiring personnel, paying employees, paying bills, procuring all materials/services and other services. The City should be reimbursed for providing these services.

Be Very Selective About Service Additions

The addition of new on-going programs should be matched with a new or alternative source of revenue or should be “traded off” with an existing program of equal size and growth parameters. It is essential that City Council consider service expansion cautiously, especially outside of the formal annual budget development process.

Continue Emphasis on Efficient use of Existing Resources

Performance measurements, management studies, and other budgetary control measures are among the ways that the City has placed new emphasis on the efficient use of existing resources. Staff recommends continued emphasis on priorities and trade-offs when making budget decisions.

Continue Emphasis on Finding Effective Cost Containment Measures

Staff should continue to bring forward cost containment measures aimed at mitigating the trend lines of some of the more escalating expenditure items. Recent union negotiations with general employees have reduced pension costs in the future by adding a defined contribution option plan for all new hires. Over the long term this should reduce pension costs for general employees.

Continue Evaluations of Long-Term Effects of Decisions

It is essential that City Council place a continuing emphasis on evaluating the long-term fiscal impacts of their decisions and, where possible, match future significant long-term service costs with an appropriate and reliable funding source. The cost of Public Safety has placed a heavy burden on future City finances with pension and pay issues for the City to remain competitive. The City must be very cautious over these Public Safety union negotiations, but balance their costs with the need to attract and retain quality employees.

Continue Evaluation of Comprehensive Cost Recovery Objectives

Good progress has been made in several fee-supported programs. Revenue and expenditure match-ups are improving where re-thinking and re-negotiating have taken place. Staff recommends continued development and monitoring of cost recovery approaches already in place, and suggests that changes in cost recovery goals and objectives be conscious decisions with the relevant revenue and expenditure information at hand, and that the City continue to examine new areas for cost recovery via service fees.

CONCLUSION

There are external factors outside of the control of the City Council, which may significantly affect the City's ability, even with a prudent financial plan, to continue to provide the highest quality of service.

This is the twelfth update of the City's Long-Range Financial Plan. Our objective was to provide the City Council, management, and the citizens of Boca Raton with prudent financial planning to enable future leaders to make decisions, which will benefit future residents while maintaining the high quality of life that our citizens expect. It is our mission to provide the highest quality of service to the community through responsible use of public resources to enhance our unique quality of life.

GENERAL FUND**REVENUE AND EXPENDITURE
ASSUMPTIONS**

This section covers the revenue and expenditure assumptions for the General Fund from 2008 through 2012. It begins with a summary of overall revenue and expenditure assumptions. It is followed by detailed discussions with in-depth explanations of the changes expected to occur over the next five years for selected revenue categories compared to historical performance and expenditure classifications. Graphs and tables are included to better illustrate and explain results.

Overall Results

Table II provides the history of General Operating Fund from 2003 - 2007 and the five-year average growth rates for the major revenue classifications.

Table II
General Operating Fund History
(in thousands)

| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>Average Growth</u> |
|----------------------|-------------|-------------|-------------|-------------|-------------|---------------------------|
| Property taxes | \$ 29,994 | \$ 32,318 | \$ 37,441 | \$ 45,877 | \$ 53,791 | 14.5% |
| Utility taxes | 20,821 | 19,717 | 20,276 | 20,504 | 20,247 | -0.1% |
| Franchise fees | 7,985 | 8,765 | 9,829 | 13,136 | 13,295 | 11.1% |
| Licenses and permits | 5,746 | 6,362 | 8,996 | 10,873 | 14,159 | 24.4% |
| Intergovernmental | 8,967 | 9,852 | 16,102 | 30,764 | 11,076 | 20.0% |
| Fees, charges, other | 9,404 | 10,277 | 10,620 | 10,442 | 11,502 | 8.8% |
| Fines | 1,125 | 1,174 | 1,272 | 1,550 | 1,090 | 0.8% |
| Interest | 596 | 566 | 810 | 2,102 | 3,037 | 40.7% |
| Total Revenues | \$ 84,638 | \$ 89,031 | \$ 105,346 | \$ 135,248 | \$ 128,197 | 10.6% |
| Expenditures | | | | | | |
| Personal services | \$ 54,155 | \$ 60,427 | \$ 64,940 | 72,749 | 76,350 | 10.2% |
| Supplies/other | 20,372 | 25,282 | 25,794 | 47,384 | 33,039 | 18.0% |
| Capital | 370 | 402 | 1,486 | 1,194 | 692 | 37.9% |
| Transfers | 8,980 | 7,440 | 4,961 | 4,467 | 6,134 | 8.2% |
| Total Expenditures | \$ 83,877 | \$ 93,551 | \$ 97,181 | \$ 125,794 | \$ 116,215 | 10.9% |
| Annual balance | \$ 761 | \$ (4,520) | \$ 8,165 | \$ 9,454 | \$ 11,982 | |

Over the forecast range, General Fund revenues (Table III) are projected to increase at an average annual rate of 1.0% to 5.0%. The Plan is a “baseline” model; thus, the Plan does not include the addition of any new revenues during the forecast period.

Table III

Four-Year Forecast Growth Rates

| <u>REVENUES</u> | Forecast | <u>EXPENDITURES</u> | Forecast |
|---|-----------------------|-----------------------------------|-----------------------|
| Major Revenue Classifications and Categories | <u>4 Year Average</u> | Major Expenditure Classifications | <u>4 Year Average</u> |
| <u>Taxes</u> | | Personal Services | 7.0% |
| Property Taxes | 2.0% | Wages & Benefits | |
| Public Service (Utility) Taxes | 3.0% | Supplies/other | 2.5% |
| Franchise Fees | 3.0% | Capital Outlay | 2.5% |
| | | Transfers: | |
| <u>Licenses & Permits</u> | 3.0% | Right-of-Way Beautification | 2.5% |
| | | Capital Improvement Program | 2.5% |
| <u>State Shared (Intergovernmental)</u> | 1.0% | Non-Ad Valorem Debt | Actual Per Year |
| | | Other Funding | |
| <u>Charges for Services/Contributions/Other</u> | 5.0% | Grants | Per Grant |
| <u>Fines</u> | 4.0% | Designations | Current |
| <u>Interest</u> | 3.0% | | |

TRANSPORTATION FUND

The Transportation Fund is a special revenue fund established to account for the local option gas tax. Gas tax is restricted for roadway program expenditures. The funds are used to fund capital road projects and repay debt service on transportation bonds issued for major capital programs.

Boca Raton receives 13.673% of the municipal distribution, which is the largest distribution to any municipality in Palm Beach County. The City is projecting a 3% growth.

Revenues

Palm Beach County, under Florida Statute 326.025, levies a six (6) cent and a five (5) cent local option tax. Eligible municipalities in the County by Interlocal Agreements receive a distribution based on the following:

| FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|-------------|-------------|-------------|-------------|
| \$2,201,398 | \$2,298,753 | \$2,215,516 | \$2,181,083 |

| | Percentage County | Percentage Municipalities |
|-----------|----------------------|------------------------------|
| Six-cent | 66 2/3 | 33 1/3 |
| Five-cent | 79 | 21 |

Summary

In light of economic conditions relating to highway construction materials, project costs have significantly increased. Existing funds may no longer be sufficient to complete capital projects as scheduled. Since funds are limited, careful consideration must be given toward additional capital projects.

The following formula is used to distribute to the eligible municipalities:

$$\text{Local Distribution} = 30\% \times \frac{(\text{City Population})}{(\text{Sum of Population})} + 70\% \times \frac{(\text{City Lane Miles})}{(\text{Sum of Lane Miles})}$$

**Table IV
Transportation Fund
Long-Range Financial Plan
(in thousands)**

| | <u>Actual</u> <u>2007</u> | <u>Budget</u> <u>2008</u> | <u>2009</u> | <u>Projected</u> | | <u>2012</u> |
|----------------------------|------------------------------|------------------------------|-------------|------------------|-------------|-------------|
| | | | | <u>2010</u> | <u>2011</u> | |
| Revenues (Sources) | | | | | | |
| Local Option Gas Tax | \$2,157 | \$2,282 | \$2,396 | \$2,516 | \$2,642 | \$2,774 |
| Interest | 340 | 200 | 91 | 94 | 98 | 102 |
| sub total | 2,497 | 2,482 | 2,487 | 2,610 | 2,740 | 2,876 |
| Beginning Reserves | 5,880 | 6,046 | 2,271 | 2,242 | 2,373 | 2,767 |
| Total Funds Available | 8,377 | 8,528 | 4,758 | 4,853 | 5,113 | 5,642 |
| Expenditures (Uses) | | | | | | |
| Capital projects | 1,895 | 5,823 | 2,083 | 2,048 | 2,346 | 3,858 |
| debt service | 436 | 433 | 434 | 433 | - | - |
| Total Expenditures | 2,331 | 6,256 | 2,516 | 2,480 | 2,346 | 3,858 |
| Available for future years | \$6,046 | \$2,271 | \$2,242 | \$2,373 | \$2,767 | \$1,785 |

BEAUTIFICATION FUND

The Right-of-Way Beautification Fund is a special revenue fund established to account for a public service (utility) tax levied specifically for the Comprehensive Median Beautification Program established in 1984. Revenues include a 1% utility tax, interest earnings on fund balances, and private donations.

Expenditures include personnel services, operating expenses, supplies, and operating capital outlays associated with maintaining the City’s medians. Currently, there are 18 employees responsible for maintaining the City’s 175.4 miles, or 184 acres of medians.

Revenues

One (1) percent of the utility tax is levied for right-of-way purposes. In keeping with our forecast, a 3% growth rate is used. Interest earnings are forecast using the available

reserve balance. The fund receives donations from developers to be used for beautification funding in the City. This has averaged over \$250,000 annually over the last few years.

Expenditures

Operating expenditures have been forecast using the same projections stated previously in the plan.

Summary

The Right-of-Way Beautification Fund is an area where careful consideration has to be given toward additional projects. Funds are limited and new projects have a direct impact upon capital and operational expenses. Funds will not be available in next year Plan. An additional funding source will need to be identified. The fund is projected to spend more funds by a 1/3 to 2/3 ratio than receipts from the (1) percent utility tax levied for the fund.

Table V

**Right-of-Way Beautification Fund
Long-Range Financial Plan
(in thousands)**

| | <u>Actual</u> <u>2007</u> | <u>Budget</u> <u>2008</u> | <u>2009</u> | <u>Projected</u> <u>2010</u> | <u>2011</u> | <u>2012</u> |
|----------------------------|------------------------------|------------------------------|-------------|---------------------------------|-------------|-------------|
| Revenue (Sources) | | | | | | |
| One percent utility tax | \$2,381 | \$2,340 | \$2,410 | \$2,483 | \$2,557 | \$2,634 |
| Interest | 220 | 155 | 125 | 100 | 50 | 25 |
| Other (includes donations) | 680 | 250 | 260 | 270 | 281 | 292 |
| Sub Total | 3,281 | 2,745 | 2,795 | 2,853 | 2,888 | 2,951 |
| Beginning Reserves | 4,106 | 4,297 | 3,527 | 2,668 | 1,720 | 655 |
| Total Funds Available | 7,387 | 7,042 | 6,323 | 5,521 | 4,608 | 3,607 |
| Expenditures (Uses) | | | | | | |
| Operating | 3,090 | 3,514 | 3,655 | 3,801 | 3,953 | 4,111 |
| Total Expenditures | 3,090 | 3,514 | 3,655 | 3,801 | 3,953 | 4,111 |
| Available for future years | \$4,297 | \$3,527 | \$2,668 | \$1,720 | \$655 | (\$504) |

STORMWATER UTILITY FUND

In June 1994, the City instituted a Stormwater Utility Fee to fund the design, construction, inspection, and maintenance of the City’s separate stormwater system in accordance with the Environmental Protection Agency National Pollutant Discharge Elimination System (NPDES) permit. Forty-five percent (45%) of these fees will be used for maintaining existing drainage systems while the remaining 55 percent (55%) will be used for drainage improvement projects.

Revenue

The Stormwater Utility Fee is collected through a separate line item on City water bills. The fee schedule is as follows:

| | |
|--|-----------------|
| <u>Residential Properties:</u> | \$2.90 per unit |
| <u>Non-Residential Properties:</u> | |
| Square Feet of Impervious Area / 2,837 = Number of ERU’s | |
| Number of ERU’s x \$2.90 = Monthly Fee | |

| Collections (in thousands) | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | <u>FY 2004</u> | <u>FY 2005</u> | <u>FY 2006</u> | <u>FY 2007</u> |
| Stormwater Utility Fee | \$2,018 | \$2,077 | \$2,105 | \$2,070 |

Revenue for the forecast period is projected at one percent (1%) growth rate.

Expenses

Capital expenses are detailed by projects in the CIP and funded from this fund. Maintenance expenses have been projected using the current budget with projections using forecasts established in this Plan.

Summary

The Stormwater Fund will continue to provide funding for stormwater projects in the future.

Table VI
Stormwater Fund
Long-Range Financial Plan
(in thousands)

| | <u>Actual 2007</u> | <u>Budget 2008</u> | <u>2009</u> | <u>Projected</u> | | |
|------------------------------|------------------------|------------------------|----------------|------------------|----------------|----------------|
| | | | | <u>2010</u> | <u>2011</u> | <u>2012</u> |
| Revenues (Sources) | | | | | | |
| Stormwater fees | \$2,070 | \$2,205 | \$2,227 | \$2,249 | \$2,272 | \$2,295 |
| Other | - | 13 | | | | 5 |
| Interest | 277 | 50 | 52 | 53 | 55 | 56 |
| sub total | 2,347 | 2,268 | 2,279 | 2,302 | 2,326 | 2,356 |
| Beginning Unrestricted | 3,553 | 4,684 | 2,598 | 2,990 | 3,234 | 3,696 |
| Total Funds Available | 5,900 | 6,952 | 4,877 | 5,293 | 5,560 | 6,052 |
| Expenditures (Uses) | | | | | | |
| Operating | 924 | 1,299 | 1,247 | 1,309 | 1,374 | 1,443 |
| Capital projects | 292 | 3,055 | 640 | 750 | 490 | 690 |
| Total Expenditures | 1,216 | 4,354 | 1,887 | 2,059 | 1,864 | 2,133 |
| Ending Unrestricted | \$4,684 | \$2,598 | \$2,990 | \$3,234 | \$3,696 | \$3,919 |

GOLF COURSE FUND

The City operates three golf courses, Municipal, Executive, and the Red Reef Course as one enterprise fund. Golf Course operating revenues decreased 7.56% over the prior year. All courses saw increased rounds of play during FY 2007. The Golf Course Fund reported an operating income of \$74,699 in 2007. The graph below illustrates the turn-around of the golf operation after the hurricanes.

The Renewal and Replacement Fund was established in 1996. The \$1.00 user fee for each round of golf played brought in \$189,096 in the last fiscal year. Expenditures

are forecast using the same growth as previously stated in this Plan.

Capital projects are forecast using the Capital Improvements Program. Renovation of the tees, greens and bunkers on the Municipal Course are projected to cost \$1.9 million. The City anticipates issuing revenue bonds to fund these projects in FY 2009.

With all existing bond debt and inter fund advances being extinguished, the fund will be prepared to provide adequate bond coverage to fund debt service on the two renovation projects in 2009.

Table VII
Golf Course Fund
Long-Range Financial Plan
(in thousands)

| | <u>Actual</u> <u>2007</u> | <u>Budget</u> <u>2008</u> | <u>2009</u> | <u>Projected</u> | | |
|--------------------------------|------------------------------|------------------------------|----------------|------------------|----------------|----------------|
| | | | | <u>2010</u> | <u>2011</u> | <u>2012</u> |
| Revenues (Sources) | | | | | | |
| Glades Courses | \$2,095 | \$2,106 | \$2,169 | \$2,234 | \$2,301 | \$2,370 |
| Red Reef Course | 376 | 352 | 363 | 373 | 385 | 396 |
| Interest | 95 | 66 | 67 | 69 | 70 | 71 |
| Other | 256 | 292 | 299 | 305 | 312 | 319 |
| Revenue Bond Issue | | | 1,920 | - | | |
| Renewal and Replacement Fee | 189 | 198 | 202 | 206 | 210 | 214 |
| Beach & Park District | 149 | 200 | 200 | 200 | 200 | 200 |
| sub total | <u>3,160</u> | <u>3,214</u> | <u>5,220</u> | <u>3,388</u> | <u>3,478</u> | <u>3,572</u> |
| Restricted Assets Unrestricted | 1,127 | 1,481 | 1,608 | 1,884 | 1,789 | 1,859 |
| Total Funds Available | <u>4,287</u> | <u>4,695</u> | <u>6,828</u> | <u>5,272</u> | <u>5,267</u> | <u>5,430</u> |
| Expenditures (Uses) | | | | | | |
| Personal Services | 1,540 | 1,627 | 1,692 | 1,760 | 1,830 | 1,904 |
| Supplies and other | 1,038 | 1,096 | 1,124 | 1,152 | 1,180 | 1,210 |
| Renewal and Replacement | 228 | 281 | 207 | 371 | 198 | 173 |
| Capital projects | - | 83 | 1,920 | - | - | - |
| Transfers/Debt Service | - | | | 200 | 200 | 200 |
| Total Expenditures | <u>2,806</u> | <u>3,087</u> | <u>4,943</u> | <u>3,483</u> | <u>3,409</u> | <u>3,487</u> |
| Restricted Assets | <u>\$1,481</u> | <u>\$1,608</u> | <u>\$1,884</u> | <u>\$1,789</u> | <u>\$1,859</u> | <u>\$1,944</u> |

WATER AND SEWER FUND

The City operates its Water and Sewer System (System) as an Enterprise Fund and funds the operations through user fees. The City's service area encompasses approximately 35 square miles and extends beyond the corporate City limits. There are approximately 33,500 accounts including both residential and commercial. Those customers outside the corporate City limits pay a surcharge of 25%.

In the current fiscal year, the City increased its rates by 12% to fund additional operating costs and future capital improvements. Additionally, the rate ordinance continues the annual rate adjustments indexed to the CPI. With respect to the cost of operations for the last three years, the System has absorbed substantial costs that have negatively affected operating margins with many of these expenses not being directly controlled by the City. For example, electricity expenditures for treatment and pumping have increase 15.9% since FY 2005 while insurance and plant chemicals have increased 13.2% and 16.8% respectively. It is anticipated that the increase in cost for these expenditure items will continue to be greater than the annual inflation index.

The gross water and sewer sales decreased from \$37.3 million in 2006 to \$36.7 million in 2007. The Water and Sewer Fund had change in net assets of \$3.9 million for fiscal year 2007. However, operating net income decreased in 2007 by \$3.2 million from 2006. The decrease resulted from a \$2.4 million increase in expenses, including fuel, electricity, personal services, and depreciation expenses.

In February 2008, the City issued \$40,040,000 Water and Sewer Revenue Refunding and Improvement Bonds, Series 2008 to finance the construction of several capital projects and refund a portion of the 2001 Water and Sewer Revenue Improvements Bonds. With the recent bond issue, all three rating agencies reviewed the City's financial and other information. The City received an AAA rating from Fitch Ratings and Standard & Poor's on the issue. The other credit rating agency, Moody's Investor Services maintained aa¹. The City pledged to maintain debt coverage ratios of 1.1 by net revenue and 1.20 by total revenue (where operating revenue exceeds operating expense).

Table VIII

Water & Sewer Fund History
(in thousands)

| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|--------------------|-------------|-------------|-------------|-------------|
| Revenues | | | | | |
| Water sales | \$ 21,939 | \$23,248 | \$22,666 | \$23,982 | \$22,922 |
| Sewer sales | 12,274 | 12,333 | 12,755 | 13,232 | 13,764 |
| Installation | 37 | 102 | 195 | 122 | 108 |
| Other operating | 1,806 | 1,526 | 3,173 | 2,510 | 2,268 |
| Interest ¹ | 1,559 | 1,192 | 922 | 1,754 | 2,972 |
| Gross Operating Revenue | \$ 37,615 | \$ 38,401 | \$39,711 | \$41,600 | \$42,034 |
| Expenses | | | | | |
| Administration | 8,373 | 9,600 | 10,261 | 9,744 | 10,131 |
| Water | 12,295 | 12,622 | 13,360 | 15,030 | 16,230 |
| Sewer | 3,758 | 4,192 | 5,044 | 5,801 | 6,558 |
| Total Operating expenses | \$24,426 | \$26,414 | \$28,665 | \$30,575 | \$32,919 |
| Net Revenues Available | 13,189 | 11,987 | 11,046 | 11,025 | 9,115 |
| Allowable system development charges | 591 | 1,892 | 2,598 | 1,398 | 1,557 |
| Total Revenue | \$13,780 | \$ 13,879 | \$13,644 | \$12,423 | \$10,672 |
| Senior lien debt service, revenue bonds | 7,823 ² | 7,312 | 8,002 | 3,562 | 3,564 |
| Debt Service Coverage | | | | | |
| By net revenues | 1.69 | 1.64 | 1.38 | 3.10 | 2.56 |
| By total revenues | 1.76 | 1.90 | 1.71 | 3.49 | 2.99 |

²A current refunding of outstanding Water and Sewer Revenue Bonds, Series 1992 produced an economic gain (difference between the present value of the old and new debt service payments) of \$825,840. The refunding reduced the debt service payments in fiscal year 2003.

It is assumed that water and sewer revenues will not be affected by growth, and that an across-the-board increase equal to the Consumer Price Index (CPI) for the year ended the previous June 1, will be applied to the rate each October 1.

With the implementation of the 12% water and sewer rate increase in January 1, 2008, the fund should be financially stable over the life of the Plan. The recent bond issue to fund capital projects will allow the water and sewer system to spread the payment of these capital projects over several years. The refunding of the 2001 Water and Sewer Revenue Bonds will provide additional funds for the future.

Recommendation

With the completion of the 40-MGD membrane softening plant, cash reserves were used to offset a substantial portion of the construction cost. Building reserves and minimizing the future impact on rate increases will lessen the need for a long term financing. Annual CPI adjustments will need to be continued.

The City should consider the long-term aspect of permanent restrictions relating to drought conditions and restrictions on water usage. The City may need to consider a drought surcharge during mandatory restrictions that limit water usage.