180170

# Proposed GRU Budget for FY 2019

## City Commission
July 19, 2018

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# FY19 Budget Proposal

- Prior to FY18 GRU went five years without an electric system revenue requirement (base rate) increase

| ELECTRIC SYSTEM BASE RATE CHANGE | | | | | |
|---|---|---|---|---|---|
| FY12 | FY13 | FY14 | FY15 | FY16 | FY17 |
| 1.72% | 0.00% | -5.60% | -8.50% | 0.00% | 0.00% |

- Projected future revenue requirements in FY18 budget

PROJECTED FUTURE REVENUE REQUIREMENT INCREASES
FY18 BUDGET PRESENTATION - JULY 2017

| | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|
| Electric | 2.00% | 3.00% | 4.00% | 2.00% | 1.00% | 2.00% |
| Gas | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Water | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Wastewater | 0.00% | 0.00% | 0.00% | 4.00% | 4.00% | 1.00% |



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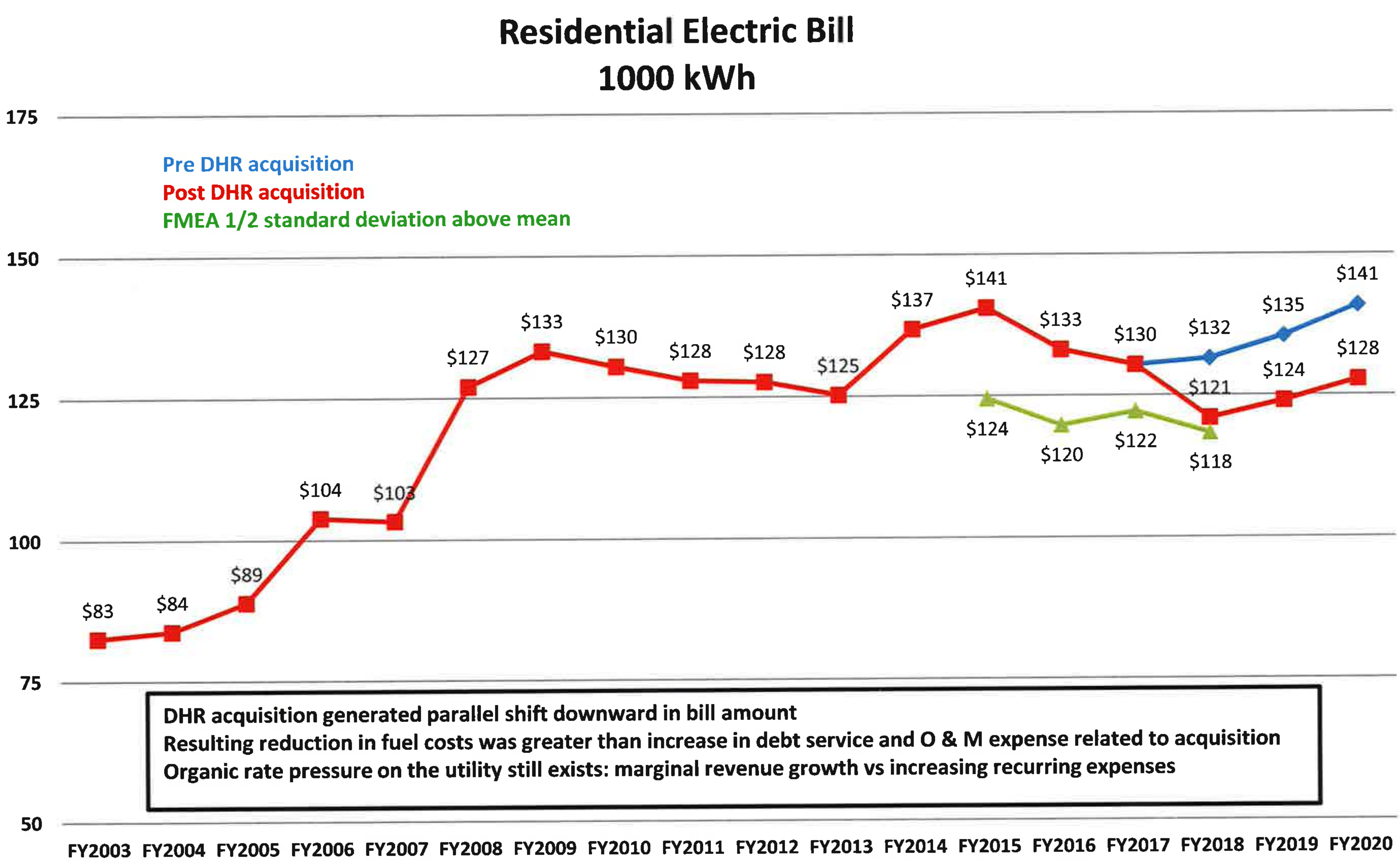
# FY19 Budget Proposal

- DHR transaction reduced bills through fuel adjustment reduction:
  - Fuel adjustment charge fell by 50%
  - Base rate increased to cover debt service expense and DHR operating costs
  - Net result was reduction to electric bills

# FY19 Budget Proposal



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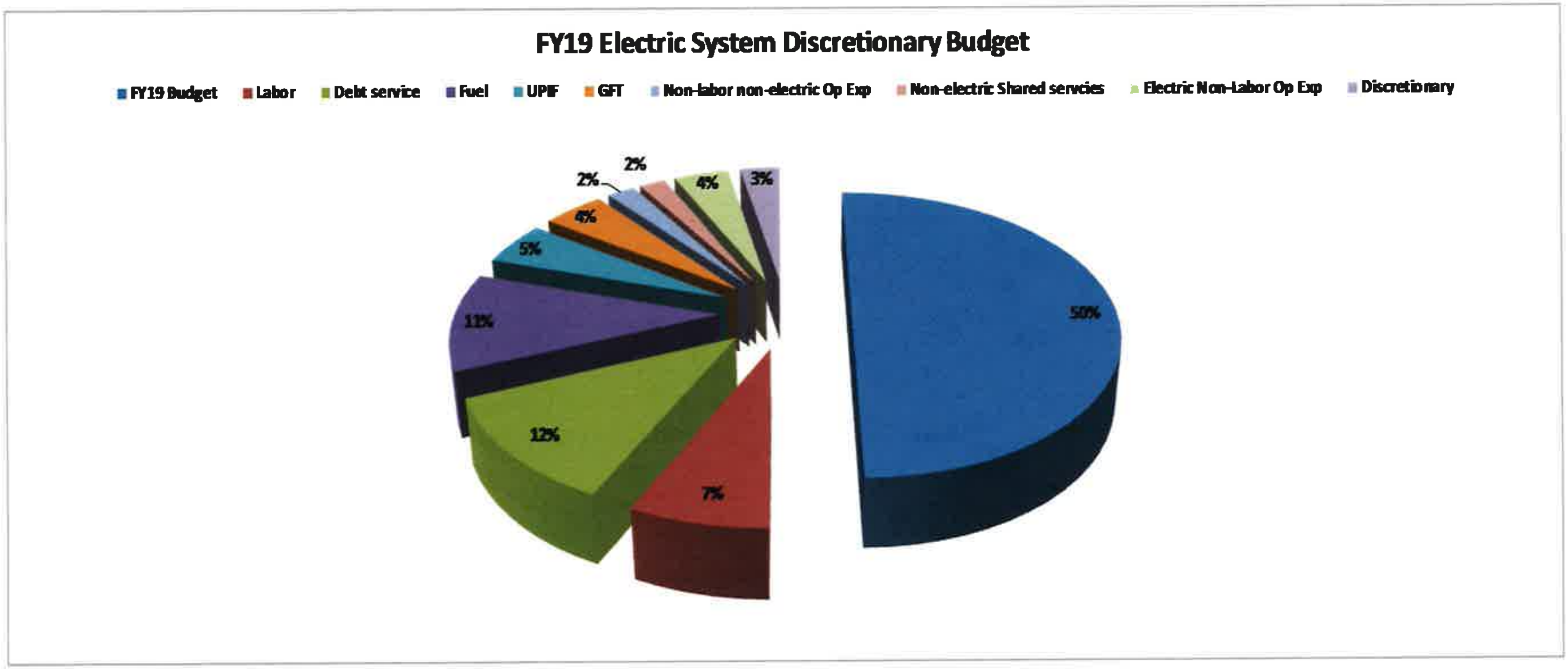
# FY19 Budget Proposal




| | |
|---|---|
| FY19 Budget | 416,937,813 |
| Labor | 58,992,352 |
| Debt service | 98,113,881 |
| Fuel | 92,260,451 |
| UPIF | 41,284,409 |
| GFT | 36,896,488 |
| Non-labor non-electric Op Exp | 16,796,716 |
| Non-electric Shared servcies | 15,803,021 |
| Electric Non-Labor Op Exp | 33,085,958 |
| Discretionary | 23,704,537 |



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# Impact of Potential Rating Downgrade - Summary

- The rating agencies are expecting some level of rate increase for the FY19 budget based on discussions with them for the GREC transaction
- Not meeting these expectations risks, potentially, possible actions from the rating agencies. Each can respond differently:
  - GRU's outlook changes to "Negative" from "Stable"
  - GRU's rating changes to "A+" from "AA-"
- If downgraded, there are cost implications of a downgrade to "A+":
  - Cost of GRU's variable rate debt increases by ~$1.2 million annually due to:
    - Lower ratings trigger higher bank fees for providing the credit facilities that support each series of variable rate debt
    - Lower rating means investors require a higher interest rate on variable rate debt
    - GRU will potentially have to change the type of credit facility that supports each series of variable rate debt to a more costly letter of credit
  - Cost of new fixed rate debt also increases:
    - GRU plans transactions in 2020 and 2023, so the impact (~$0.1 million) will not be felt until 2020.

# Recent Rating Agency Comments

**Moody's**
September, 2017

- A recognized credit strength is the "track record of maintaining solid financial metrics and raising rates when necessary"
- The stable rating outlook reflects our expectation that GRU will maintain fixed charge coverage ratios at 1.4x and will maintain an adequate liquidity profile.
- Factors that could lead to a downgrade include "Deteriorating liquidity profile with adjusted days cash on hand materially below 200 days cash on hand"

**FitchRatings**
August, 2017

- Fitch expects GRU will maintain consistent financial margins and gradually reduce leverage. Failure to reduce leverage to levels more consistent with 'AA' category medians, whether a result of increased transfer payments, insufficient rates or an increase in debt-funded capex could result in downward rating pressure.

**S&P Global**
July, 2018

- The utility anticipates 2% average annual rate increases and the utilization of $42 million in rate stabilization reserves over the next five years. The use of rate stabilization reserves provides temporary rate relief, but it is our opinion that the use of cash reserves over an extended period fails to resolve the utility's budgetary imbalance.

Source: Rating Agencies



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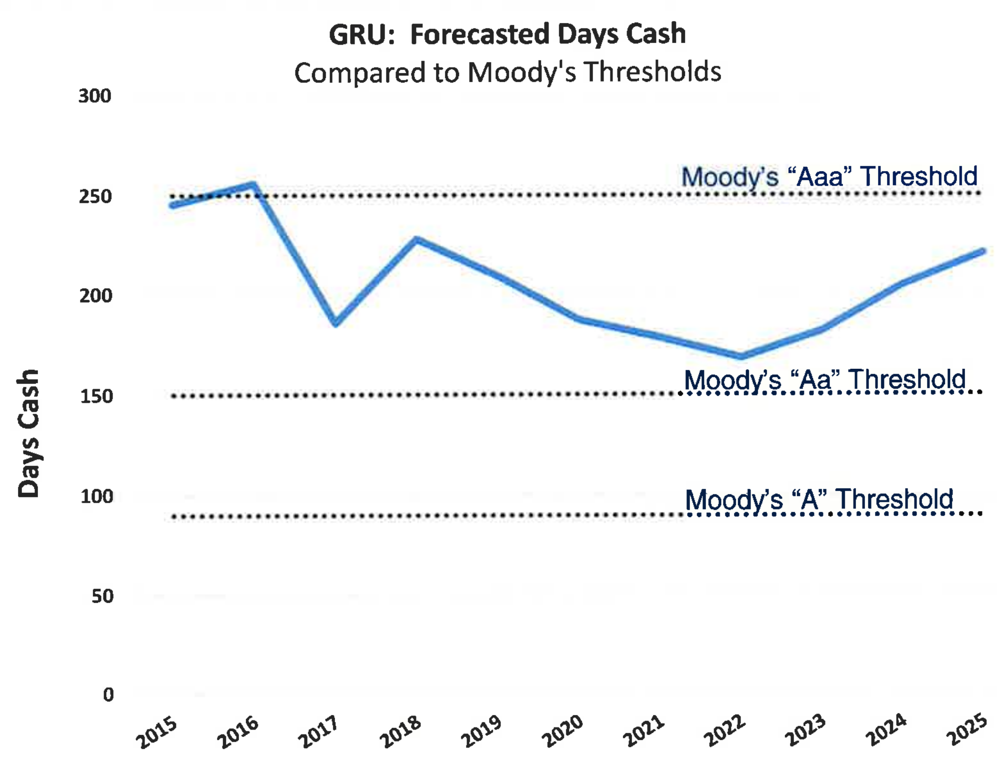
# Impact on Financial Metrics: Days Cash




- GRU's current budget scenarios will reduce the days cash metric
- Moody's criteria details their minimum thresholds for an issuer to be evaluated in a specific "bin" for this metric
- Currently, Moody's calculates 255 for GRU's days cash, above the "Aaa" threshold
- Updated scenarios indicate that the days cash will likely fall below this threshold, to "Aa" score
- While Moody's typically uses a 3 year average, if GRU's projections are achieved, it will weaken this metric over time



Source: Rating Agencies and GRU projections

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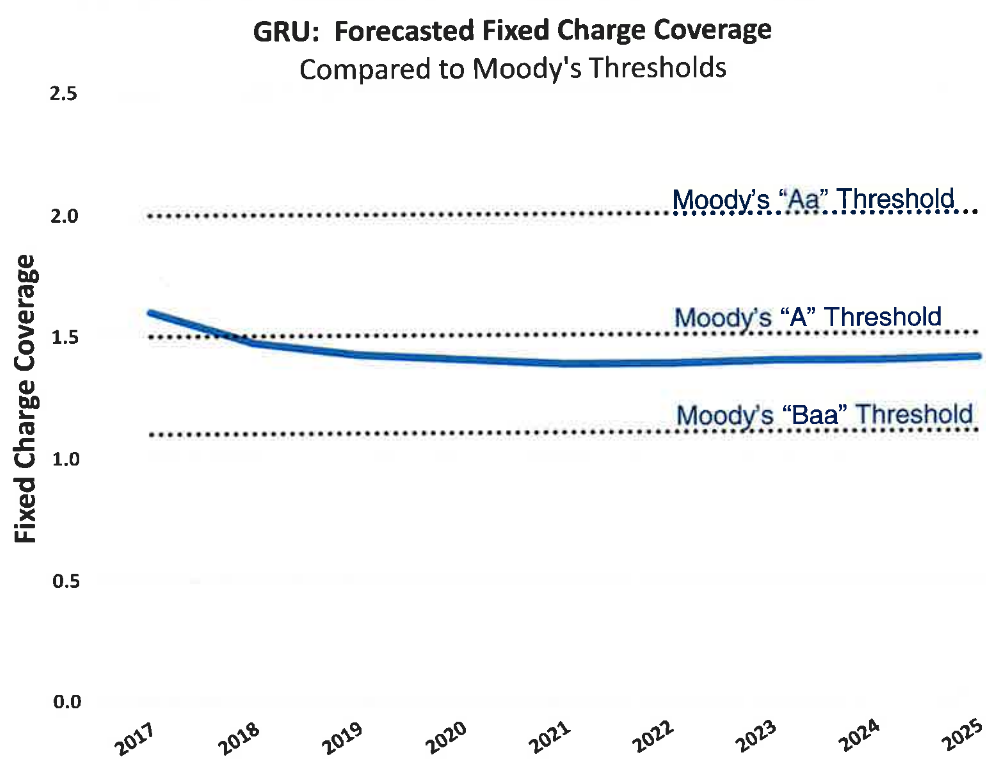
# Impact on Financial Metrics: Fixed Charge Coverage




- GRU's current budget scenarios projected to reduce the fixed charge coverage ratio
- Moody's criteria details their minimum thresholds for an issuer to be evaluated in a specific "bin" for this metric
- Currently, Moody's calculates 1.6 for GRU's fixed charge coverage, above "A" threshold
- Updated scenarios indicate that the fixed charge coverage will likely fall below this threshold, to "Baa" score
- While Moody's typically uses a 3 year average, if GRU's projections are achieved, it will weaken this metric over time



Source: Rating Agencies and GRU projections

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# Cost of a Potential Downgrade: Variable Rate Debt

- A potential ratings downgrade to GRU to "A+" would have cost implications
- **Variable Rate D**ebt cost will increase by ~$1.2 million annually:
    - Currently, GRU has outstanding VRDBs and Direct Purchases of ~$640 million.
    - With the planned Commercial Paper issuance this week, the variable rate balance will be ~$730 million.
    - A potential downgrade will quickly impact the variable rate debt in the following manner:
        - Each credit agreement that supports the variable rate debt has a step-up in fees in the event of a downgrade of ~12 basis points.
        - GRU, as a lower rated entity, will likely have to place this debt with investors at a higher rate. We have assumed +5 basis points.
        - Over time, there is a potential that GRU would need to convert the current credit facilities to Letters of Credit (LOCs), which investors "require" for "A" rated entities compared to the current facilities, a Standby Bond Purchase Agreement (SBPA). If the LOC is needed, this will add an additional 5-10 bps to the fee.

# Cost of a Potential Downgrade: Variable Rate Debt

- A potential ratings downgrade to "A+" would have cost implications to GRU
- **Variable Rate D**ebt cost will increase by ~$1.2 million annually:

| Variable Rate Debt Plan | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Par Outstanding | 689,650,000 | 729,650,000 | 769,650,000 | 689,650,000 | 722,650,000 | 730,650,000 |
| New issuance | 40,000,000 | 40,000,000 | 0 | 33,000,000 | 8,000,000 | 0 |
| Redemption/fix out | 0 | 0 | 80,000,000 | 0 | 0 | 41,000,000 |
| Updated Par | 729,650,000 | 769,650,000 | 689,650,000 | 722,650,000 | 730,650,000 | 689,650,000 |

| Expected Increased Costs 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Additional Spread | 5 bps | 5 bps | 5 bps | 5 bps | 5 bps |
| Additional Fee | 12 bps | 12 bps | 12 bps | 12 bps | 12 bps |
| Change in facility | NA | NA | NA | NA | NA |
| ~Total increase (bps) | 17 bps | 17 bps | 17 bps | 17 bps | 17 bps |
| ~Total increase ($) | 1,308,405 | 1,172,405 | 1,228,505 | 1,242,105 | 1,172,405 |
| ~Average annual increase for VR Debt | 1,224,765 | | | | |



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# Cost of a Potential Downgrade: Fixed Rate Debt

- A ratings downgrade to “A+” would have cost implications to GRU
- **Fixed Rate Debt**
- GRU’s currently outstanding fixed-rate debt is ~$900million.
  - There would be no change in the interest costs on *currently* outstanding debt as the coupons and yields were established at that respective pricing for that series of bonds.
- The impact of a downgrade would be to GRU’s planned future fixed rate debt
  - Investors will demand a higher rate for GRU’s new bonds given the lower rating and higher perception of risk
  - Currently, new bond issuances are planned in 2020 and 2023 with the assumption that there will be a +10 basis points penalty to issue fixed rate bonds as an “A+/A1” credit compared to issuing debt under the current “Aa3/AA-“ rating
  - Based on this review, the overall increase, due to a downgrade, would be ~$80,000 per year through the CIP period.



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# Conclusion

- The rating agencies are expecting some level of rate increase for the FY19 budget based on discussions with them for the GREC transaction and mentioned in their recent reports
- The rating agencies will also be concerned about a weakening in historical financial metrics; Days Cash and Fixed Charge Coverage
- The rating agencies could (1) Do nothing (2) Place GRU on “Negative” or (3) Downgrade GRU to “A+/A1” on varied reviews and schedules
- If downgraded, there are cost implications of a downgrade to “A+”:
  - Cost of GRU’s variable rate debt increases by ~$1.2 million annually
  - Cost of new fixed rate debt also increases (first planned issuance is 2020)
  - GRU would also likely need to change the credit facilities that support the variable rate debt program, at an additional expense
- Longer term, due to declining cash balances, GRU might need to consider redeeming some variable rate debt with fixed rate debt (to better match invested assets and short-term liabilities)



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# FY19 Budget Proposal

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|
| | No ERP<br>No pay increases<br>No Total Rewards<br>No new FTEs | No ERP<br>2% pay increase<br>No Tota Rewards<br>6 new FTEs<br>Downgrade impact $1.3M/yr | $20M ERP<br>2% pay increase<br>No Total Rewards<br>6 new FTEs<br>Downgrade impact $1.3M/yr | $35M ERP<br>2% pay increase<br>No Total Rewards<br>6 FTEs | $35M ERP<br>2% pay increase<br>$1M/yr Total Rewards<br>6 new FTEs | 1 Yr Delay ERP $35M<br>No pay increases<br>No Total Rewards<br>No new FTEs | $20M ERP<br>2% pay increases<br>$1M/yr Total Rewards<br>6 new FTEs | 1 Yr Delay ERP $20M<br>2% pay increase<br>No Total Rewards<br>No new FTEs<br>$5.4M ERP O&M<br>Downgrade impact $1.3M/yr | 1 Yr Delay ERP $20M<br>2% pay increase<br>No Total Rewards<br>No new FTEs<br>$2.7M ERP O&M in 19, $5.4M forward<br>Downgrade impact $1.3M/yr |
| FY19 | 0.50% | 1.00% | 1.00% | 2.35% | 3.10% | 0.00% | 2.00% | 0.00% | 0.00% |
| FY20 | 3.00% | 4.00% | 4.50% | 3.10% | 3.10% | 5.00% | 4.00% | 4.00% | 3.75% |
| FY21 | 3.00% | 3.00% | 4.25% | 2.60% | 2.65% | 5.00% | 2.65% | 4.00% | 4.00% |
| FY22 | 2.00% | 2.25% | 2.50% | 2.00% | 2.00% | 1.00% | 2.25% | 3.00% | 3.00% |
| FY23 | 3.00% | 2.00% | 1.50% | 3.00% | 3.00% | 1.25% | 3.00% | 2.50% | 2.75% |
| FY24 | 2.00% | 2.00% | 1.25% | 2.00% | 2.00% | 1.00% | 2.00% | 2.00% | 2.00% |
| FY25 | 2.00% | 2.00% | 1.75% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| FY19 $ IMPACT ON AVERAGE (800 kWh) BILL | | | | | | | | | |
| | $0.00 | $0.88 | $0.88 | $2.16 | $2.96 | $0.00 | $1.76 | $0.00 | $0.00 |
| FY19 WW % | | | | 1.85% | 2.40% | | | | |



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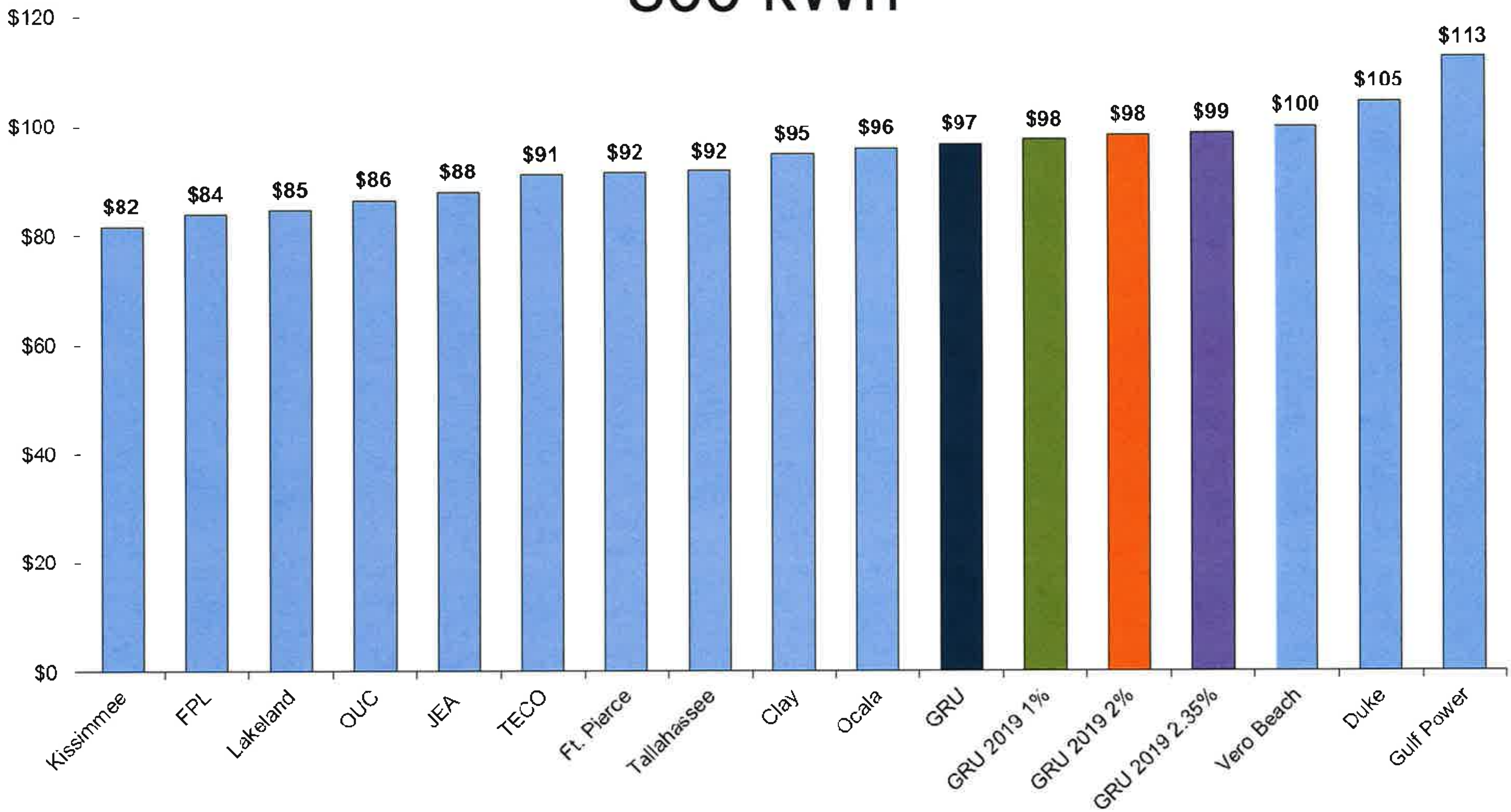
# FY19 Budget Proposal: Recommendation

- City Commission  direct the City Attorney to draft and the Clerk to advertise required ordinance language to implement GRU FY19 budget

# Bill Comparison Charts
# for
# May 2018 and FY2019

# Residential Electric

## 800 kWh



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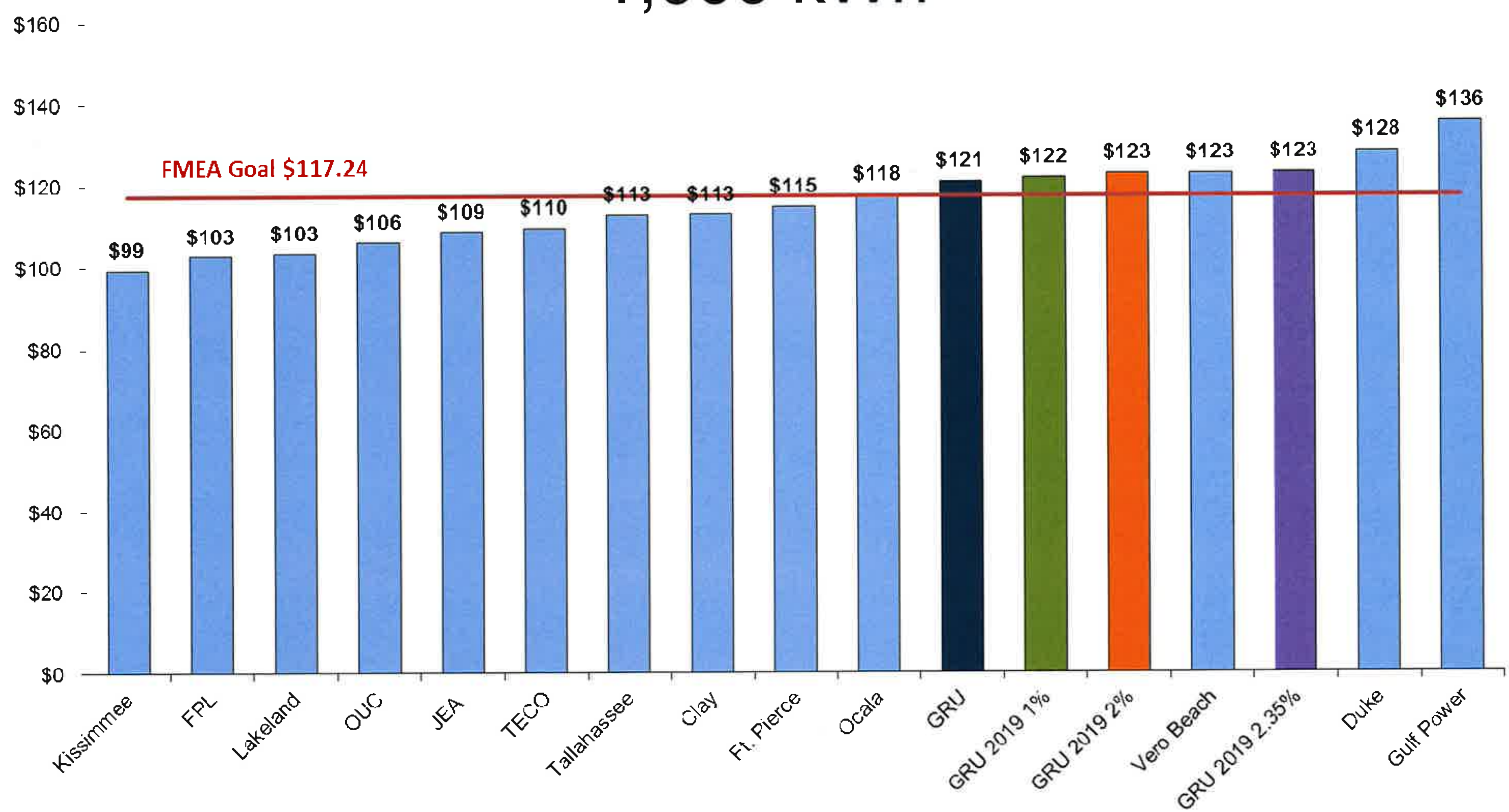
# Residential Electric
## 1,000 kWh



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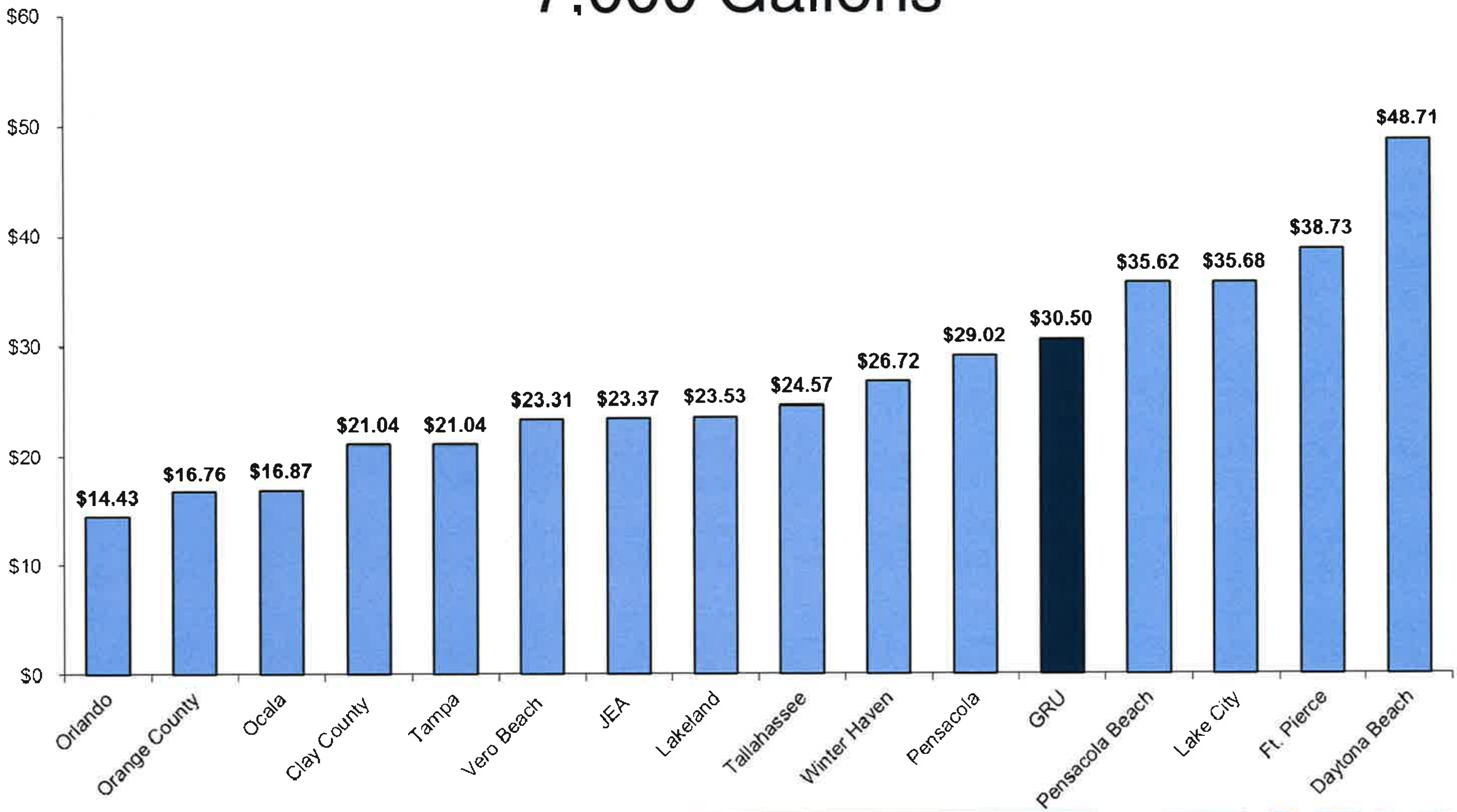
# Residential Water
## 7,000 Gallons



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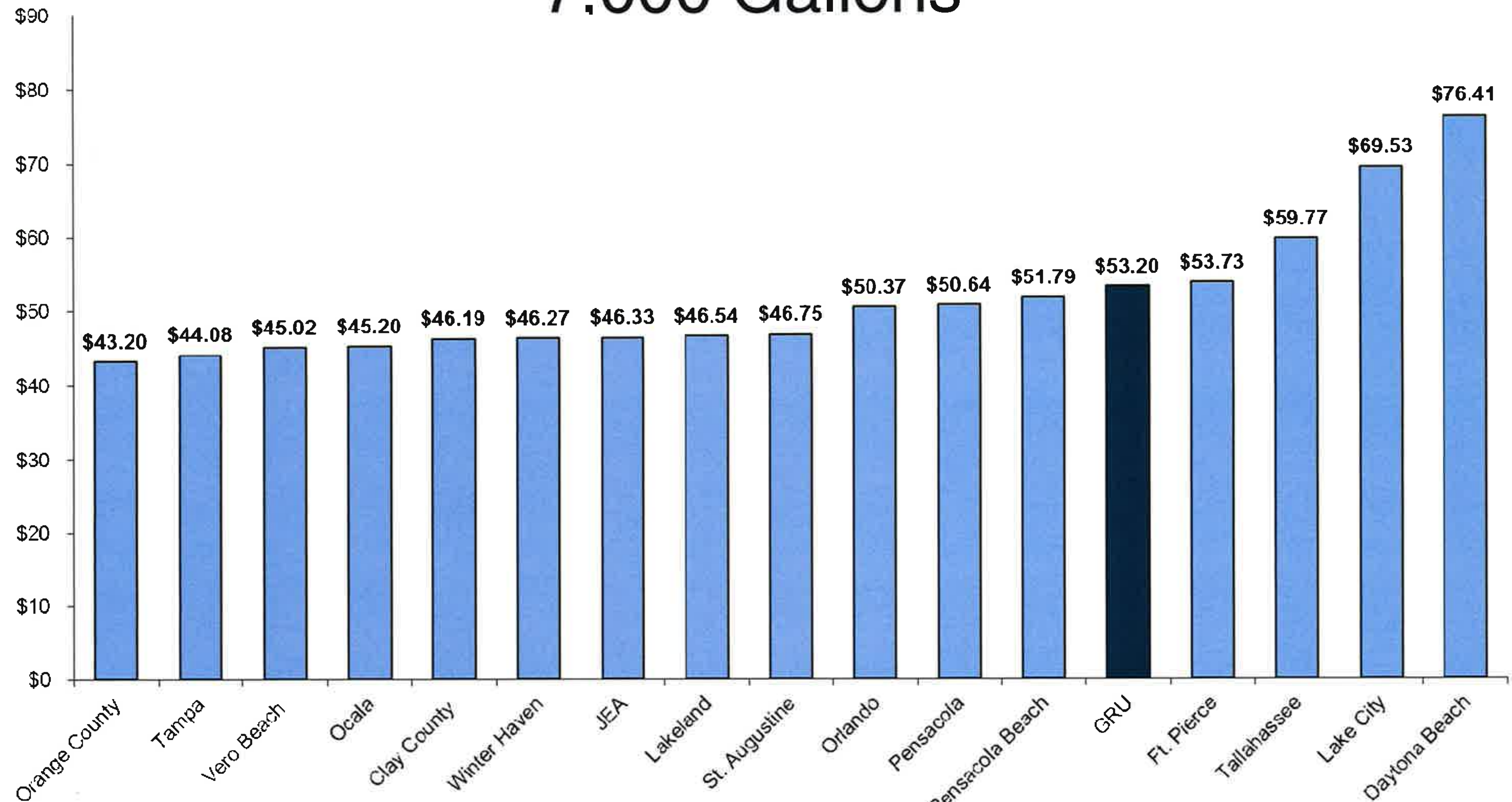
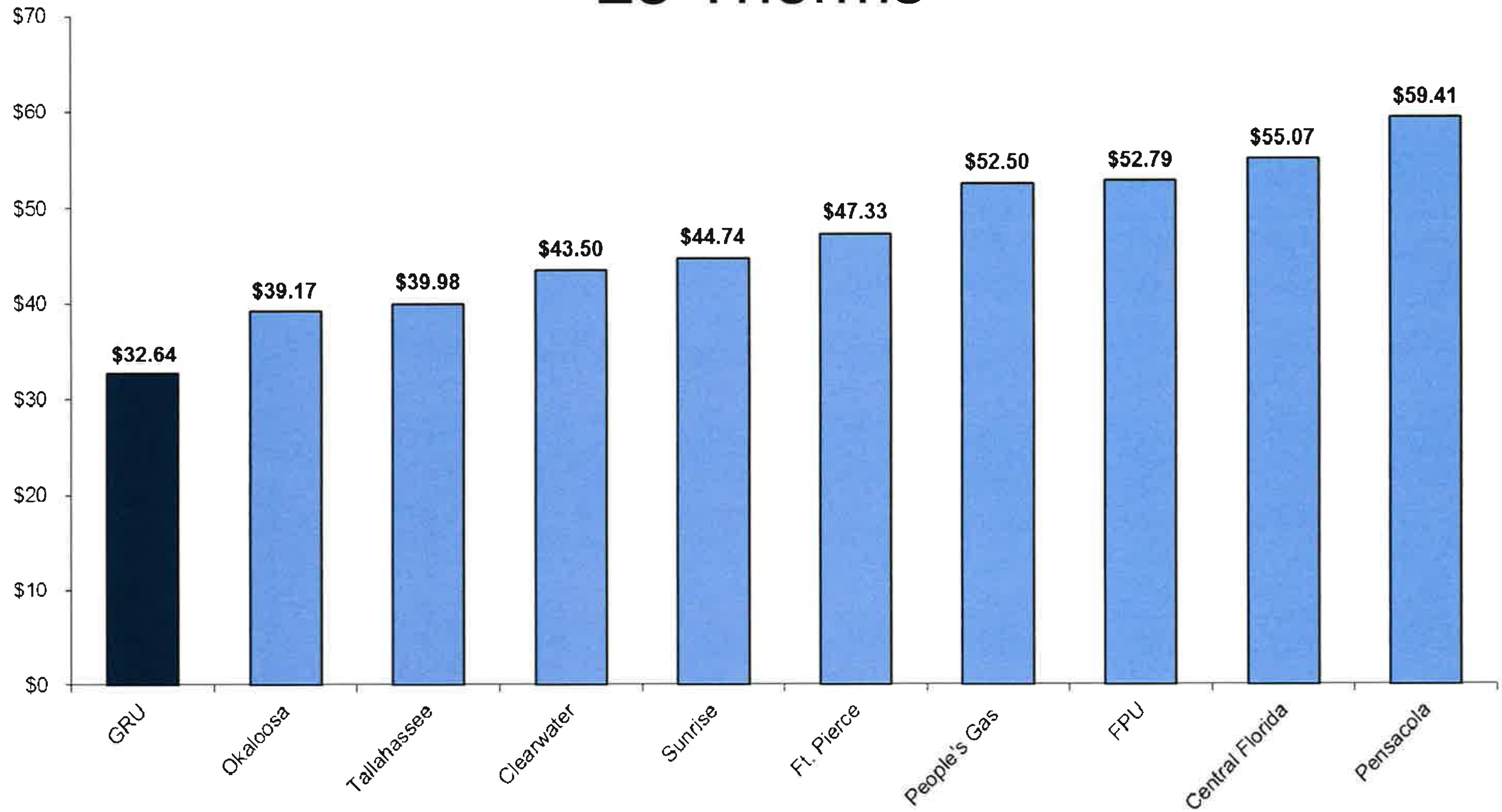
# Residential Wastewater
## 7,000 Gallons



# Residential Natural Gas

## 25 Therms



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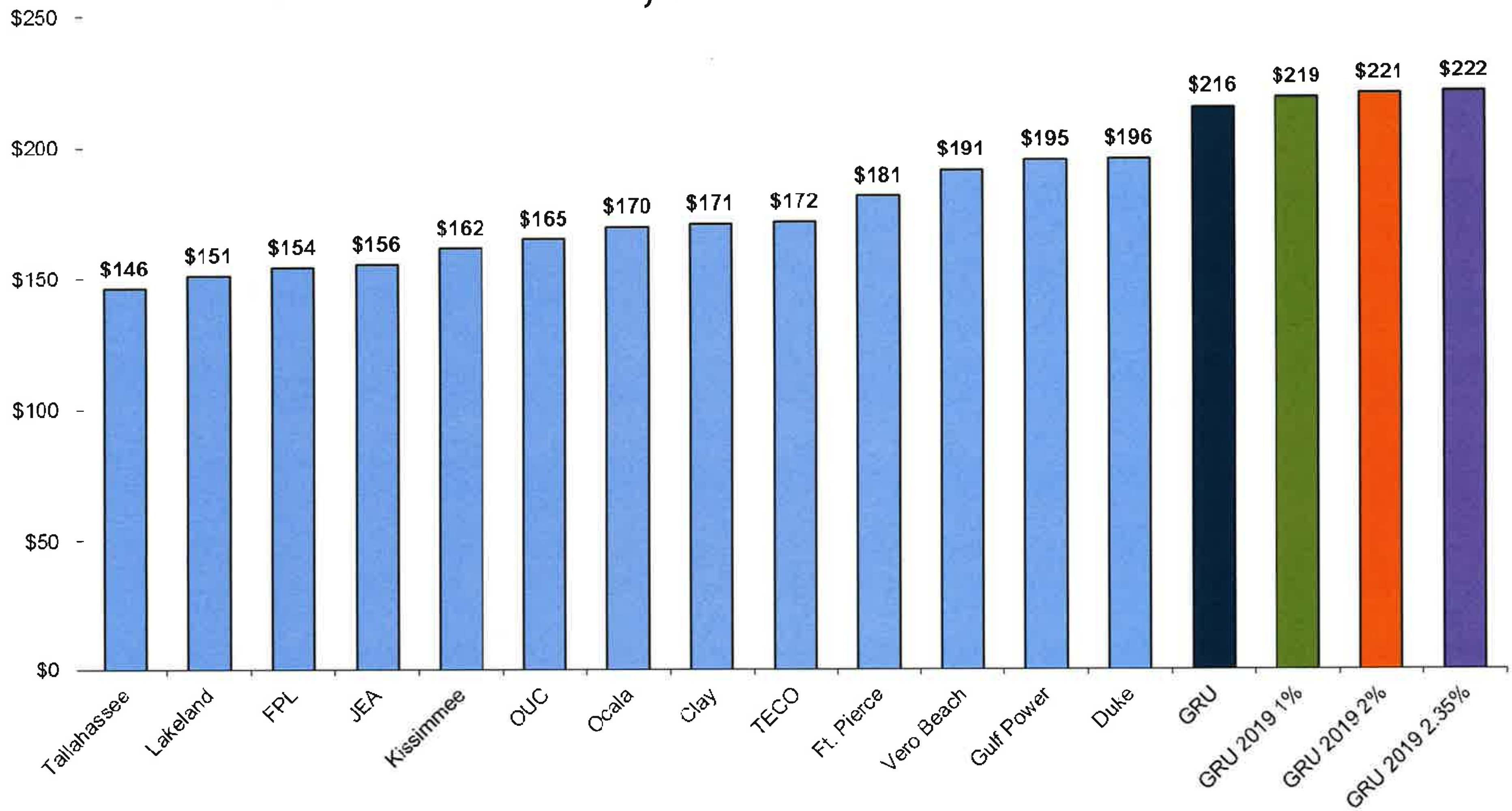
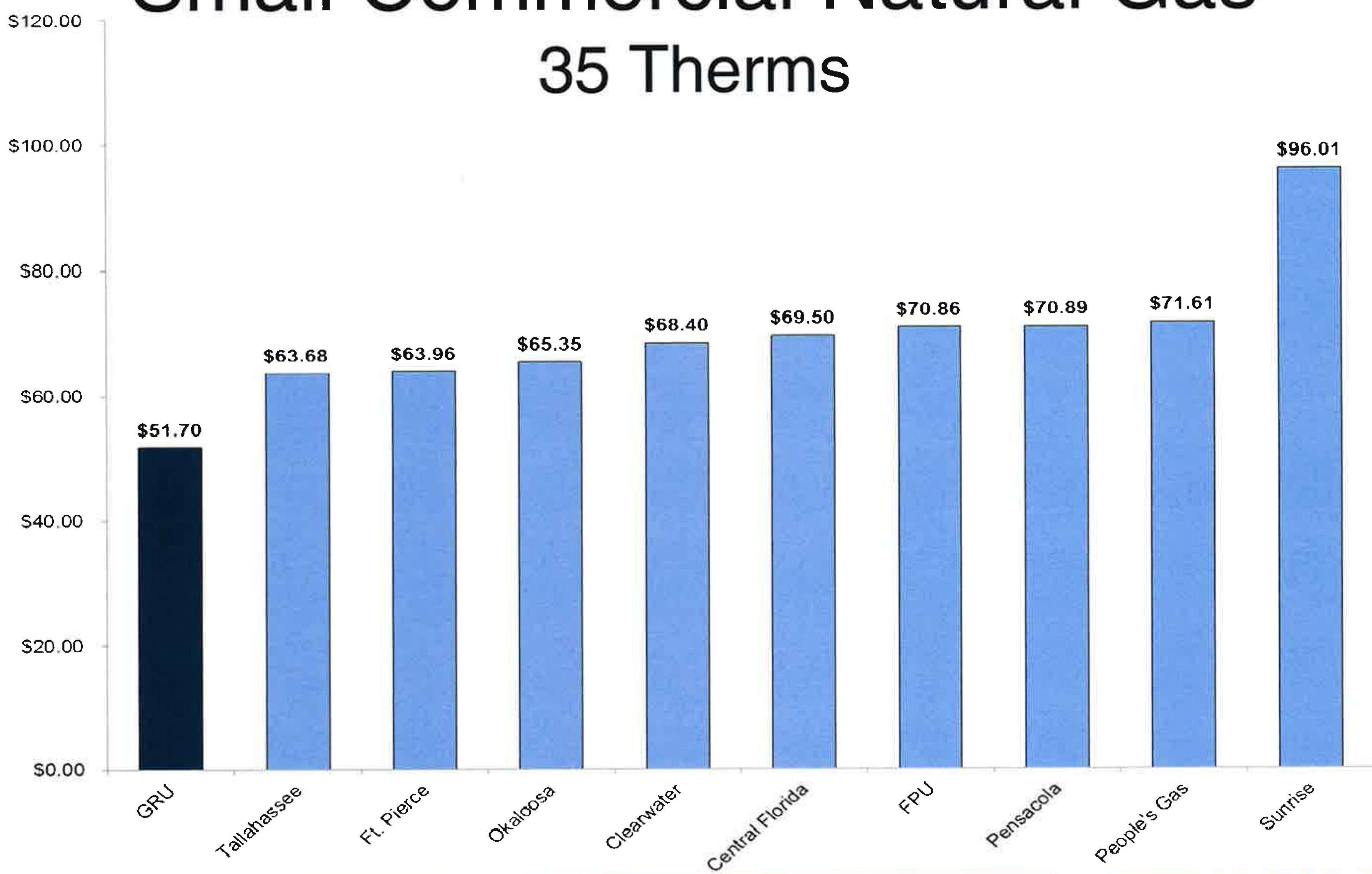
# GS Non-Demand Electric

## 1,500 kWh



# Small Commercial Natural Gas

## 35 Therms



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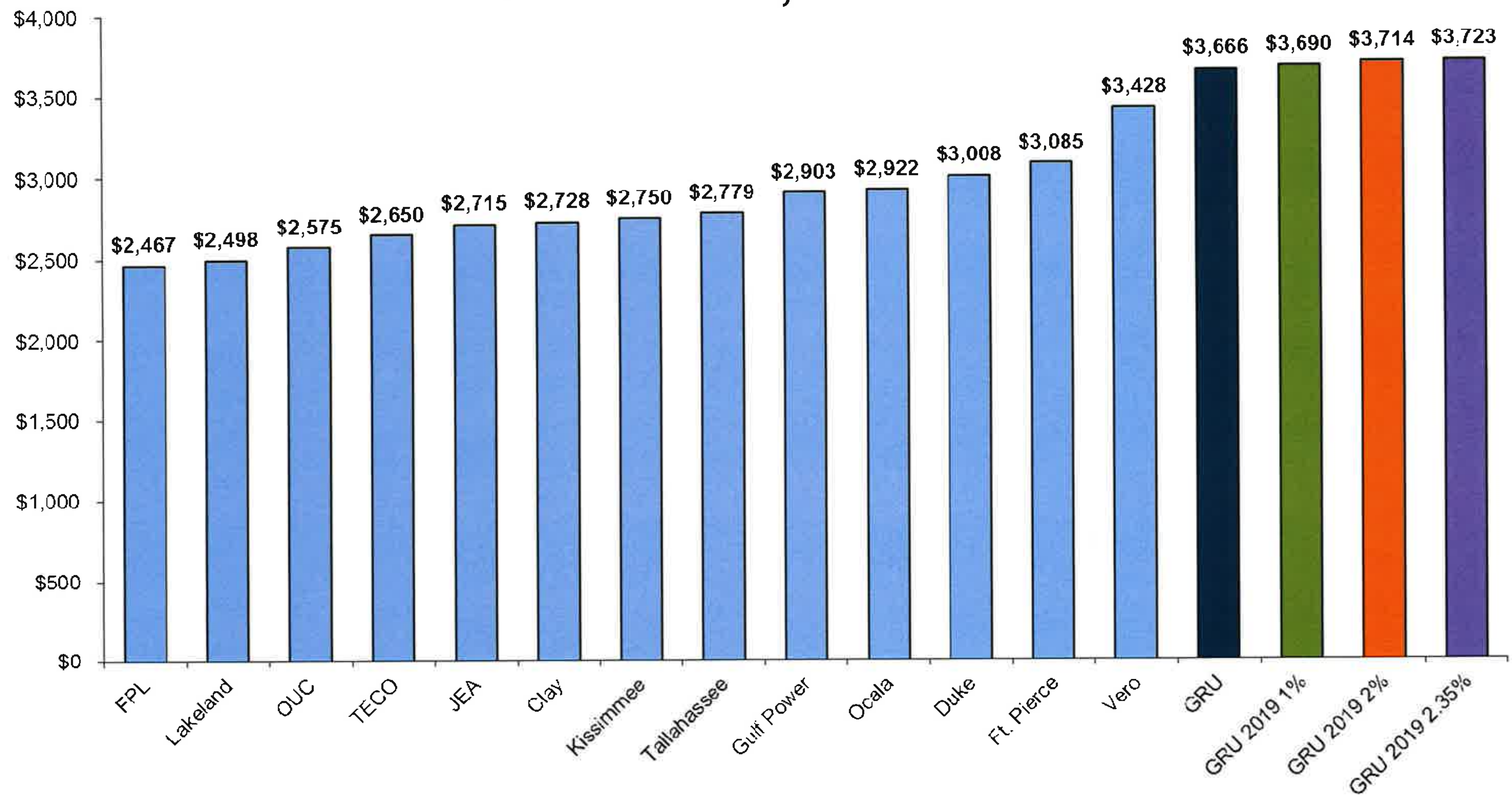
# GS Demand Electric

## 75 kW / 30,000 kWh



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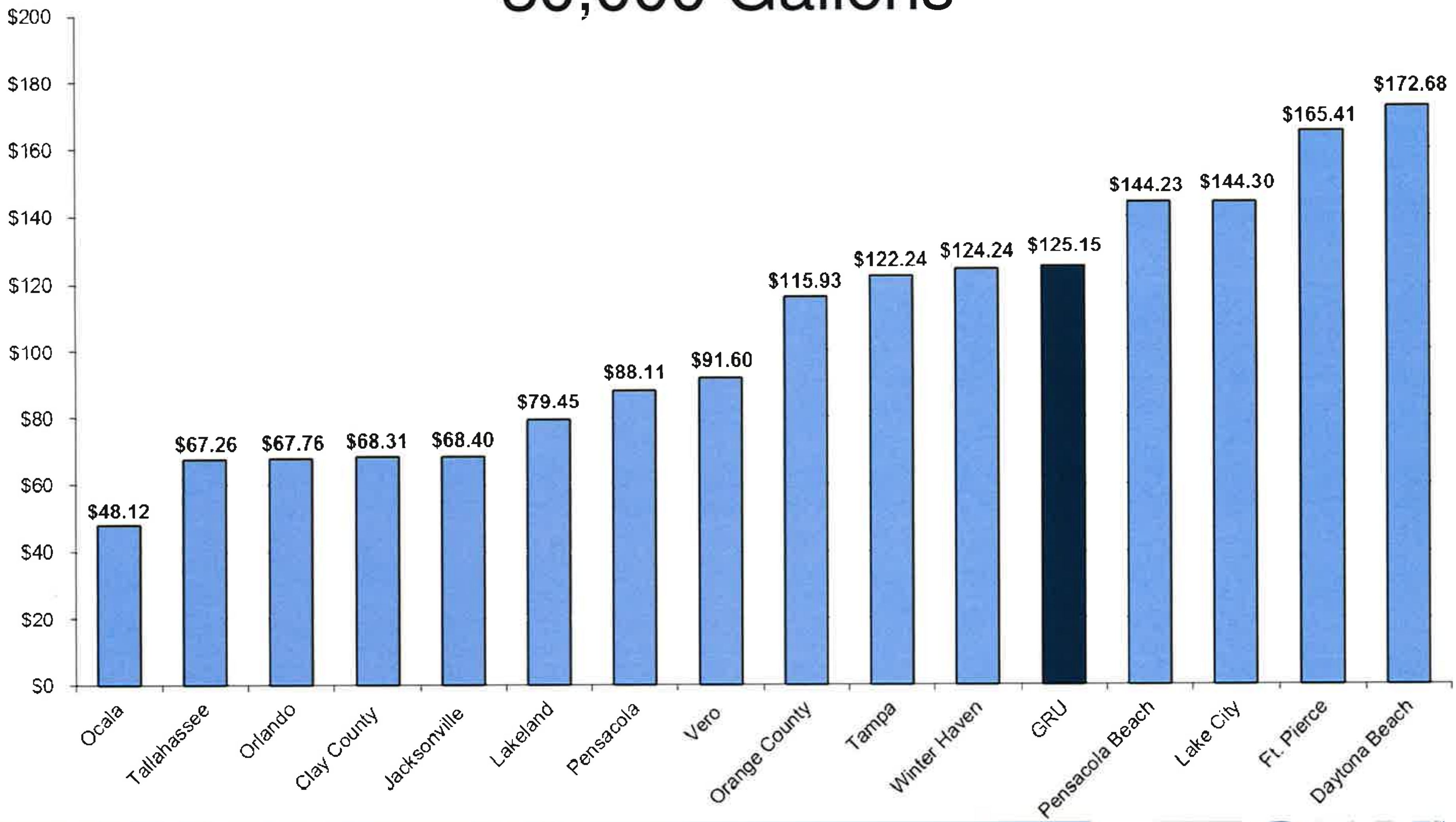
# Non-Residential Water
## 30,000 Gallons



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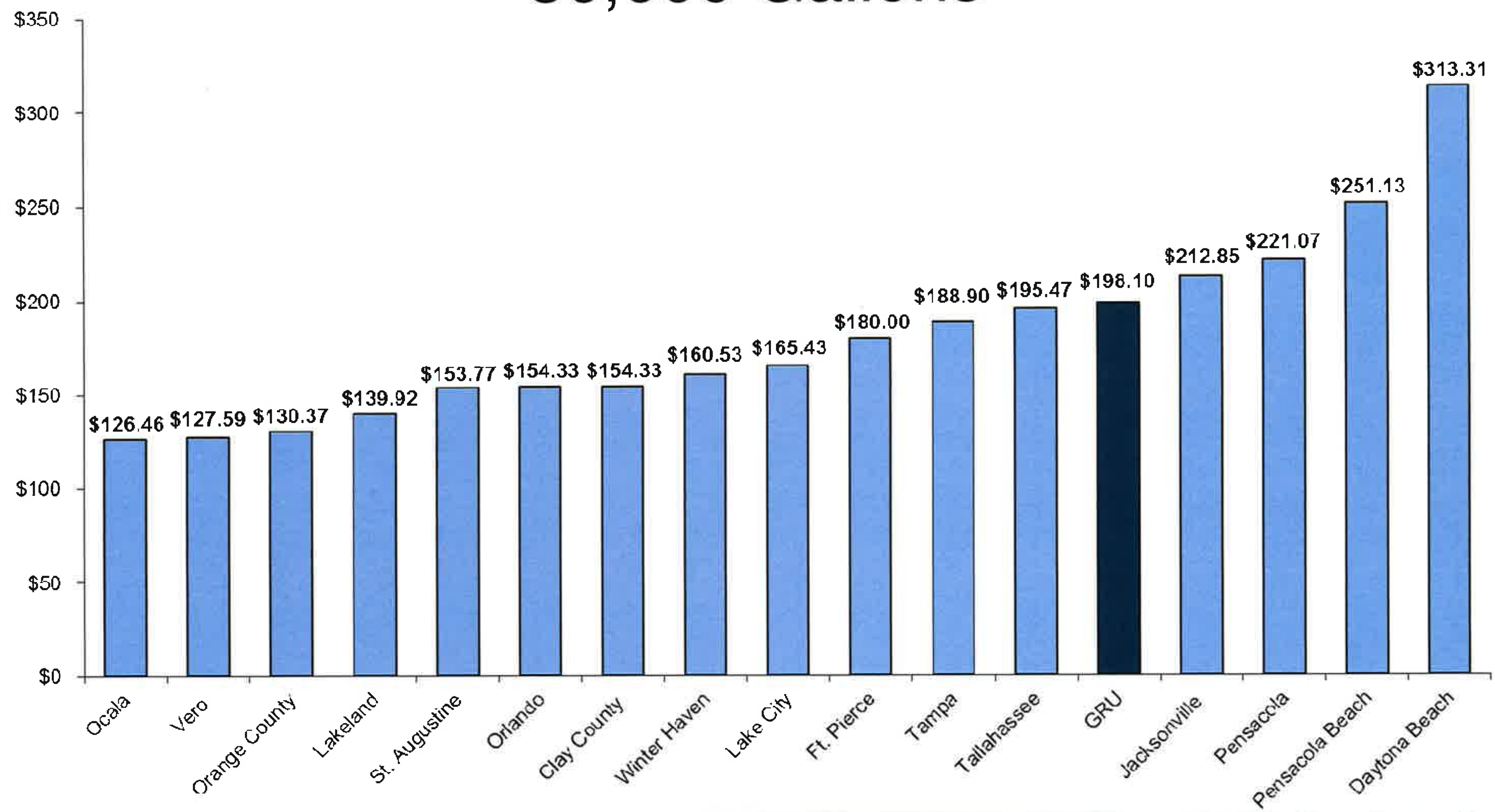
# Non-Residential Wastewater

## 30,000 Gallons



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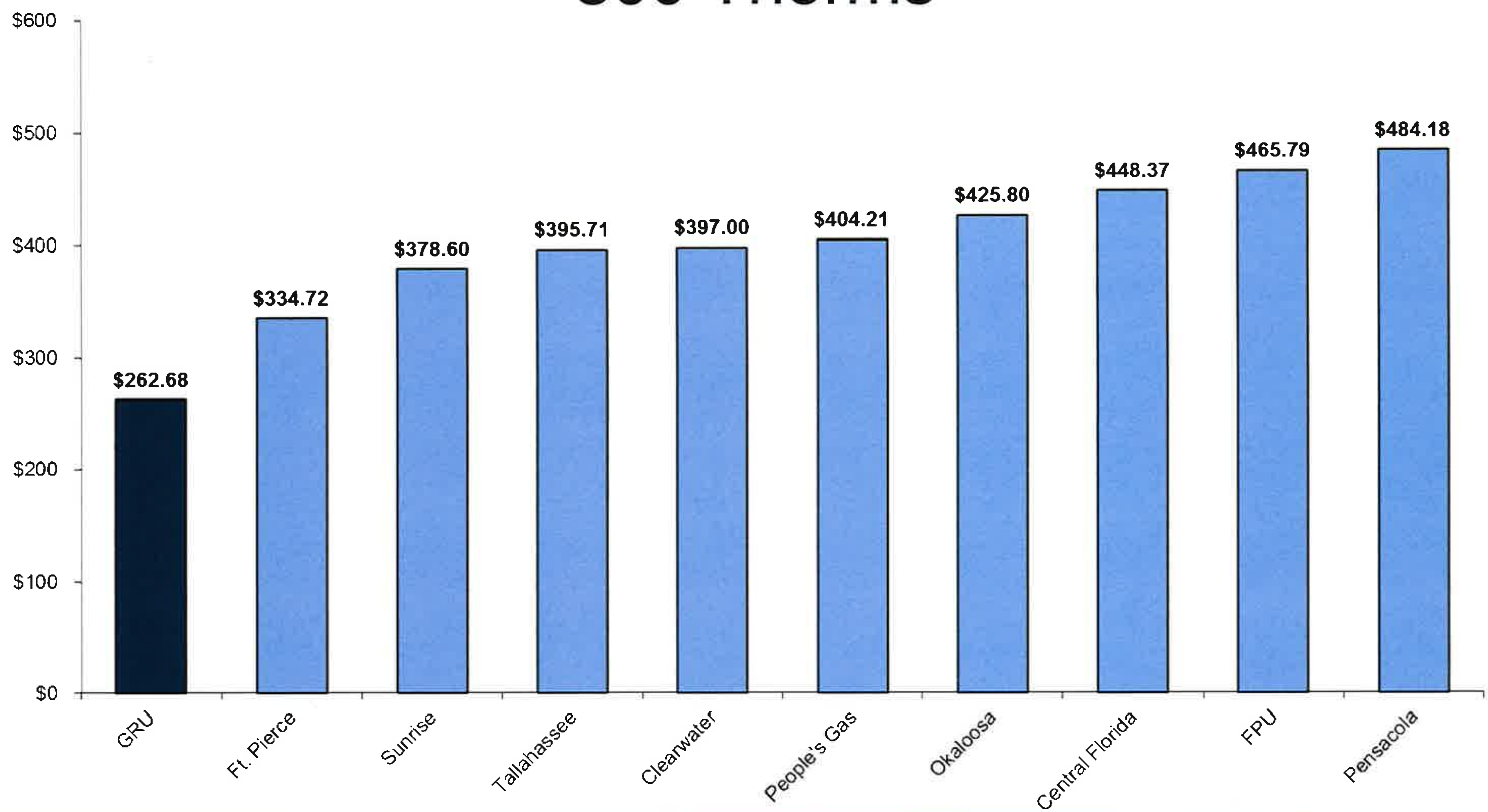
# Commercial Natural Gas

## 300 Therms



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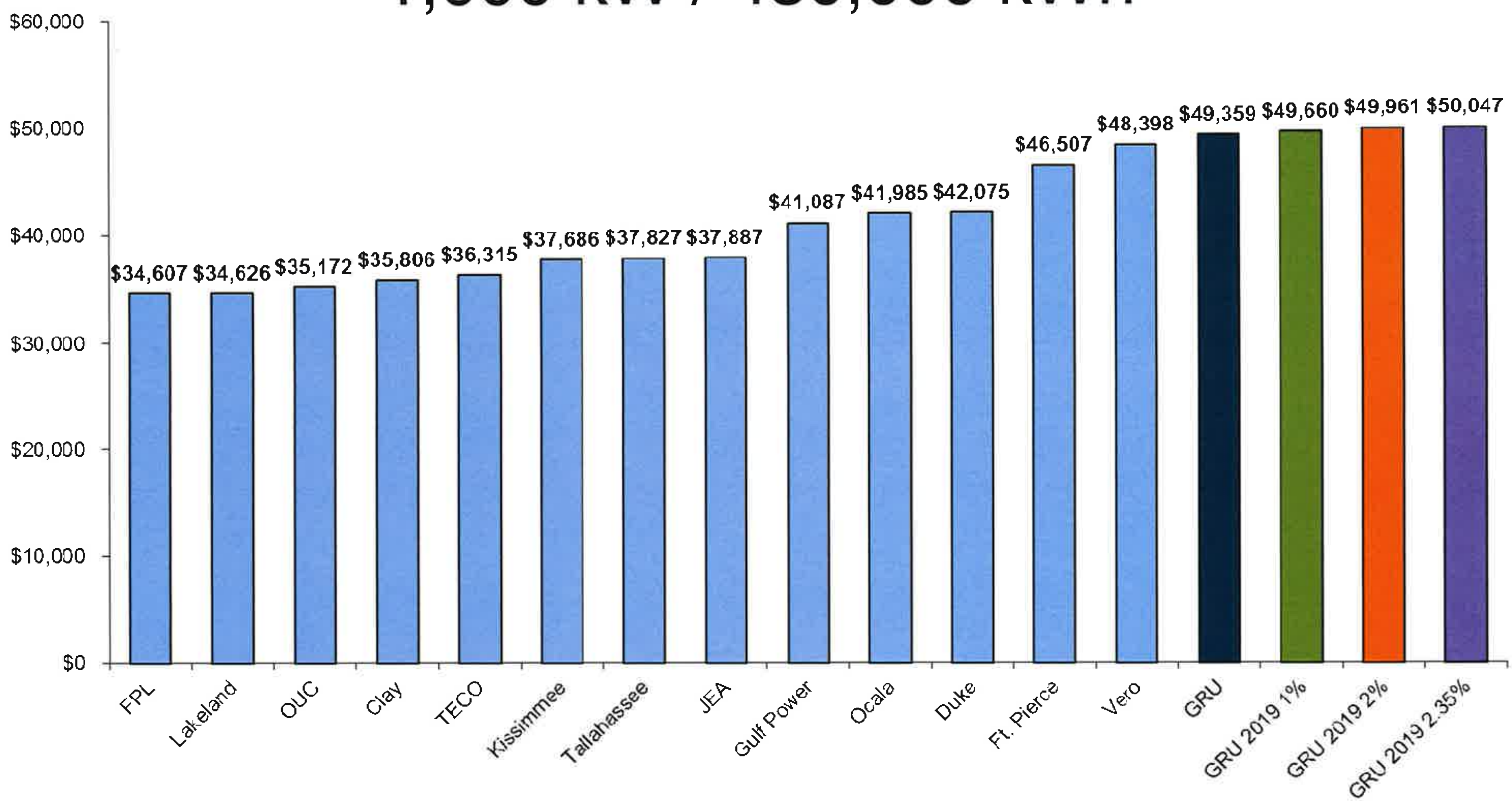
# GS Large Demand

## 1,000 kW / 430,000 kWh



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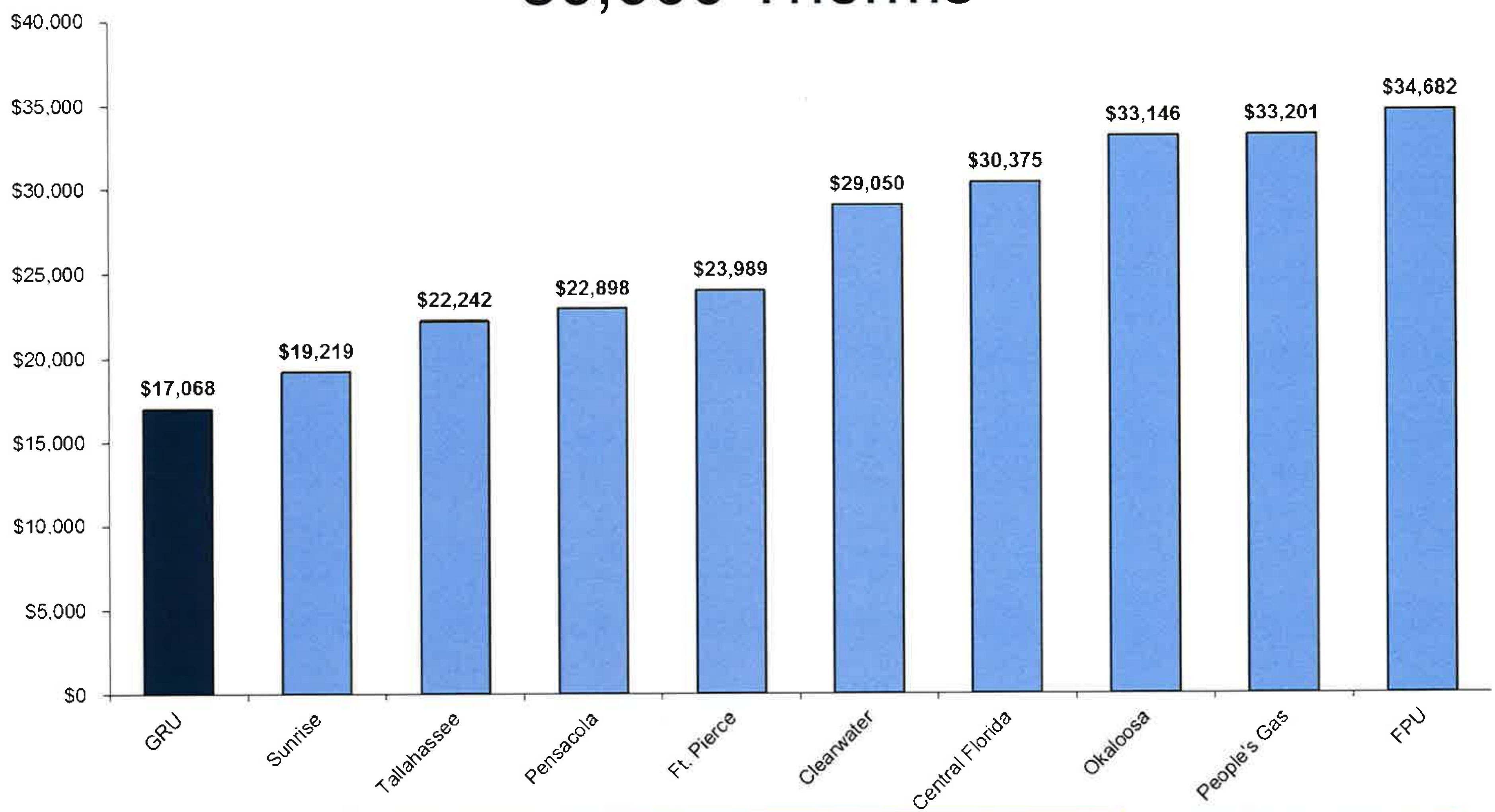
# Large Volume Natural Gas
## 30,000 Therms



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