

City of Panama City

Solid Waste Revenue Sufficiency Study

Presented on September 12, 2022 (Public Hearing)



Summary of Budget Workshop Presentation^[*]

- On August 16, 2022, the City Commission held a public budget workshop to discuss the adequacy of the City's solid waste service rates
- Discussion topics included:
 - › Study observations and major assumptions
 - › Projections of revenues, personnel expenses, and disposal costs
 - › Proposed fleet replacement
 - › Other expenditures to support the needs of new growth
- Two cost recovery scenarios were evaluated and discussed based on proposed rate adjustments for Fiscal Years 2023 through 2027
- At the conclusion of the presentation, City staff requested to hold a public hearing to consider increasing the rates to meet the proposed expenditure requirements

[*] A copy of the Budget Workshop Presentation is included in Attachment A.

Study Considerations

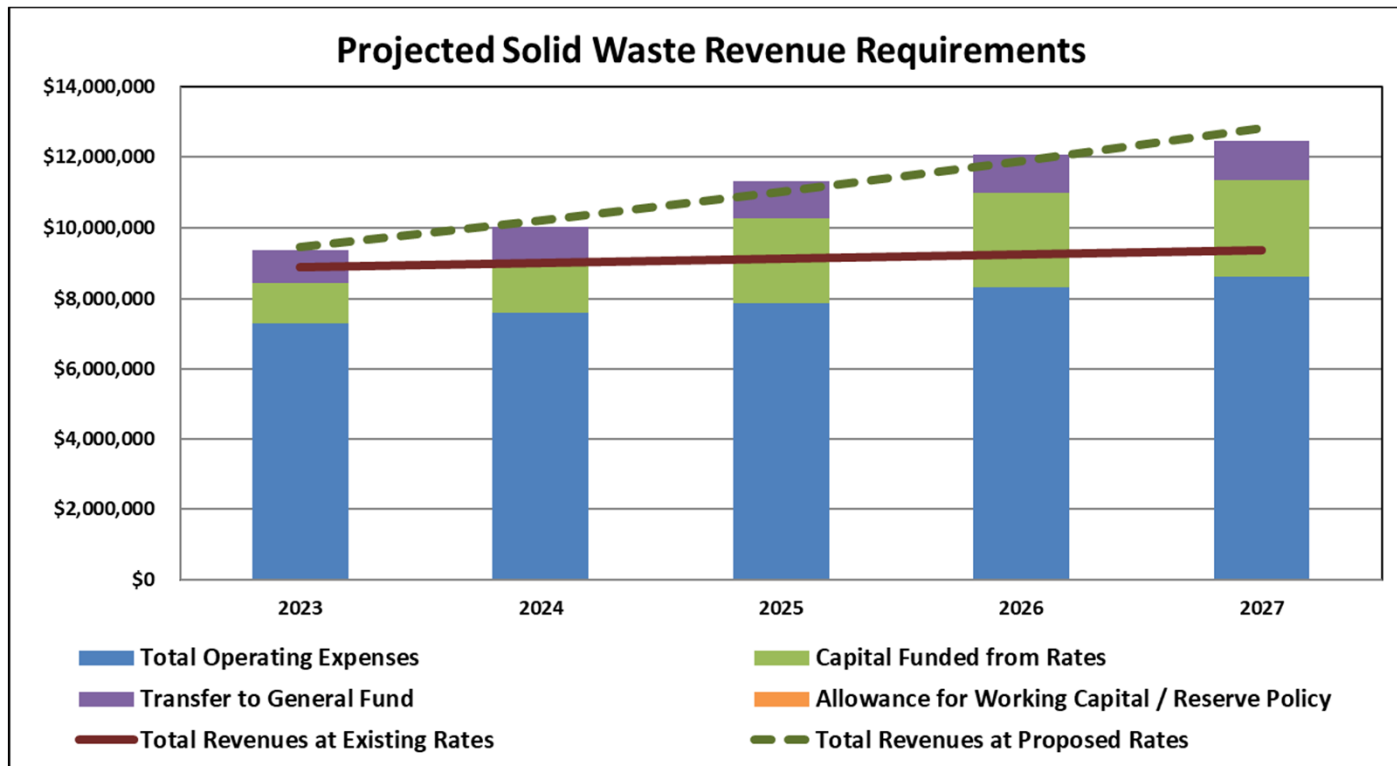
- The proposed rates should meet the following criteria:
 - › Fully fund the operating and capital requirements of the System over the study period
 - › Maintain the City's cash reserve policy of 30% (110 days) of annual expenditures in order to provide:
 - Adequate working capital to meet the operating needs of the System
 - A contingency to respond to natural disasters or other unforeseen events
 - › Phase in proposed rate increases to the extent possible
 - Recognize improvements in financial position compared to the original budget
 - Develop alternative rate plans to minimize customer bill impacts while achieving similar financial results

Identified Rate Increases

Description	Existing	FY23	FY24	FY25	FY26	FY27
Scenario 1						
Percent Rate Increase		6.50%	6.50%	6.50%	6.50%	6.50%
Increase in Monthly Residential Bill (1st Cart)		<u>\$2.18</u>	<u>\$2.32</u>	<u>\$2.47</u>	<u>\$2.63</u>	<u>\$2.80</u>
Existing/Projected Residential Bill	\$33.51	\$35.69	\$38.01	\$40.48	\$43.11	\$45.91
Operating Reserve – Days of Total Expenditures		136	137	115	106	117
Minimum Required Reserve (30%)		110	110	110	110	110
Scenario 2						
Percent Rate Increase		3.00%	8.00%	8.00%	8.00%	8.00%
Increase in Monthly Residential Bill (1st Cart)		<u>\$1.01</u>	<u>\$2.76</u>	<u>\$2.98</u>	<u>\$3.22</u>	<u>\$3.48</u>
Existing/Proposed Residential Bill	\$33.51	\$34.52	\$37.28	\$40.26	\$43.48	\$46.96
Operating Reserve – Days of Total Expenditures		124	118	97	91	112
Minimum Required Reserve (30%)		110	110	110	110	110

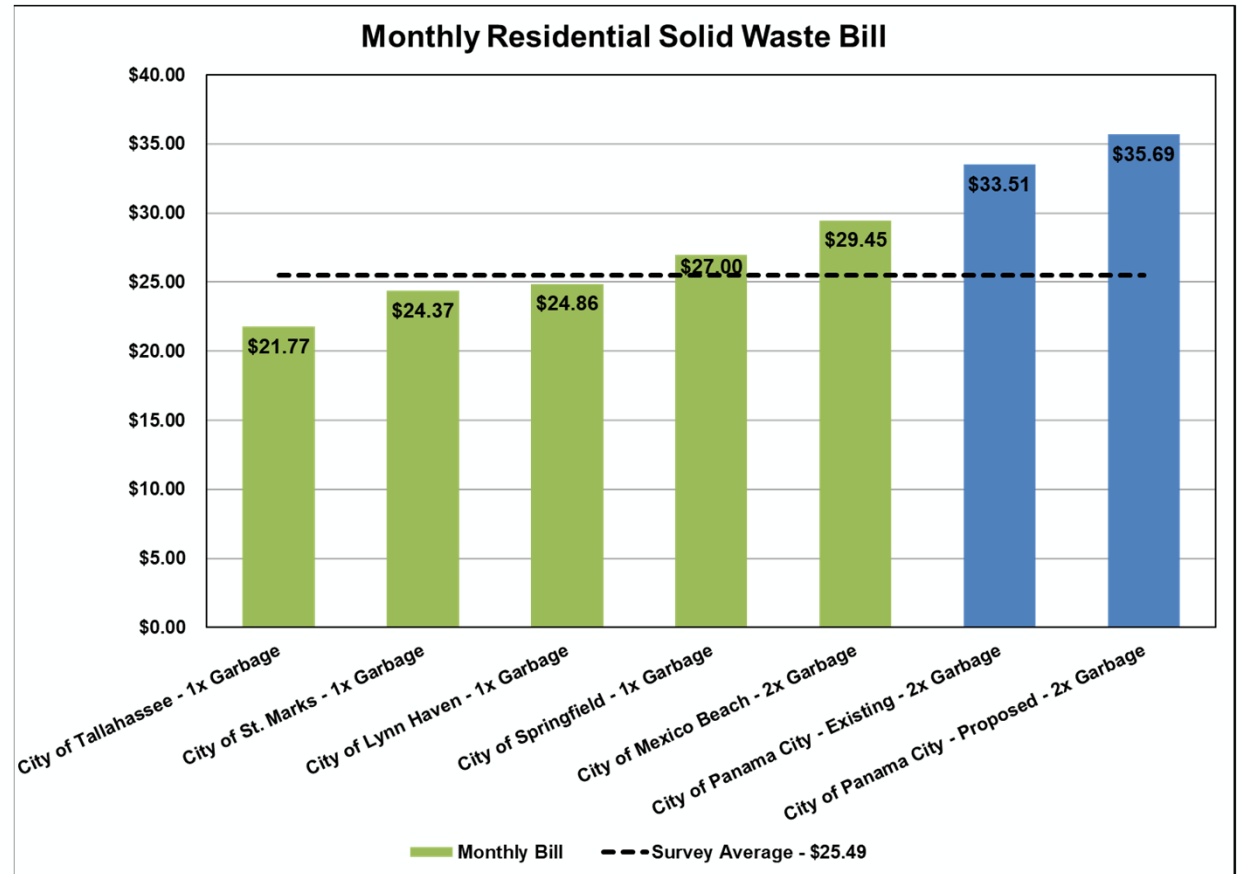
We recommend implementing Scenario 1 beginning on and after October 1, 2022 and each October 1st thereafter.

Revenue Sufficiency at Proposed Rates Under Scenario 1



Solid Waste Rate Comparison

- Reasons why rates are different:
 - › Types and frequency of waste collection (level of service)
 - › Automation of collection services
 - › Fuel source for vehicles
 - › Disposal options and fees
 - › Service area density
 - › Age of fleet



Conclusions & Recommendations

- The existing solid waste rates are not adequate to cover the current cost of operations and maintenance of the System for the Study Period
- The City Commission should consider adopting the proposed rates and fees presented under Scenario 1
 - › This includes moving home-based businesses from the commercial to the residential rates and charges
- The City Commission should consider implementing the proposed solid waste rate increases beginning on and after October 1, 2022 (FY23) and each October 1st thereafter
- The City may want to consider updating the financial forecast within the next 3 years, or when actual results may differ from the projected amounts



Thank you!

Contact: Murray Hamilton, Nick Smith, or Trevor McCarthy
407 628 2600

ATTACHMENT A
BUDGET WORKSHOP
PRESENTATION

City of Panama City

Solid Waste Revenue Sufficiency Study

Presented on August 16, 2022 (Budget Workshop)



Study Objectives / Tasks

- Develop a financial forecast through fiscal year 2027, including a projection of:
 - › Customers and revenues
 - › Operating and disposal expenses
 - › Fleet replacement
 - › Expenditures to meet the needs of new customer growth
- Reaffirm last year's study projections and adjust as required
- Estimate the revenue requirements to be recovered from solid waste rates
- Identify the need for rate adjustments during the study period

Background

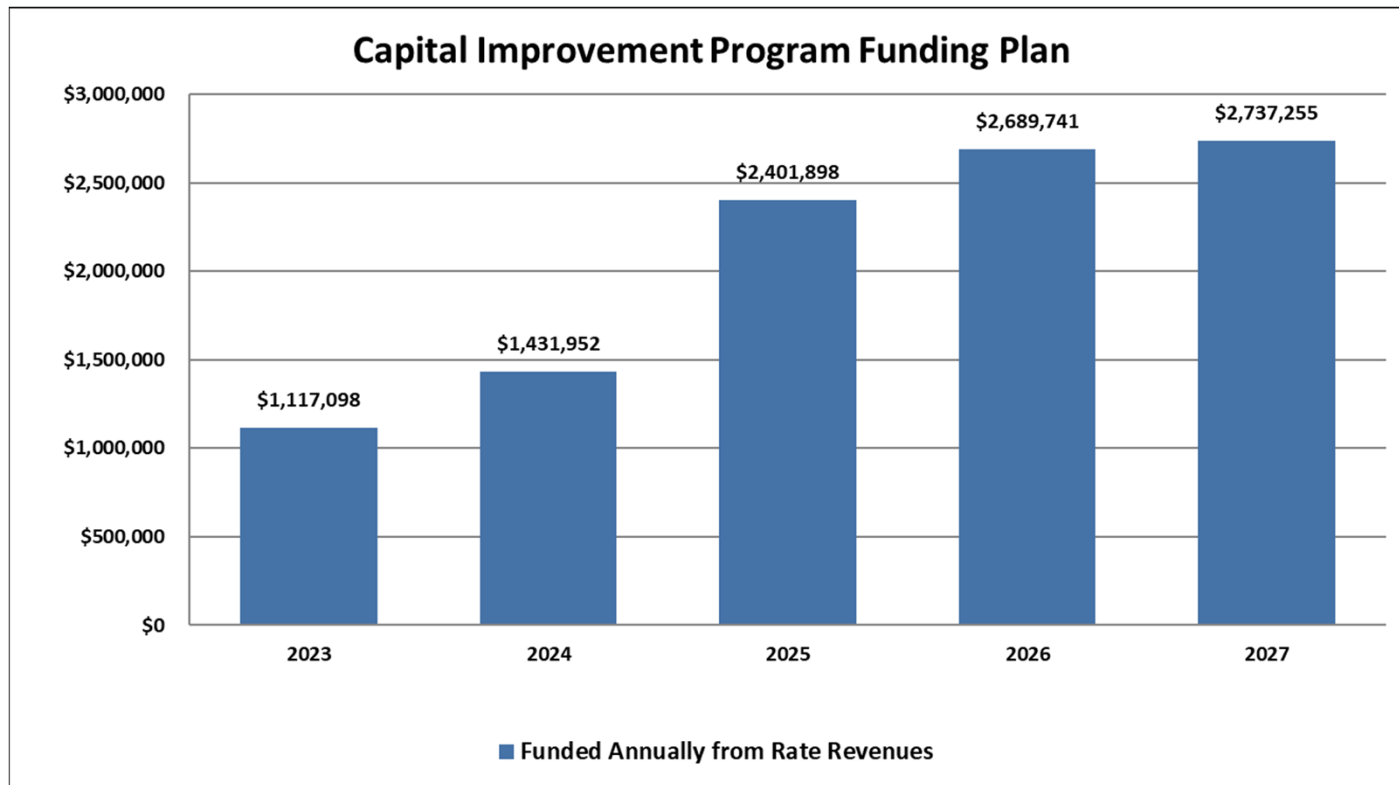
- Last rate study completed in September 2021
- No rate increase was implemented for FY22
 - › Projected annual rate adjustments beyond FY22 estimated at 8% for FY23-24 and 7% for FY25-26
- Based on year-to-date charges, rate revenues for FY23 are projected to be 7.5% greater than previously projected or \$600,000 more for the year
- FY23 budgeted operating expenses are approximately 5% higher than previously projected or \$300,000 more for the year
- Favorable rate revenues provide flexibility in adjusting rates in the near term
- However, fleet replacement costs are estimated to be significantly more than previously projected; an annual average increase of \$600,000 per year
- Solid waste customers have still not returned to pre-Hurricane Michael levels

Existing Conditions – FY2023

Gross Revenues	\$8.8 million
Operating Expenses	\$7.3 million
General Fund Transfer	<u>\$0.9</u> million
Net Available for Capital	\$0.6 million

- The City staff has requested \$1.1 million in capital needs for FY23
- Annual average capital need is approximately \$2.3 million per year FY24-27 primarily for the replacement of the existing fleet over time
 - › This represents a significant increase from prior study assumptions and reflects the increased cost of vehicles
- Projected cash reserves as of 9/30/2022 are estimated at \$3.4 million or 135 days of total expenditures (reserve target is 110 days or 30%)

Projected Capital Expenditures



Summary of Major Study Assumptions

- New customer and revenue growth estimated at 1.4% per year on average based on recent development trends and discussions with City staff
- Operating expenses based on proposed FY23 budget
 - › Includes one new operator position in FY23 and an additional 3 new operators to support the needs of System growth are assumed for FY24-FY27
 - › Indirect expenses allocable from the General Fund to support the System are also accounted for over the study period
 - › Overall operating expenses projected to increase approximately 4.2% per year
 - › Results include allowances for a recently approved mid-year 4.5% labor adjustment beginning July 2022, an additional 3.0% COLA, and increases in health insurance costs in FY23
- Includes a \$75,000 reduction to projected revenues assuming home-based businesses will transition from the commercial rate to the residential rate beginning in FY23

Study Considerations

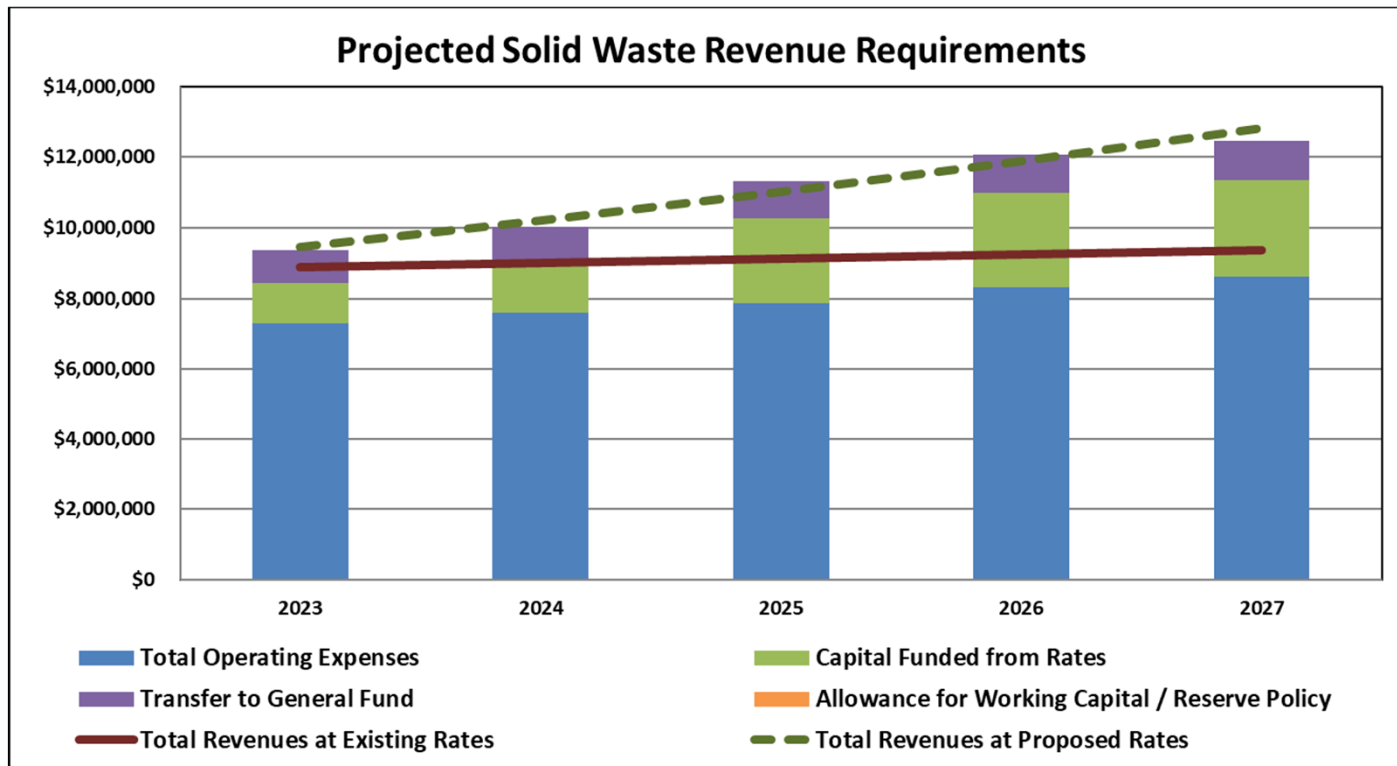
- The proposed rates should meet the following criteria:
 - › Fully fund the operating and capital requirements of the System over the study period
 - › Maintain the City's cash reserve policy of 30% (110 days) of annual expenditures in order to provide:
 - Adequate working capital to meet the operating needs of the System
 - A contingency to respond to natural disasters or other unforeseen events
 - › Phase in proposed rate increases to the extent possible
 - Recognize improvements in financial position compared to the original budget
 - Develop alternative rate plans to minimize customer bill impacts while achieving similar financial results

Identified Rate Increases

Description	Existing	FY23	FY24	FY25	FY26	FY27
Scenario 1						
Percent Rate Increase		6.50%	6.50%	6.50%	6.50%	6.50%
Increase in Monthly Residential Bill (1st Cart)		<u>\$2.18</u>	<u>\$2.32</u>	<u>\$2.47</u>	<u>\$2.63</u>	<u>\$2.80</u>
Existing/Projected Residential Bill	\$33.51	\$35.69	\$38.01	\$40.48	\$43.11	\$45.91
Operating Reserve – Days of Total Expenditures		136	137	115	106	117
Minimum Required Reserve (30%)		110	110	110	110	110
Scenario 2						
Percent Rate Increase		3.00%	8.00%	8.00%	8.00%	8.00%
Increase in Monthly Residential Bill (1st Cart)		<u>\$1.01</u>	<u>\$2.76</u>	<u>\$2.98</u>	<u>\$3.22</u>	<u>\$3.48</u>
Existing/Proposed Residential Bill	\$33.51	\$34.52	\$37.28	\$40.26	\$43.48	\$46.96
Operating Reserve – Days of Total Expenditures		124	118	97	91	112
Minimum Required Reserve (30%)		110	110	110	110	110

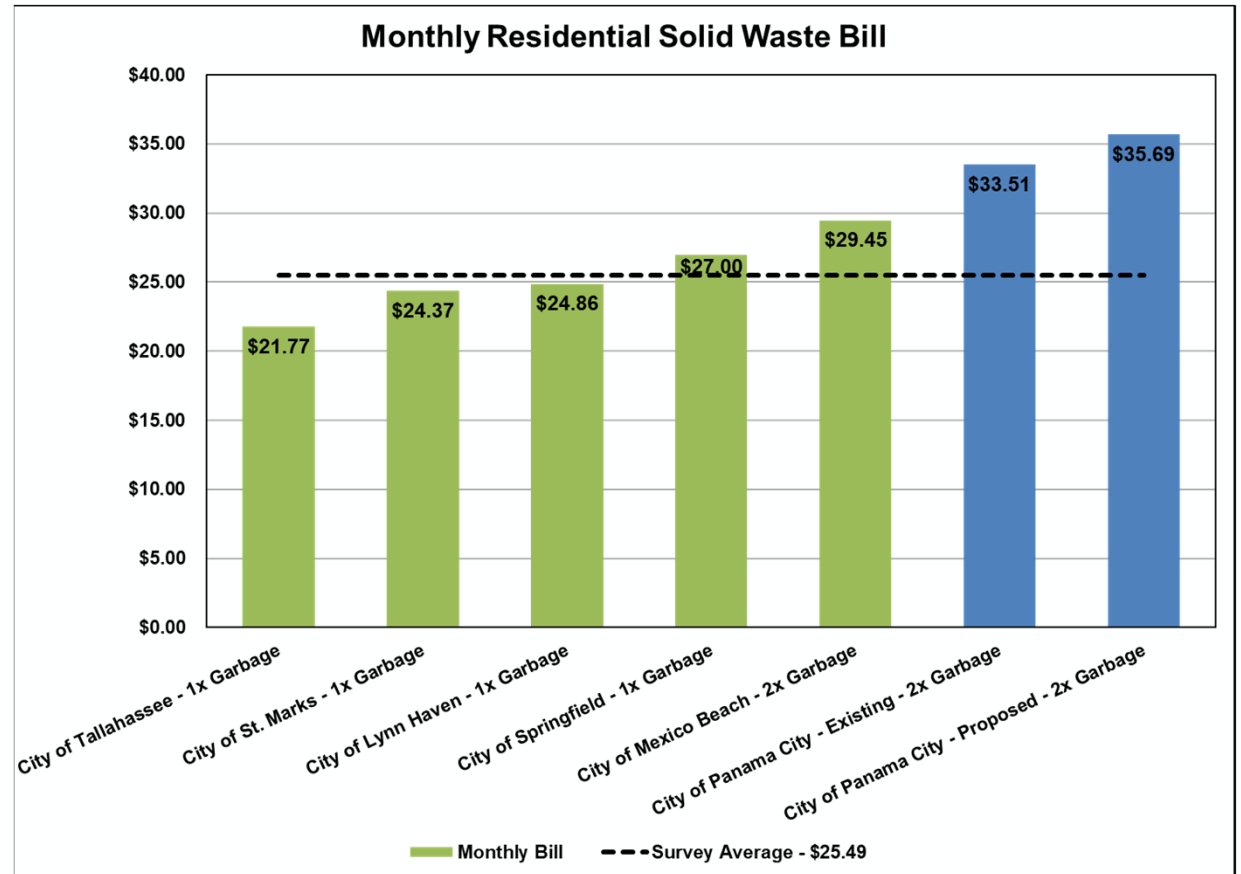
We recommend implementing Scenario 1 beginning on and after October 1, 2022 and each October 1st thereafter.

Revenue Sufficiency at Proposed Rates Under Scenario 1



Solid Waste Rate Comparison

- Reasons why rates are different:
 - › Types and frequency of waste collection (level of service)
 - › Automation of collection services
 - › Fuel source for vehicles
 - › Disposal options and fees
 - › Service area density
 - › Age of fleet



Conclusions & Recommendations

- The existing solid waste rates are not adequate to cover the current cost of operations and maintenance of the System for the Study Period
- The City Commission should consider adopting the proposed rates and fees presented under Scenario 1
- The City Commission should consider implementing the proposed rate increases beginning on and after October 1, 2022 (FY23) and each October 1st thereafter
- We recommend that the City continue to review the sufficiency of rates annually considering the recent levels of inflation and economic uncertainty

Q&A



Thank you!

Contact: Murray Hamilton, Nick Smith or Trevor McCarthy
407 628 2600