

**CITY OF GAINESVILLE FLORIDA FUEL HEDGING PROGRAM  
FY2020 QUARTERLY REPORT FOR THE PERIOD ENDING  
SEPTEMBER 30, 2020**

**PROGRAM**

The Fuel Hedging Program is designed to minimize large budget variances resulting from the volatility of fuel prices. Hedging increases budget certainty and facilitates more effective utilization of budgetary resources. The purpose of the City's Fuel Hedging Program is not to speculate on the price of fuel but to manage risk, particularly as that relates to the City's annual budget. The Fuel Hedging Program is not an investment and should not be construed as such. Cash flows produced or consumed by the Fuel Hedging Program will be considered as an element of fuel cost.

The Fuel Hedging Program requires that the Finance Director report compliance with the Fuel Hedging Program and program performance to the City Manager and City Commission on a quarterly basis. This report is provided for the quarter ending September 30, 2020.

**DISCUSSION**

The purpose of this report is to present the status of compliance and performance for the Fuel Hedging Program and how this compliance and performance affected the cost of petroleum fuels purchased and consumed by the City during the quarter.

**COMPLIANCE**

As of the date of this report the Fuel Hedging Program is in compliance with all the specified limitations and requirements as set forth in the Fuel Hedging Program guidelines.

- **Maximum Allowed Hedge Maturity is 18 months** – the Fuel Hedging Program is currently in compliance with this parameter. Current diesel fuel hedging extends from October 2020 through February 2022 and current gasoline hedging extends from October 2020 through January 2022.
- **Maximum Allowed Percentage Hedged is 80%** - the Fuel Hedging Program is currently in compliance with this parameter.

	<b>Fiscal Year 2021</b>	<b>Fiscal Year 2022</b>
<b>Diesel</b>	79.62%	26.54%
<b>Gasoline</b>	73.90%	24.63%

**PERFORMANCE**

**Fourth Quarter FY 2020**

During the fourth quarter, petroleum fuel costs not including hedging were approximately \$1.43 per gallon. Net of hedging, the fuel cost was approximately \$1.46 per gallon vs. a weighted average budgeted cost for diesel and gasoline for FY 2020 of \$1.69 per gallon. Actual volume consumed was about 82,000 gallons less than budgeted. The lower price and lower volume consumption caused a positive budget variance for the quarter of approximately \$19,000 including the effect of the hedge.

During the fourth quarter, the Fuel Hedging Program produced a positive fuel cost (hedging realized loss) of approximately \$9,750 or approximately \$0.03 per gallon.

### **Prospective**

As of September 30<sup>th</sup>, there was an unrealized loss (contingent future positive fuel cost) of \$154,119 that corresponds to the time period October 2020 through February 2022. This is an unrealized loss of about \$0.07 per gallon on average for the time period for diesel and gasoline combined.

### **NEXT STEPS**

- Continue to accumulate new hedges for FY 2022 as market conditions allow within policy.
- Maintain the size of the hedge in order to protect the City's petroleum fuels budget against adverse price movements in the petroleum market.