

Submitted @
Retreat

CITY COMMISSION ANNUAL GOAL SETTING



January 28, 2000

UPDATE

Staff presented several goals and strategies in July 1999

- A GRU and General Government team has been created to work on these issues
- The report by PFM was initiated
- The General Fund Transfer Formula methodology has been discussed

Strategies from July 1999

We Must be Ready

- Escalate Our Level of Preparation
This has been ongoing
- Recognize FY2003 as Our Planning Target
No Change

Strategies from July 1999

- Continue Deregulation Reserve Funding
Proposed at \$850,000 in 2001 and \$1.1 million in 2002
- Diversify General Fund Revenue Sources
This must be addressed this budget cycle
- Weigh Benefits of Adding New Services and Eliminating Others
Ongoing

Strategies from July 1999

- Deregulation Isn't Here Yet, But Competition Is
- Everyone Has a Major Stake in the Outcome
- Everyone Must Adapt to the Changes, Risks and Opportunities That Are Inevitable

Strategies from July 1999

- Improve Understanding of Our Customers and Potential Customers
- Use Research to Determine Customer Needs and Wants
- Allow GRU to Compete Aggressively Based on That Research
- Eliminate the Electric Surcharge as a Competitive Disadvantage

Strategies from July 1999

- Align Interests Via Changes in the GFT Formula
- Being discussed at the staff level and information will be provided today
- Both General Government and GRU Must Plan Aggressively to Replace Revenues Due to Lost Customers and the Electric Surcharge

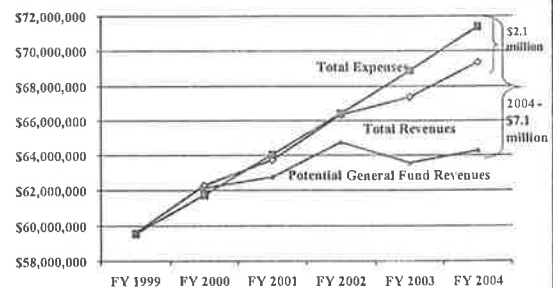
Strategies from July 1999

- Promote Legislative Agenda Through City Commission Leadership.
- The City of Gainesville must be prepared to respond legislatively as circumstances dictate

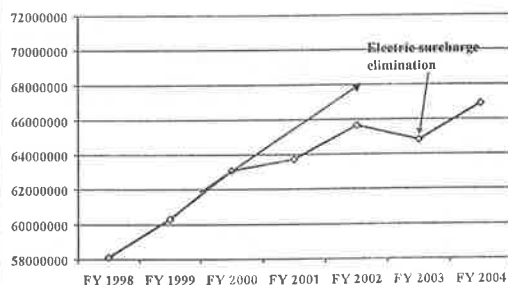
LONG TERM FINANCIAL TRENDS

- The long term general fund revenue forecast shows slowing revenue growth
- Expenditures, comprised predominantly of personal services are anticipated to rise at a faster rate than revenues.

Projected General Fund Revenues and Expenses



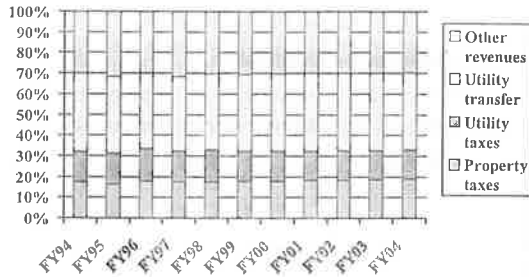
Adopted & Projected General Fund Revenues



REVENUE TRENDS

- 3 major revenues
 - Utility tax
 - Property Taxes
 - Utility transfer
- All of these revenues are impacted by changes in the utility industry. Property tax increases will be dedicated to the Deregulation Reserve

Composition of General Fund Revenues



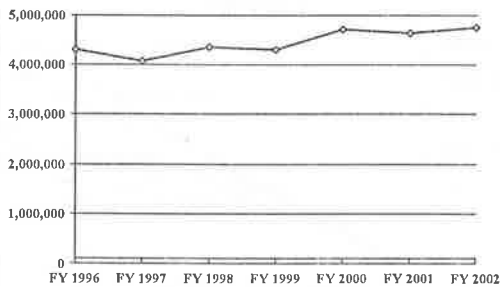
OTHER REVENUES

Other revenues are not growing at the same rate as they have in the past.

Significant revenue fluctuations:

- Sales Tax and Motor Fuel tax are growing at slower rates
- Cigarette taxes are declining

Electric Utility Tax Trends



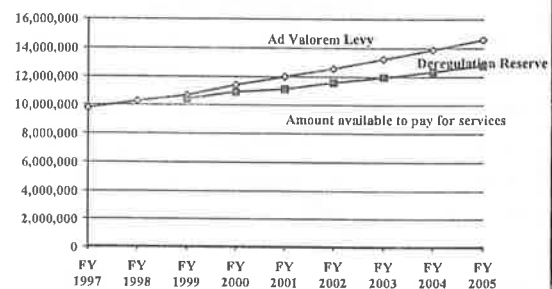
Utility Tax Trends

- 1998 \$8,754,430
- 1999 \$8,797,104
- Difference \$42,674 or a 0.49% increase

Electric Utility Tax Trends

- 1998 \$4,355,377
- 1999 \$4,305,072
- Difference \$50,305 or a 0.12% decrease

Property Taxes Trends

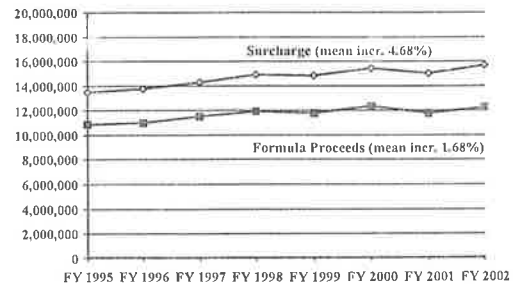


Property Taxes Trends

ACTUAL

- 1998 \$10,262,973
 - 1999 \$10,674,658
 - Difference \$411,658 or a 4.01% increase
- #### EXCLUDING DEREGULATION RESERVE
- 1998 \$10,262,973
 - 1999 \$10,424,658
 - Difference \$161,685 or a 1.5% increase

Projected GRU Electric Transfer



GRU Electric Transfer Trends

- 1998 \$14,938,345
- 1999 \$14,806,953
- Difference \$131,392 or a 0.88% increase

Trends in Property Tax (excluding deregulation amount), Utility Tax and GRU Electric Transfer

- 1998 \$33,955,748
- 1999 \$34,028,715
- Difference \$72,967 or a 0.21% increase

CONTINUED UTILITY ISSUES

- Identify electric system costs separately
- Continue monitoring of the surcharge
- Change the transfer to another method such as a per KWH delivered
- Develop formulas for each system
- Policy for GRUCOM Transfer
- Modify formula with respect to interchange sales
- Franchise fees

REDESIGNING THE GENERAL FUND TRANSFER AND SURCHARGE FORMULAS FOR ELECTRICITY

City of Gainesville Staff Presentation
January 28, 2000

PRESENTATION OVERVIEW

- I. REVIEW
 - Objectives
 - Current Formulas
 - Advantages and Disadvantages
- II. IDENTIFY AND EVALUATE STRATEGIES FOR:
 - Surcharge
 - General Fund Transfer

OBJECTIVES

- I. REMOVE DISINCENTIVES FOR IMPROVED PERFORMANCE INHERENT IN THE ELECTRIC GENERAL FUND TRANSFER FORMULA
- II. REMOVE COMPETITIVE DISADVANTAGE INHERENT IN THE ELECTRIC SURCHARGE
- III. RETAIN THE ADVANTAGES OF THE CURRENT FORMULA: PREDICTABILITY AND STABILITY
- IV. INCENTIVIZE ENTREPRENEURIAL BEHAVIOR

THE CURRENT GENERAL FUND AND SURCHARGE TRANSFER FORMULAS

$GFT^a = .1465 \times (\text{Gross Electric Revenues}^b - \text{Fuel}^b - \text{Flex Rate Discounts}^b)$

$SURCHARGE = 10\% \text{ of Retail Electric Revenues}^c$

Notes: a. GFT=General Fund Transfer
b. Second Preceding Year
c. Exempted Fuel Cost= 19.5 mills/Kwh

ADVANTAGES OF THE CURRENT FORMULAS

- I. ACCOUNTABLE
 - GFT based on audited results from second preceding year.
 - Surcharge based on current year sales.
- II. PREDICTABLE
 - Based on Historical Performance
- III. FISCALLY PRUDENT
 - Bond rating agencies like consistency

PROBLEMS WITH THE CURRENT FORMULAS

- I. SURCHARGE
 - A competitive disadvantage in unincorporated service territory
 - Proportional to Revenue
- II. GENERAL FUND TRANSFER
 - Penalizes General Government for:
 - Cost Savings
 - Rate Reductions
 - Consumer Efficiency
- III. REWARDS GENERAL GOVERNMENT FOR:
 - Increased Expenditures
 - Rate Increases
 - Increased Consumption

STRATEGIES FOR ELECTRIC SURCHARGE

- I. ELIMINATE ELECTRIC SURCHARGE
 - No streetlight payments to County
 - \$3,000,000 net loss in revenue in 2003
- II. REPLACEMENT REVENUE STREAMS
 - Rate Stabilization Funds
 - Adjust Prices for Other Systems
 - New Revenues
- III. INSTITUTE COST SAVINGS

STRATEGIES FOR ELECTRIC GENERAL FUND TRANSFER

- I. PLACE GFT FORMULA ON NET REVENUE BASIS
- II. PLACE GFT FORMULA ON A COST PER DELIVERED kWh BASIS (FIXED DELIVERY CHARGE)

*See PFM Report, January 2000

COMPARISON OF FIXED DELIVERY CHARGE TO CURRENT FORMULA

CRITERIA	FIXED DELIVERY CHARGE	CURRENT FORMULA
Lose Retail Generation	No effect	Lose GFT
Reduce Costs/Rates	No effect	Reduce GFT
Increase Costs/Rates	No effect	Increase GFT
Mild or Severe Weather	Proportional to sales	Less Sensitive
Customer and Sales Growth	Proportional	Non-Linear Relationship
Sensitivity to Management Decisions/Timing	Low	Low
Administration	Simple	Simple

DISCUSSION OF FIXED DELIVERY CHARGE

- I. COMPETITIVE POSITIONING
 - Customer gets generation at cost
 - Optimal position for competitive comparisons
 - Protects fixed costs, investments
 - Increases competitor's price hurdle for retail wheeling
- II. EXAMPLE FIXED DELIVERY CHARGE
 - .6 - .7 cents per kWh delivered retail
- III. REGULATORY ACCEPTANCE MUST BE EXPLORED

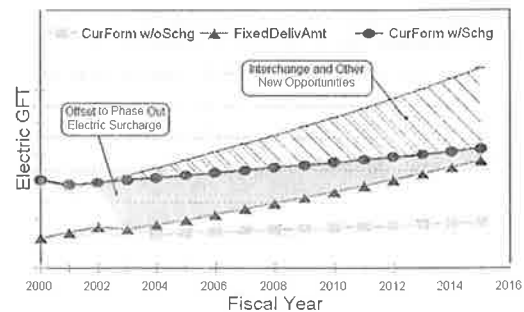
CONCEPT

- I. MAINTAIN GFT LEVEL TO BE IN UPPER QUARTILE OF NATION
 - Reflects Gainesville's Unique Tax Basis
- II. START FIXED DELIVERY FORMULA IN 2001
 - Protects GFT From Lost Retail Generation Sales
 - Removes Disincentives in Current Formula
- III. ELIMINATE ELECTRIC SURCHARGE UPON DEREGULATION
 - Expected in 2003

CONCEPT (continued)

- IV. USE RATE STABILIZATION FUND AND/OR PRICES IN OTHER SYSTEMS TO PHASE OUT ELECTRIC SURCHARGE
- V. USE NEW PRODUCTS AND SERVICES, INTERCHANGE SALES TO HELP AUGMENT GFT

Projections of GFT Prev Projs vs New Formula



GRUNet PROGRESS REPORT

- WE ARE APPROACHING 2,500 CUSTOMERS
- PREVIOUS RESEARCH SAYS THAT WE CAN CONTINUE TO GROW
 - 7 of 10 Customers have a computer
 - About 1 in 3 customers said that they would buy Internet service from GRU (prior to rollout of GRUNet)

GRUNet PROGRESS REPORT

- OUR GOAL IS 5,000 CUSTOMERS BY JANUARY 2001
- NET REVENUE PER CUSTOMER PER MONTH ROUGHLY EQUATES TO NET REVENUE FROM AVERAGE WATER/WASTEWATER RESIDENTIAL CUSTOMER

GROWTH OF GRUNet

- BEGAN LIMITED OFFERING IN SPRING 1998
- BY MAY 1998 WE HAD ABOUT 300 CUSTOMERS
- ONE YEAR LATER WE HAD ABOUT 1100 CUSTOMERS
- MARKETING WAS MAINLY
 - Word of Mouth
 - Employee Publications
 - Flyer at SFCC, UF
 - Classified ads in the Gainesville Sun and Alligator

GROWTH OF GRUNet

- IN MAY 1999, WE RECEIVED PERMISSION TO OFFER TO ANY CUSTOMER
 - Growth was steady
- IN JULY, WE BEGAN TO PROMOTE
 - We Developed a logo for GRUNet
 - Advertising and collateral
 - Purchased media (Gainesville Sun, Alligator, KTK, Kiss 105.3, Magic 101.3, GC101/Star)

RESULTS

- DURING A SIX-MONTH PERIOD (MAY-NOVEMBER 1999), GRU CUSTOMERS INCREASED BY NEARLY 800
- DURING TWO DAYS OF THE CAMPAIGN WE RECEIVED OVER 300 PHONE CALLS

WHAT'S NEXT

- CDs AVAILABLE IN STORES
- TARGETED MARKETING
 - Direct Mailing (Customer Handbook)
 - Customer Bulletin (Separate Insert)
 - Special Events
 - Periodic Advertising Campaign

BENEFITS

- FUTURE INCOME TO GENERAL FUND
- GOOD, RELIABLE ISP FOR OUR CUSTOMERS
- EXPERIENCE IN A COMPETITIVE INDUSTRY
 - Automated Customer Service
 - Competitive Sales and Advertising
 - High-Tech Customer Support

BUDGET DEVELOPMENT

TARGET ASSUMPTIONS

- Expenditure levels will be determined by revenue projections
- Amounts allocated to departments represent an accurate percentage of the overall revenues

BUDGET DEVELOPMENT

TARGET ASSUMPTIONS

- Personal Services growth will continue at similar rates
- All union contracts are open in 2002
- Pension changes have been considered

OTHER EXPENDITURE ASSUMPTIONS

- Deregulation Reserve funded at \$850,000 in FY 2001 and \$1.1 million in 2002
- Not going to the rolled back rate and retaining the millage at 4.9416
- Reservation of small amounts to fund any increases from the Pay Plan and Paid Time Off studies

STRATEGIES TO BALANCE THE BUDGET

- Reduce number of employees
- Reduce benefits (raises, compensation)
- Cut specific programs
- 'Across the Board' cuts in operating and personal services

DEPARTMENTAL PROPOSALS

- Each Department was asked to submit proposals to reduce their budgets by 2.68 which was the estimated difference between the projected 2001 revenues and expenditures.
- Departments were also asked to investigate alternate methods of raising revenues
- DECREMENT \$1,560,000

DECREMENTS - GPD

- Discontinue Professional Standards Unit (1 Lieutenant, 1 Officer) - \$81,057
- Reduce FOCUS Unit (1 Sergeant, 1 Corporal, 3 Officers) - \$187,024
- Reduce Support Functions (1 Officer, 1 Vehicle Service Attendant, 1 Staff Assistant, 1 Staff Assistant II) - \$126,352
- Discontinue Joint Aviation Unit - \$75,909
- Reduce Operating Expenses - \$108,576
- **TOTAL REDUCTIONS: \$578,918**

DECREMENTS FIRE RESCUE

- Eliminate Firefighter Positions (2) - \$83,000
- Eliminate Supply/Equipment Specialist Position - \$28,500
- Reduce Overtime - \$127,121
- Reduce Operating - \$3,600
- **TOTAL REDUCTIONS: \$242,221**

DECREMENTS PUBLIC WORKS

- Transfer street sweeping debris disposal and concrete recycling to the Solid Waste Fund, \$15,825
- Transfer personnel services costs to Stormwater Management Fund, \$97,941
- Personnel Impacts - none
- **TOTAL REDUCTIONS: \$113,766**

DECREMENTS COMMUNITY DEVELOPMENT

- Reduce Demolitions - \$27,436
- Reduce Lot Clearing - \$2,250
- Eliminate Planning Aide Position (0.5) - \$14,500
- Reduce Operating - \$7,294
- **TOTAL REDUCTIONS: \$51,480**

DECREMENTS RECREATION & PARKS

- Eliminate Archery, Skeet, & Chess Club Support - \$20,500
- Eliminate Recreation Aide Position (0.5) - \$11,600
- Eliminate Contract Tree Removal - \$74,500
- **TOTAL REDUCTIONS: \$106,650**

DECREMENTS CULTURAL AFFAIRS

- Reduce Support Service - \$24,395
- Eliminate UF Fanfare & Fireworks - \$6,000
- **TOTAL REDUCTIONS: \$30,395**

**DECREMENTS
FACILITIES MANAGEMENT**

- Eliminate Night Carpet Cleaning Crew and contract for this service - \$46,323
- **TOTAL REDUCTIONS: \$46,323**

**DECREMENTS
BUILDING INSPECTIONS**

- Reduce Staff Support for permit counter- \$18,589
- Reduce Operating - \$4,340
- **TOTAL REDUCTIONS: \$22,929**

**DECREMENTS
RISK MANAGEMENT**

- Employee Health Benefit Reductions

Increase Deductibles (Both Plans)
- \$162,000
Increase Out of Pocket Maximum (Both Plans)
- \$54,000
Increase Brand Name RX Co-Payment
(Care Manager Only) - \$54,000

TOTAL REDUCTIONS: \$270,000

**DECREMENTS - Other
Departments:**

Economic Development, Equal Opportunity, Human Resources, Administrative Services, Computer Services, Finance, Management and Budget, City Manager

**DECREMENTS - Other
Departments:**

- Personal Services - \$83,078
 - User Support Technician - 1.0
 - Staff Assistant II - 0.5
 - Staff Assistant I - 0.5
 - Account Clerk I - 1.0
- Operating Expenses - \$98,427

**OTHER CHARTER OFFICER
AND COMMISSION
DECREMENTS**

- Clerk of the Commission - \$15,393
- Auditor - \$9,406
- Attorney - \$26,696
- City Commission - \$4,775
- Commission Contingency - \$4,020

POTENTIAL NEW REVENUES

- Occupational License Increase (\$35,000 to 40,000)
- Fee for Summer Playground Program (\$89,000)
- Business Registration Fees
- Increased Building Fees (\$103,000)

POTENTIAL NEW REVENUES

- Gas Tax
- Fire Assessment
- Differential Recreation Fees
- Property Tax Increase – Half a mill levies \$1 million

CITY COMMISSION DECISIONS

- Decrements
- Revenue Alternatives
- Utility Transfer Issues