

8.0. Consequences of Actions

Gainesville Regional Utilities infrastructure resides in Alachua County and City of Gainesville right-of-way. Compensation for right-of-way usage or "Consideration" such as franchise fees is common. In all of the actions and agreements between the City of Gainesville and Alachua County there has been recognition of consideration for infrastructure in the right-of-way. Linking the payment for streetlights and fire hydrants to surcharge collections, as well as the City of Gainesville responsibility for unincorporated area streetlights and fire hydrants have been forms of consideration.

In 1989 Alachua County proposed a franchise fee ordinance and requested information from utility companies throughout Alachua County. The proposed franchise document (Appendix F) establishes the right of Alachua County to establish a franchise to the existing utilities in the right-of-way. The second clause states that the Alachua County Board of County Commissioners "finds that continued use and occupancy of Alachua County's rights-of-way should be pursuant to franchise agreements." The definition of franchise fee in Section 1. c. states that a franchise fee "shall mean the rental charge to be paid by utilities presently occupying or proposing to occupy rights-of-way owned by Alachua County." A GRU analysis showed that in 1989 inside Gainesville only 3 percent of GRU facilities were in Alachua County right-of-way. However, in the unincorporated area in 1989 76 percent of GRU facilities were in Alachua County right-of-way.

The first agreement for payment of streetlights and fire hydrants was signed January 17, 1987 (Appendix L). Section 5 of that Agreement states "An amount equal to the charges assessed against the County for fire hydrant and street lighting services shall be paid monthly to the County in exchange for benefits derived by the City due to the location of City utility property within Alachua County."

Similarly, Section 9 of the 1990 Agreement states "the reimbursement provided for ... shall be paid to the County in exchange for benefits derived by the City due to the location of City utility property within Alachua County." The 1990 Agreement contains provisions for discontinuation upon enactment of franchise fees by Alachua County. The 1990 Agreement stipulates that Alachua County must notify the City of Gainesville of any intent to levy a public service or utility tax. Notification must be given to the City of Gainesville by March 1 of the year in which the potential levy of the fee occurs. There have been several occasions when Alachua County has provided notification to the City of Gainesville. The last notification of this intent to levy a franchise or other fee was given in FY 2000.

A change in the procedure for payment of either streetlights or fire hydrants is likely to re-engage Alachua County and the City of Gainesville in discussions.

Although adding streetlight and fire hydrant cost to the base rates and ultimately the utility customer maintains revenue neutrality for Alachua County it may be anticipated that this will not be considered favorably. Potential consequences can be anticipated to include:

- Reduced expenditures to the City of Gainesville General Fund
- Rate increases to utility customers
- A proposal for franchise fees by the Board of County Commissioners.
- A request by the Board of County Commissioners for a payment in lieu of taxes
- Discussion about the surcharge and proposals that the surcharge be used to pay for unincorporated area streetlights and fire hydrants. This would have the same impact on the City of Gainesville General Fund as the current methodology, and was discussed at the November 18, 2004 Regional Utilities Committee.
- Legal maneuvers and potential actions between Alachua County and the City of Gainesville
- Dissatisfied customers due to bill increases
- Less control on the additional of new streetlights and fire hydrants.
- Negative impacts on rate comparisons with other utilities
- Impact the UPIF requirements
- Impact the Gainesville Regional Utilities bond rating

8.1. Proposed Water Rate and Connection Fee Increases

Any changes in the water rates that would result from Option B or Option C will be in addition to proposed water rate and connection fee increases over the next 4 years. The proposed increases, presentation at the July 2004 GRU budget meetings are shown below.

Table 7 – Schedule of Average Residential Water Rate Increases, 2005 – 2008

	2005	2006	2007	2008
Increase	1.50%	5.00%	5.00%	4.70%

Table 8 – Schedule of Connection Charge Increases, 2005 – 2008

	2005	2006	2007	2008
Increase	3.29%	3.17%	3.05%	2.71%

9.0. Time frames Required for Rate Changes

In the event that either option B or option C are considered appropriate and adopted for implementation by the City Commission it may be useful to consider implementation timelines.

9.1. Fire Hydrants

A change in water rates to accommodate fire hydrant charge in base rates would require authorization from the City Commission to draft an ordinance to increase water rates. The rate structure would need to be carefully designed. The new residential structure adopted in FY 2004 that makes the tiered water rates a year round levy would need to be investigated so that inequities between users are not created. The rate ordinance must be advertised and have two readings. Customers must be notified 90 days prior to water rate changes in the utility bill pursuant to Chapter 160 of the Florida Statutes. This process could take approximately 5 months.

9.2. Streetlights

A change in electric rates to accommodate streetlight charge in base rates would require authorization from the City Commission to draft an ordinance to increase electric rates. Rate design for the electric system is complex compared to the water system. An analysis and evaluation of the impact of streetlight charges on each of the rate classes would have to be completed. The ordinance must be advertised and have two readings. The Florida Public Service Commission must be notified of rate changes 90 days prior to adoption of new rates. This process could take approximately 5 months.

10.0. Impacts on Bond Rating

The GRU financial strength is indicated in part by the Bond Rating. Gainesville Regional Utilities is rated AA by Standard and Poor's and Aa2 by Moody's Investor Service. The ratings are assigned based on several factors, including rating agency confidence of the ability of GRU to adjust rates when necessary. Similarly the GRU competitive position relative to other utility service providers is a factor. The potential of rolling streetlight and fire hydrant costs into base rates, combined with forecast rate increases, could result in rate shock, changing the rating agencies opinion of GRU's competitive position. The precedent of rolling charges into base rates could also prove to be a concern to bond rating agencies

11.0. Recommendations

Gainesville Regional Utility staff recommends a thorough discussion by the Gainesville City Commission prior to determination to change the 1990 Street

Lights and Fire Hydrant Agreement. The FY 2005-2006 City of Gainesville Financial and Operating Plan, the Gainesville FY 2005-2006 Budget reflects the current situation. Rate changes must be enacted by ordinance and electric rate changes require filing with the Florida Public Service Commission.

It is the GRU staff recommendation that any changes to the current streetlights and fire hydrant payment structure should be made concurrent with the fiscal year and after public input and joint meetings between the Gainesville City Commission and Alachua County Board of County Commissioners.

9.2 Streetlights

A change in electric rates to accommodate streetlight change in base rates would require authorization from the City Commission to alter an ordinance to increase electric rates. Rate design for the electric system is complex compared to the water system. An analysis and evaluation of the impact of streetlight change on each of the rate classes would have to be completed. The ordinance must be advertised and have two readings. The Florida Public Service Commission must be notified of rate changes 90 days prior to adoption of new rates. This process could take approximately 6 months.

10.0 Impacts on Bond Rating

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2005 2006 2007