Financial Reserves/ Debt Service Overview

Item #130871

June 5, 2014

Discussion Outline

- Overview of Financial Components
- Reserves
- Debt
- Rating Agency Review

Flow of Funds

Revenues

- Sales, Connection Charges, Fuel Adjustment

Less: Expenses

- Operating & Maintenance (O&M) Expense
- Fuel Expense

Equals: Net Revenues

Less: Use of Net Revenues

- Debt Service
- Utility Plant Improvement Fund (UPIF)
- General Fund Transfer (GFT)
- Working Capital Reserve

After these requirements are met, a net balance is deposited in, or a net deficit is withdrawn from, the Rate Stabilization Fund

Rate Stabilization Fund (RSF)

- Established by the Utilities System Revenue Bond Resolution
  - Similar to your personal savings account
- Required balance is directed by a Risk Management Guideline which considers
  - Operating cash flow reserve
  - Construction risk
  - Catastrophic events
  - Contingent financial liabilities
- RSF is used to:
  - Mitigate base rate volatility
  - Provide funds in cases of emergency
- Disciplined use of RSF is a key element in Rating Agency Review

Utility Plant Improvement Fund (UPIF)

- Established by the Utilities System Revenue Bond Resolution
  - Considered the Utility's Equity in the System
  - Restricted Asset
  - Meant to ensure funding available to maintain infrastructure appropriately
  - Reduces debt required to acquire and construct system assets
- Required to pay into UPIF at least:
  - ½ multiplied by (Net Revenues of preceding year less Priority Debt)
- The UPIF can serve many purposes:
  - Payment into the Debt Service Account
  - Payments for extensions, enlargements, additional or replacements to the System as well as emergency repairs
  - Payments into the subordinated indebtedness fund
  - Purchases or redemptions of bonds or subordinated indebtedness
  - Otherwise provide payment for bonds or subordinated indebtedness
  - In certain circumstances, can also pay O&M
- Appropriate level of equity funding of system assets in critical portion of rating agency review

RESERVES

More than Energy

Reserves

- Requirements calculated annually
- Determine reserve and liquidity targets
- Identify sources of funding for targets
  - Primary Reserves
    - RSF
    - Portion of UPIF for uninsured property and construction risk
    - Working Capital Reserve
  - Secondary Funding Source
    - Commercial Paper Lines of Credit

Financial Risk Management
Cash Targets

	FY 2014 Estimated Cash at Risk ($)					
Source of Risk	**Electric**	**Gas**	**Water**	**Wastewater**	**GRUCom**	**Liquidity Targets**
Revenue $CaFR_{97.5}$[1]	$4,969,622	$1,241,216	$1,792,740	$1,231,845	$490,463	$9,725,886
Catastrophic Events						
Uninsured (Property Loss) Exposure[2]	6,099,260	1,107,120	1,977,113	2,310,383	933,978	12,427,854
Fixed Non-Fuel O&M (60 Days)[3]	24,912,896	2,328,913	5,880,916	6,748,748	2,235,247	42,106,720
Construction Risk (5%)[4]	1,877,244	239,876	507,510	769,695	237,568	3,631,893
Contingent Financial Liabilities[5]	4,892,501	1,554,102	516,585	1,289,167	124,125	8,376,480
Totals	$42,751,523	$6,471,227	$10,674,864	$12,349,838	$4,021,381	$76,268,833

1. Cash Flow at Risk at a 97.5% Confidence Level or only a 2.5% chance that the sales shortfalls will be greater than the reserved amount
2. A percentage of the value of self insured distributed assets plus the deductible applicable to insured assets
3. Sixty days of average annual non-fuel operating expenses
4. Five percent of expected annual capital expenses
5. A portion of swap termination payment risk

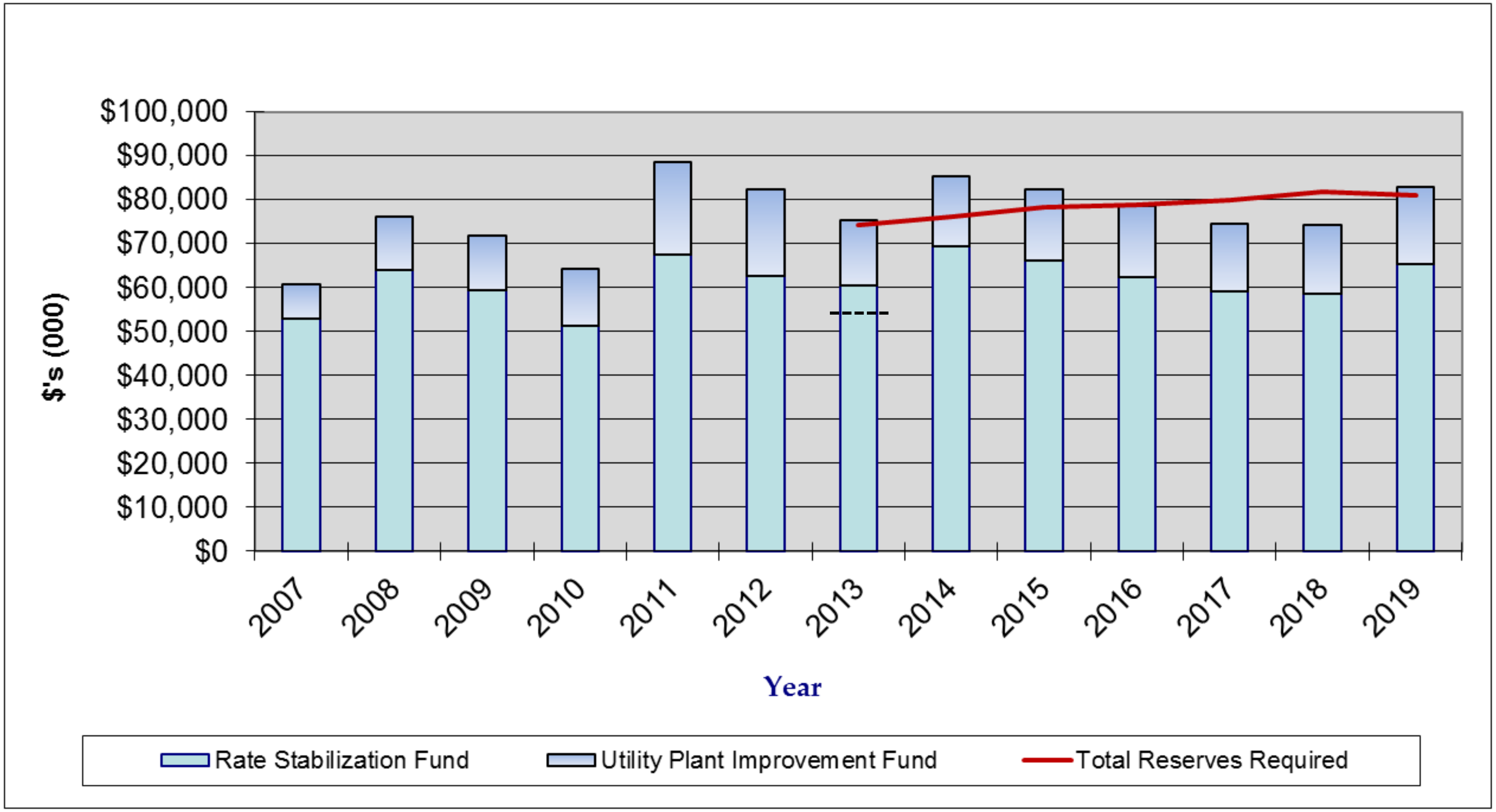
Financial Risk Management
Reserves Set to Meet Cash Targets

Fiscal Years Beginning October 1

	2014	2015	2016	2017	2018	2019	2020
Liquidity Targets	**$ 76,268,834**	**$ 78,412,711**	**$ 78,881,154**	**$ 79,925,126**	**$ 81,928,114**	**$ 80,950,793**	**$ 82,270,225**
Source of Funds:							
Rate Stablization	$ 69,344,756	$ 66,273,845	$ 62,293,334	$ 59,167,263	$ 58,705,666	$ 65,414,412	$ 83,441,302
UPIF for Reserves	$ 16,044,633	$ 16,059,748	$ 16,398,373	$ 15,370,112	$ 15,667,302	$ 17,526,215	$ 17,088,775
Total Reserves	**$ 85,389,389**	**$ 82,333,593**	**$ 78,691,707**	**$ 74,537,375**	**$ 74,372,968**	**$ 82,940,627**	**$ 100,530,077**

GRU More than Energy

Historical and Projected Reserves Combined System



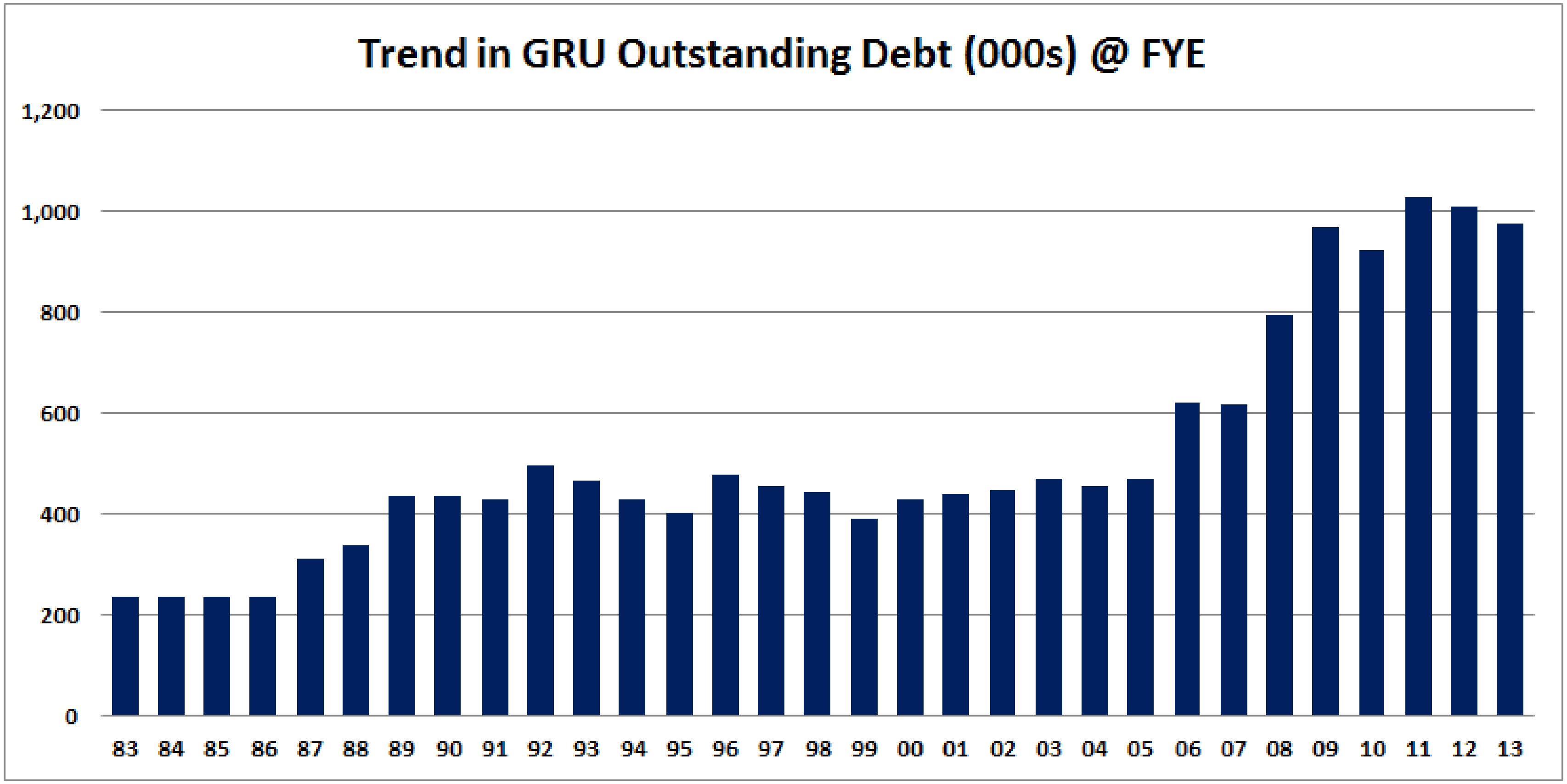
More than Energy

Conclusion on Reserves

- Combined system reserves are set at proper level
- Reserves may fall below target in 2018/2019 without an adjustment
- Use of RSF for rate relief in current year would increase future requirements
- In July 2013, City Commission directed staff to reduce use of UPIF for Debt Service in FY14
- Extensive use of UPIF for Debt Service is a concern for Rating Agencies

DEBT

Debt History



More than Energy

Sample of GRU Bonded Projects Since 2005

Deerhaven 2 Air Quality Control System	**$**	**135,500,000**
Eastside Operations Center	$	64,247,394
Shands South Energy Center	$	47,000,000
Deerhaven 2 Environmental Controls Retrofit	$	29,487,536
Manufactured Gas Plant	**$**	**26,600,000**
Wastewater Biosolids Program	**$**	**11,500,000**
Financial Management Information System	$	8,900,000
Kelly Plant Retrofit CC1	$	7,559,911
Gravity Collectors – Renewal & Replacement	$	7,408,966
Paynes Prairie Sheetflow Restoration Project	**$**	**5,607,752**
Network Expansion Cable – Outside Plant	$	5,526,674
Water Filter System Upgrade	$	4,900,000
Trunking Radio System	$	4,454,660
Deerhaven 1 Upgrades	$	4,453,325

Continued on next slide

Note: Items in bold are regulatory requirements

GRU More than Energy

Sample of GRU Bonded Projects Since 2005 (Cont'd)

Kanapaha WRF Effluent Disposal	**$ 4,400,000**
Neighborhood Overhead Construction	$ 4,159,702
District Energy Facilities	$ 3,577,686
New Commercial Development	$ 3,204,790
Water Switchgear & Plant Generator Set	$ 3,200,000
Network Expansion Electronics	$ 2,696,113
Fleet Maintenance Building	$ 2,465,367
Water Meter Renewal & Replacement	**$ 2,408,085**
Wellfield Improvements	$ 2,314,296
Treatments Plants – Other Operational Improvements	$ 1,726,604
MWRF High Service & Transfer Pumps	$ 1,693,925
Main Line System Improvements	$ 2,024,075
Distribution Substation Construction & Expansion	$ 1,775,503
Transmission & Distribution Improvements	$ 1,445,476
Kanapaha WRF/Main Street WRF Combined	$ 1,397,571
Total of two slides	$ 401,635,411

Note: Items in bold are regulatory requirements

GRU More than Energy

Capital Improvement Program

FY14 Through FY19

Fiscal Years ending September 30,
(In Thousands)

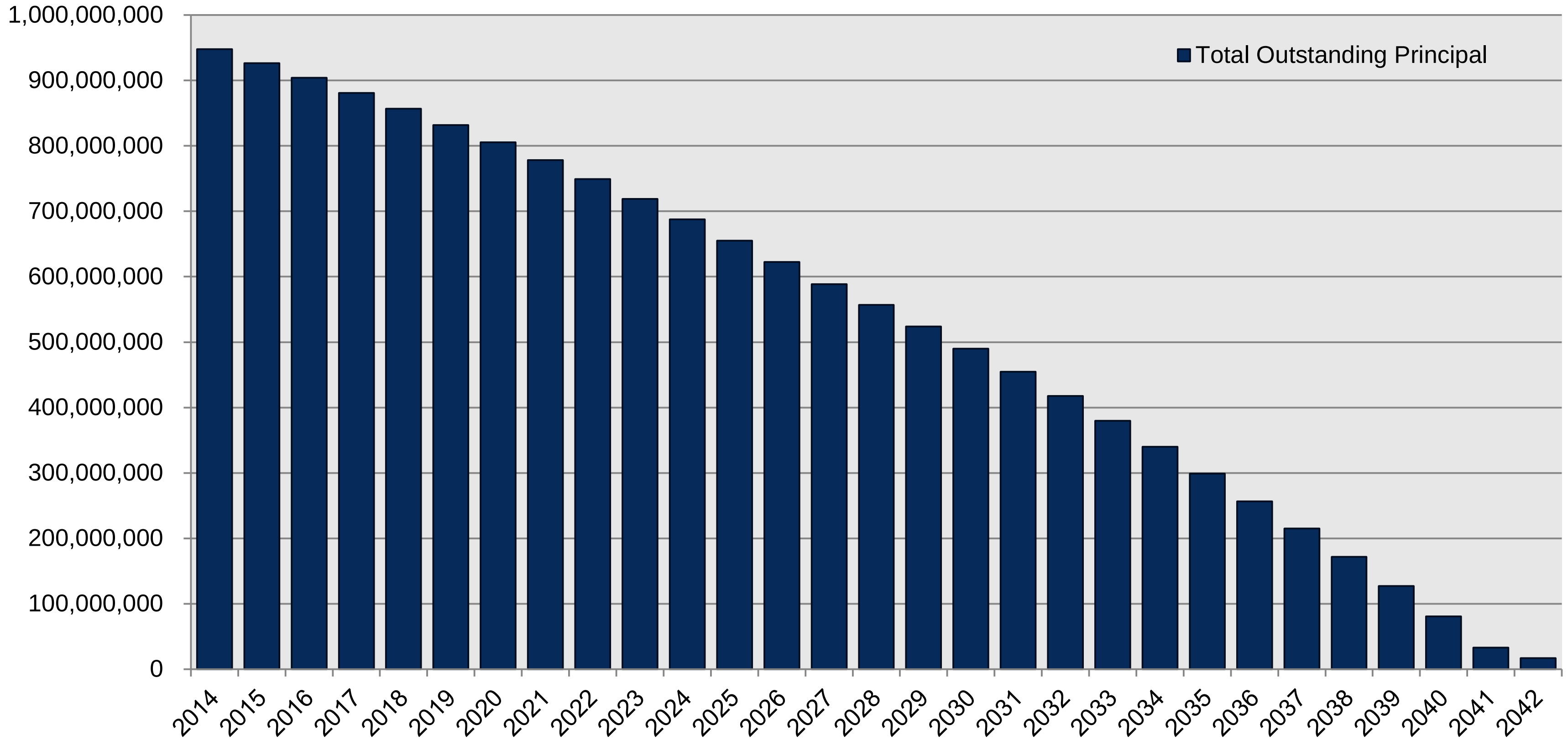
	2014	2015	2016	2017	2018	2019	Total
Electric	$ 36,510	$ 37,545	$ 49,007	$ 26,331	$ 27,122	$ 39,593	$216,108
Gas	$ 6,453	$ 4,798	$ 5,248	$ 5,249	$ 5,522	$ 5,563	$32,833
Water	$ 10,608	$ 10,150	$ 7,636	$ 6,234	$ 5,540	$ 11,075	$51,243
Wastewater	$ 17,778	$ 15,394	$ 7,621	$ 5,883	$ 6,093	$ 19,751	$72,520
GRUCom	$ 5,860	$ 4,752	$ 4,926	$ 5,109	$ 5,299	$ 5,496	$31,442
Total	$77,209	$72,639	$74,438	$48,806	$49,576	$81,478	$404,146

GRU More than Energy

Debt Management
Principal Balance Declines Steadily

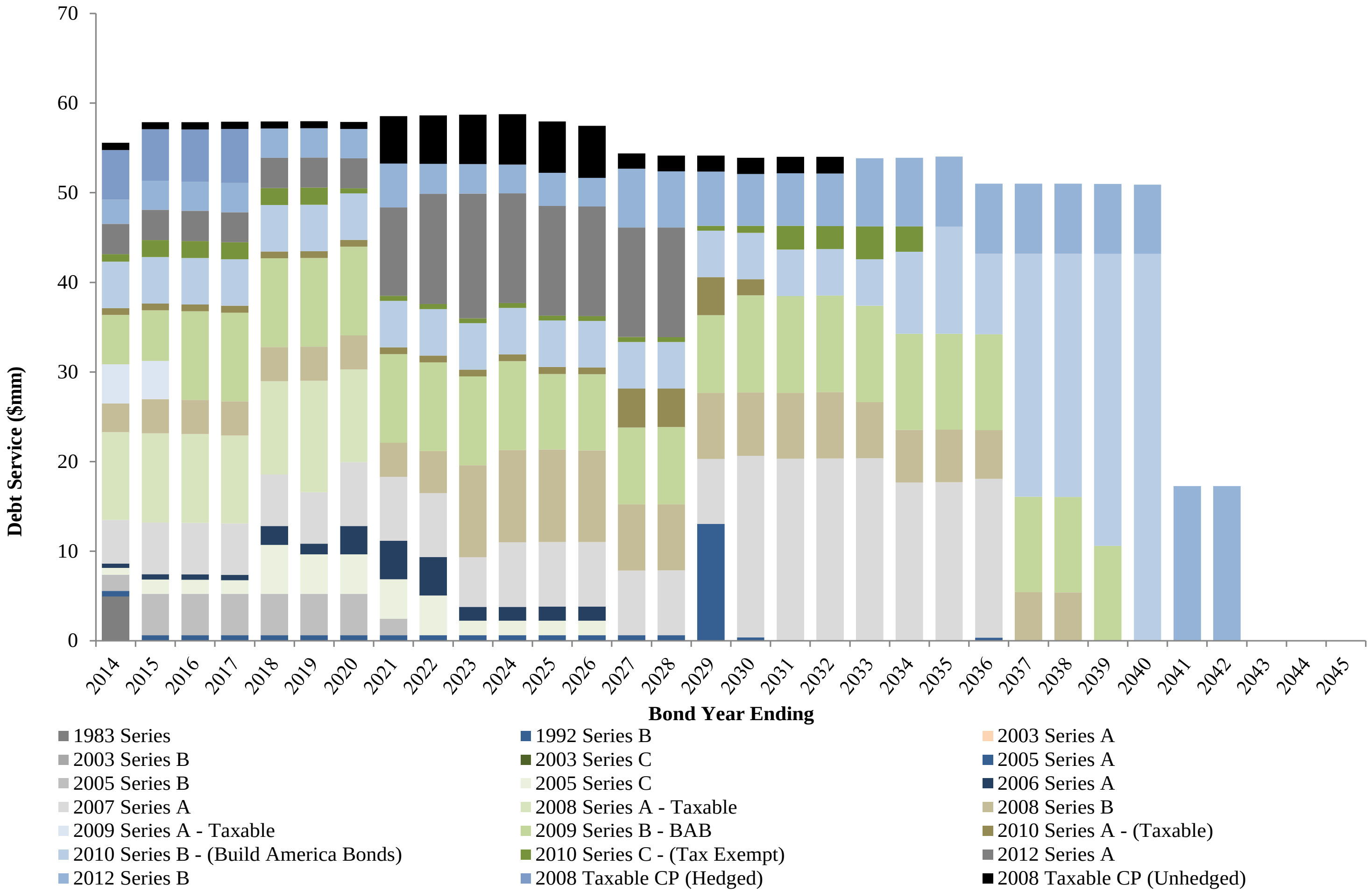
Roughly 27% of presently outstanding principal amortizes in next 10 years (2014-2023), with another 36% maturing in the following 10 years (2024-2033)

Declining Principal Balance



Includes Commercial Paper

Repayment Structure



*Includes Commercial Paper; net of BABs subsidy

Rating Agency Highlights

Agency	Rating	Strengths	Challenges
Standard & Poor's	AA	•Solid operational profile and combined average rates •Solid financial position, moderate debt-to-customer level, and strong liquidity •Commission support for rate increases to maintain a strong financial profile •Experienced and pro-active management team •Stable economy	•Excess energy of GREC if unable to sell •Dependence on a single coal-fired generating unit •Potential deterioration in debt service coverage associated with biomass purchase power contract
Moody's	Aa2	•Resilient service territory • Stable economic base • Good relationship with City Commission • Diversifying generating capacity • Experienced and proactive management • Fuel and power risk management via The Energy Authority (TEA) • Good liquidity levels • Ability and willingness to raise rates promptly	•Need for future rate increases (GREC) • Use of UPIF for debt service • Market and commodity price exposure due to excess energy from GREC • No debt service reserve
Fitch Ratings	AA-	•Solid combined utility system • Strong regional demographics • Manageable capital program	•Challenging biomass purchase contract • Reluctance to increase rates

Source: Rating Agency Reports June and July 2012

GRU More than Energy

Financial Impact of Ratings

- In Your Personal Finance
  - The higher your credit score, the lower interest rate you pay
  - The lower your credit score, the higher interest rate you pay

- Bond Ratings for GRU
  - The higher GRU's credit rating, the lower the interest rate (and can likely borrow more)
  - The lower GRU's credit rating, the higher the interest rate (and can likely not borrow as much or at all)

- We have to be diligent in monitoring our financial condition, taking into account how our decisions could affect our rating

GRU℠
More than Energy