



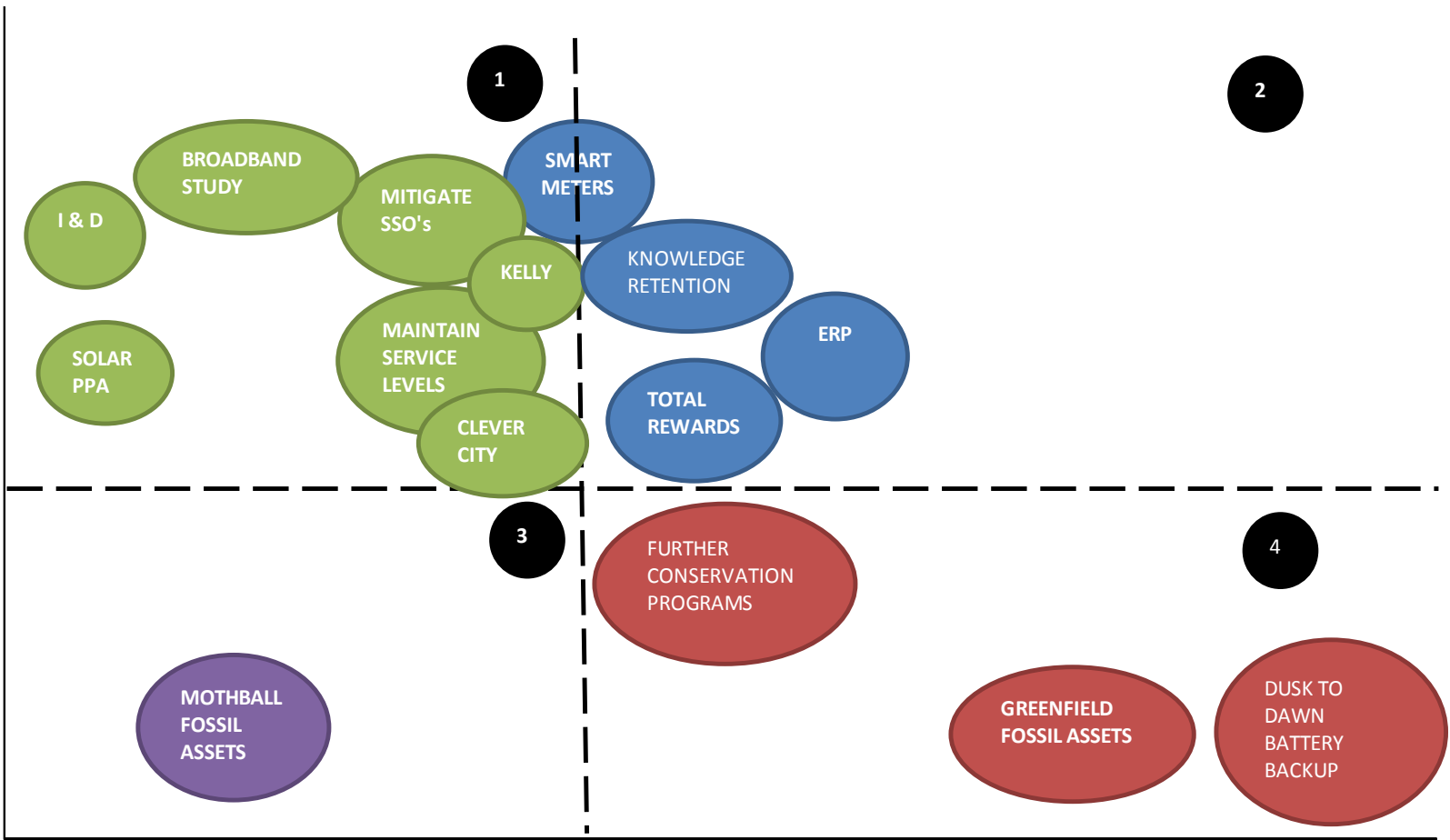
DISCUSSION OF THE GENERAL FUND TRANSFER

January 2019



2019 - 2024
STRATEGIC INITIATIVES

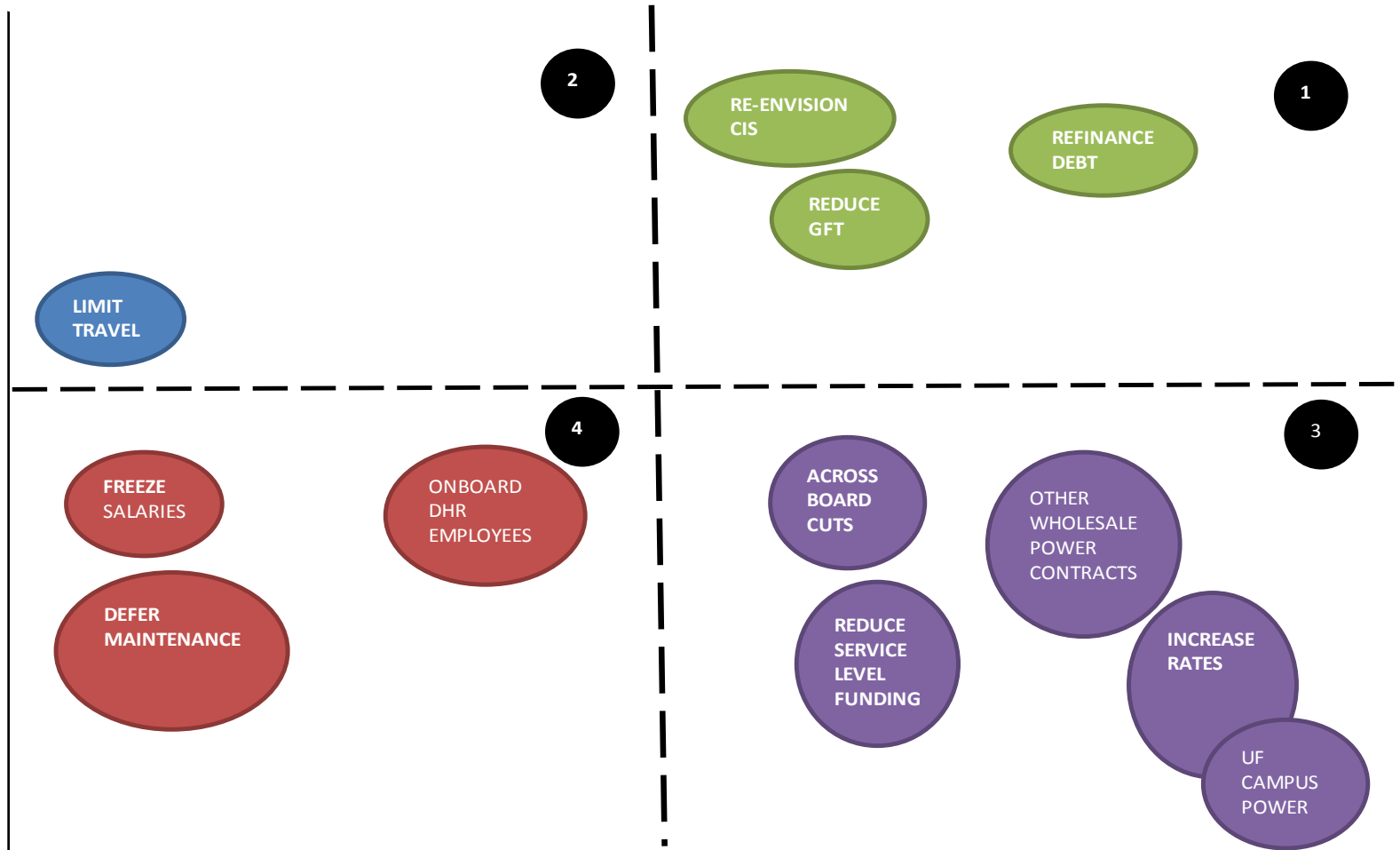
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OVERALL COST

2019 - 2024 STRATEGIC FUNDING

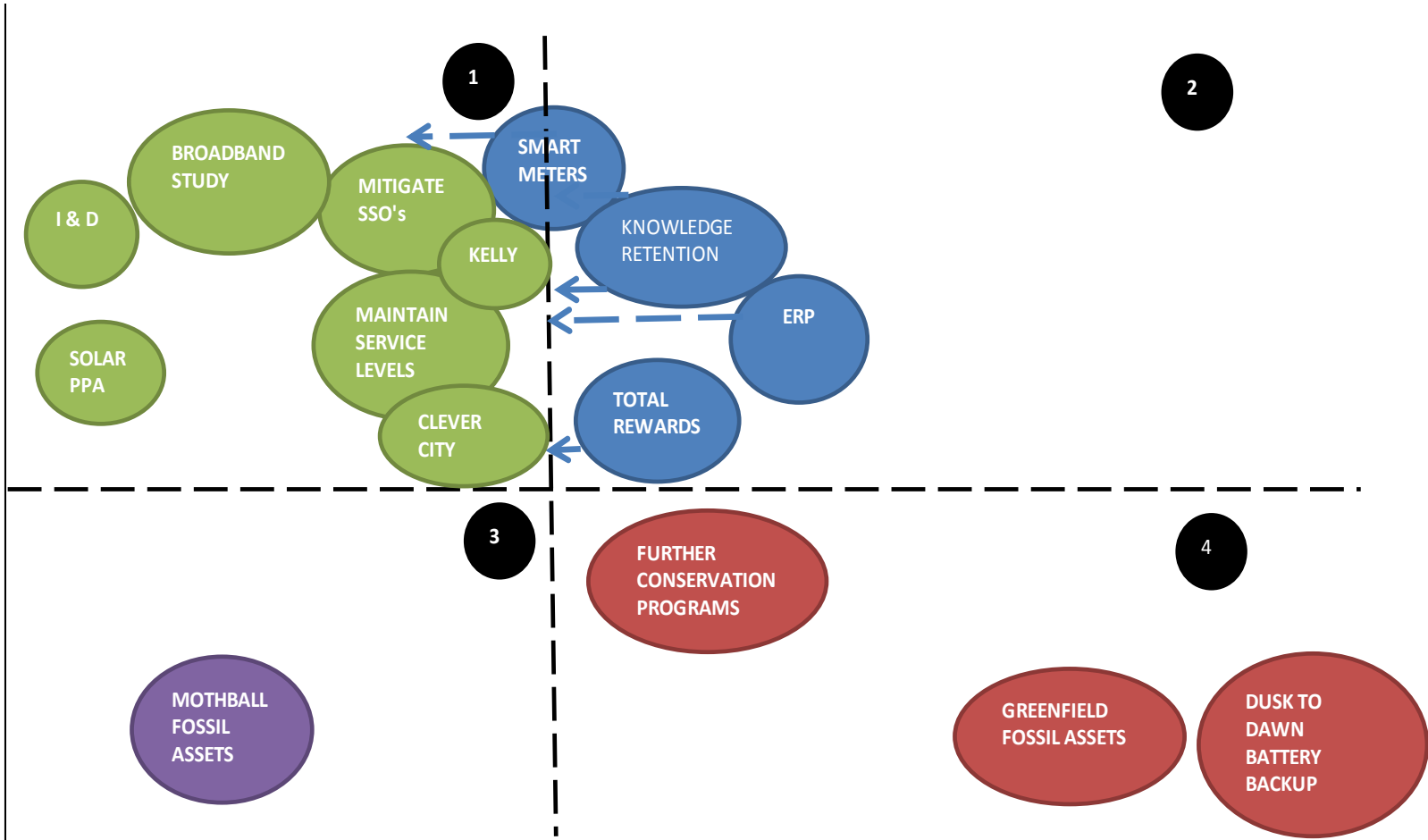
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SAVINGS/INCREASED REVENUE

2019 - 2024
SHIFT IN STRATEGIC INITIATIVES

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As available resources increase (rate increases, debt refinancing, GFT reduction, etc) strategies become more viable.

General Fund Transfer Current Status

- FY19 final year of previous five year agreement
- Moving forward (FY20) dynamic tension exists between GG & GRU
 - General Government has a financial interest in the maintenance/growth in level of transfer
 - GRU has a financial interest in a tighter correlation between ability to pay and level of transfer
- Recent and projected GFT levels exceed GRU “profits”, forcing GRU to draw down operating cash to make payment

General Fund Transfer

General Fund Transfer Payment Priorities

- Per Section 505 of the Utilities System Revenue Bond Resolution funds shall be paid in the following order
 - O & M expenses
 - Transfers to Rate Stabilization Fund
 - Transfers to Debt Service Funds
 - Payments to Utility Plant Improvement Funds
 - General Fund Transfer

- Flow of Funds

Revenues

Less O & M expenses

Equal Net Revenues

Less Debt Service Expense

Less UPIF contributions

Profit : Funds Available to Make GFT Payment

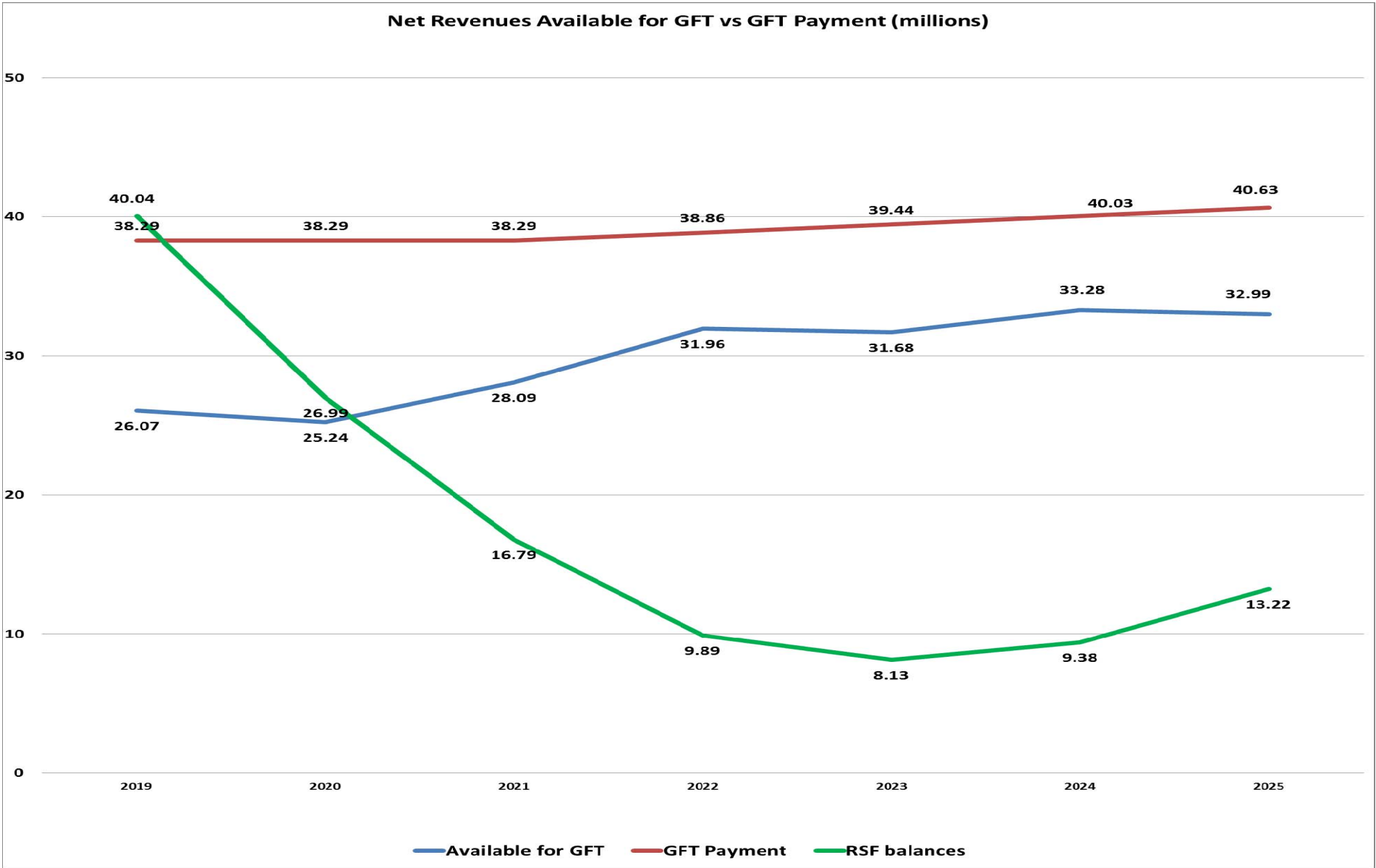
General Fund Transfer

What Is The Amount of the Shortfall ?

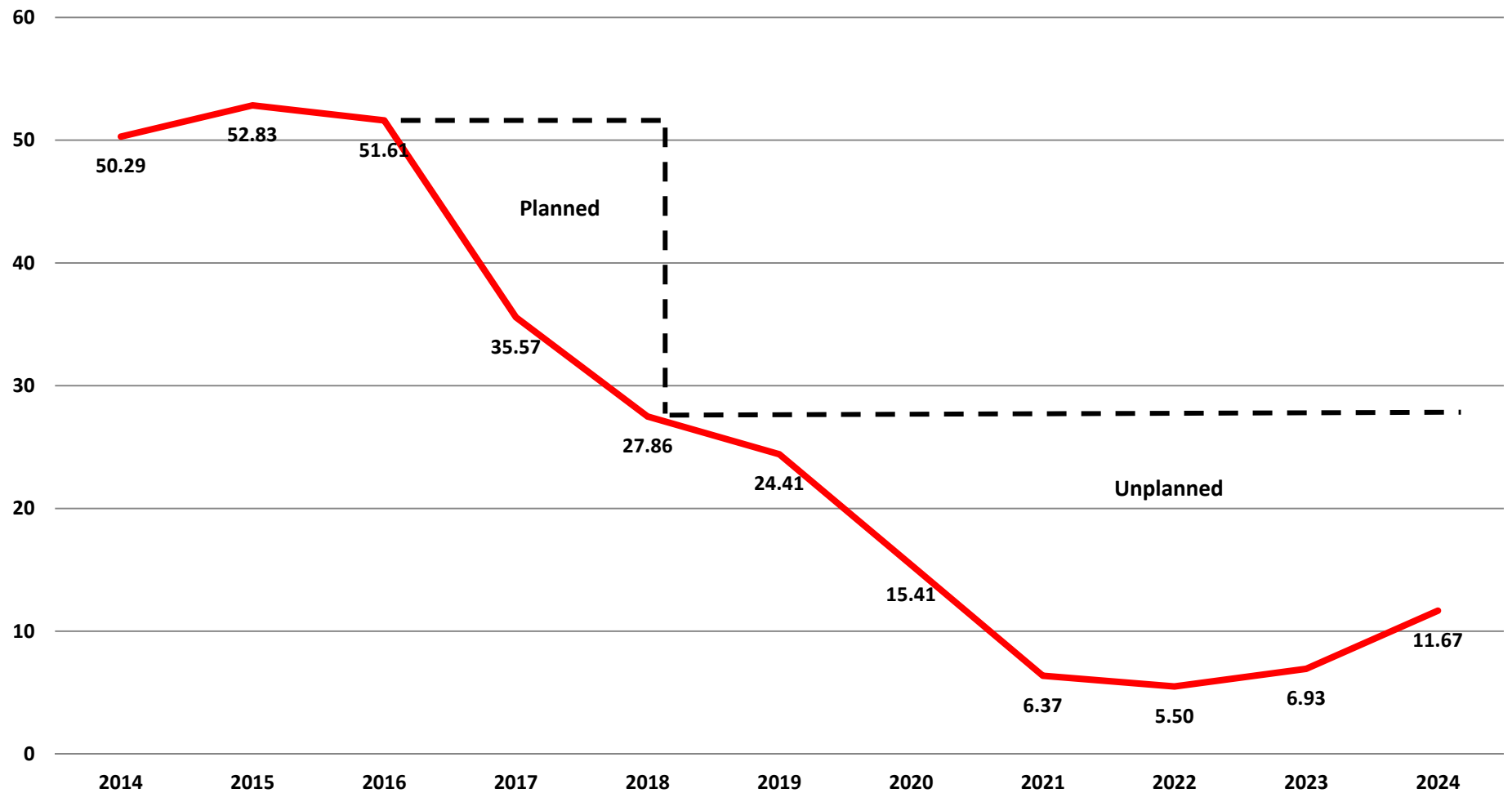
- In recent years and projected upcoming years, GFT payments under the agreements in place have significantly exceeded this amount available to make the GFT payment
 - FY17 \$11.7 million
 - FY18 \$ 3.9 million
 - FY19 \$12.2 million
 - FY20 \$13.1 million
 - FY21 \$10.2 million
- The shortfall reflects a shift in GRU's business model, which we will talk about later

General Fund Transfer

	FY17	FY18	FY19	FY20	FY21
Net Revenue	128,535,574	163,755,181	165,468,462	173,699,403	182,695,154
Debt Service expense	62,571,817	90,095,336	98,113,881	105,454,324	111,892,934
UPIF contribution	41,858,096	41,120,553	41,284,409	43,003,664	42,716,519
Available for GFT payment	24,105,661	32,539,292	26,070,172	25,241,415	28,085,701
GFT payment	35,814,010	36,379,079	38,285,001	38,285,001	38,285,001
Payment in excess of available funds	11,708,349	3,839,787	12,214,829	13,043,586	10,199,300



Electric Rate Stabilization Fund (millions)

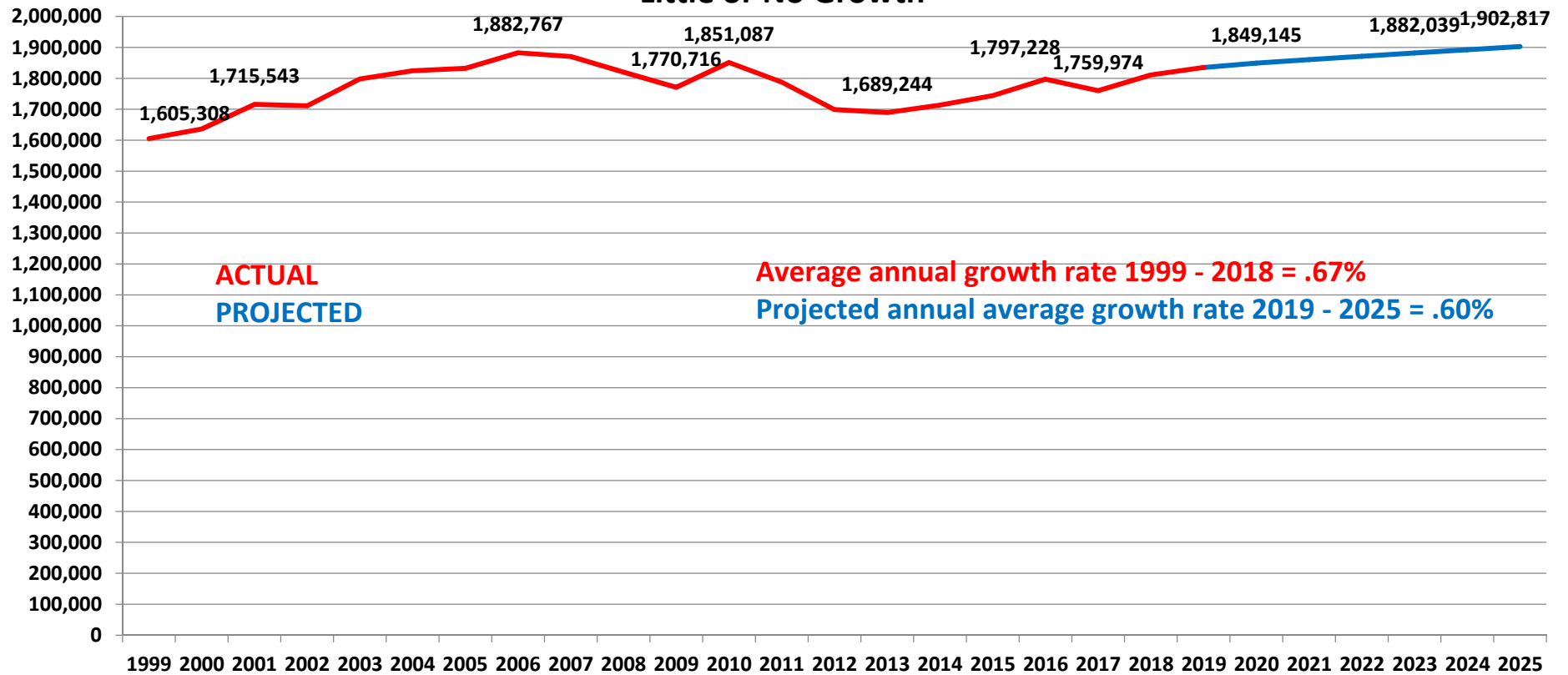


General Fund Transfer

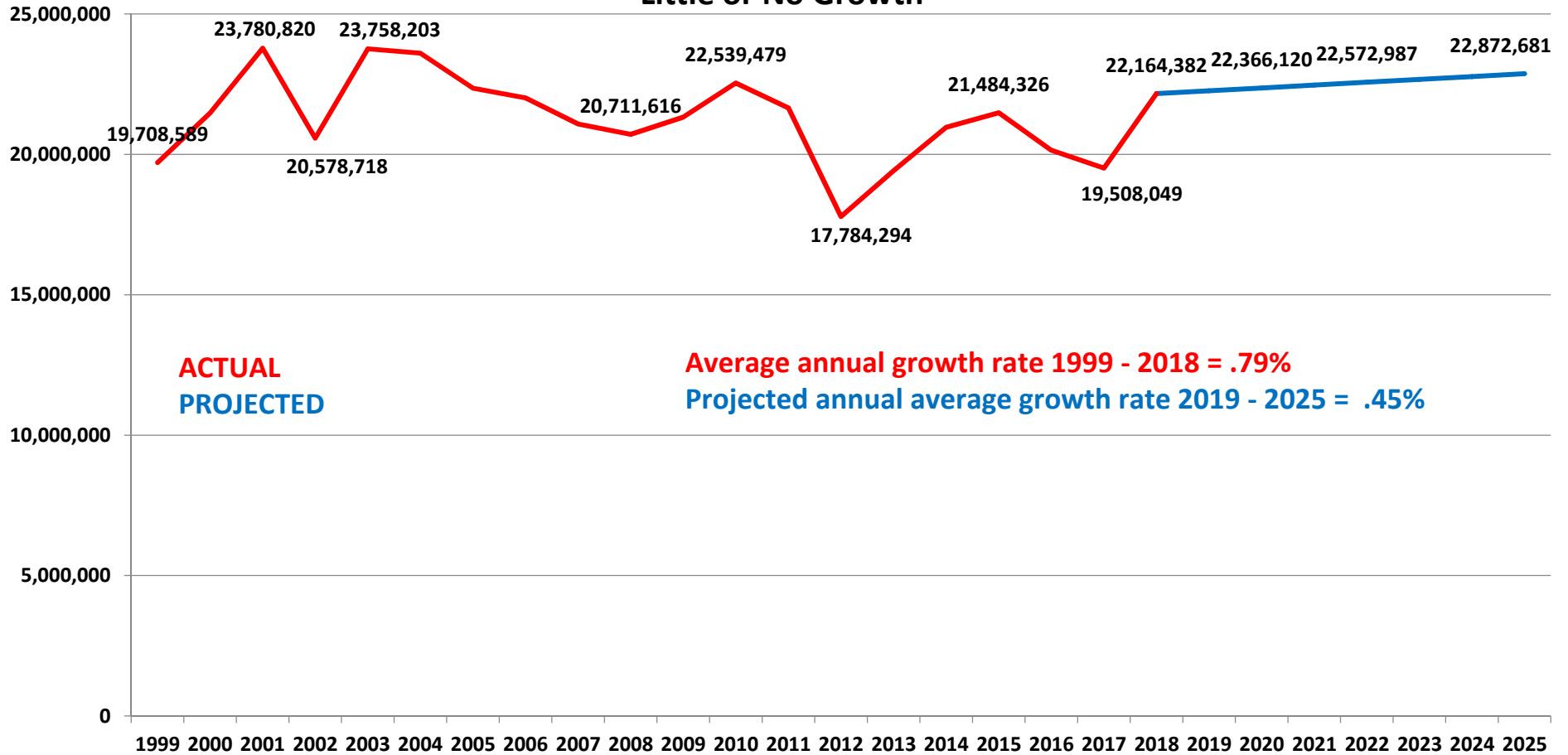
Shifts in GRU Business Model

- FY16 change in capitalization practices: more expenses to O & M vs capital
 - Approximately \$7M per year
 - Increases base rate pressure
- Addressing deferred infrastructure needs – modernizing plants & systems
- No more one-time money on horizon – in FY16 \$15M
 - \$10M from sale of CR3 interests
 - \$3.5M from unwinding Disability Trust Fund
 - \$1.5M from sale of System Dispatch building
- No electric base rate increases between 2012 and 2017
 - 5.6% base rate reduction in 2014 and 8.5% reduction in 2015
- Flat sales in all systems (both actual & forecast) vs increasing costs:
 - Personal services 2%
 - GFT 1.5%
 - Construction Cost Index 3% - 4%
 - Variable costs (CPI) exceeding growth rate in sales

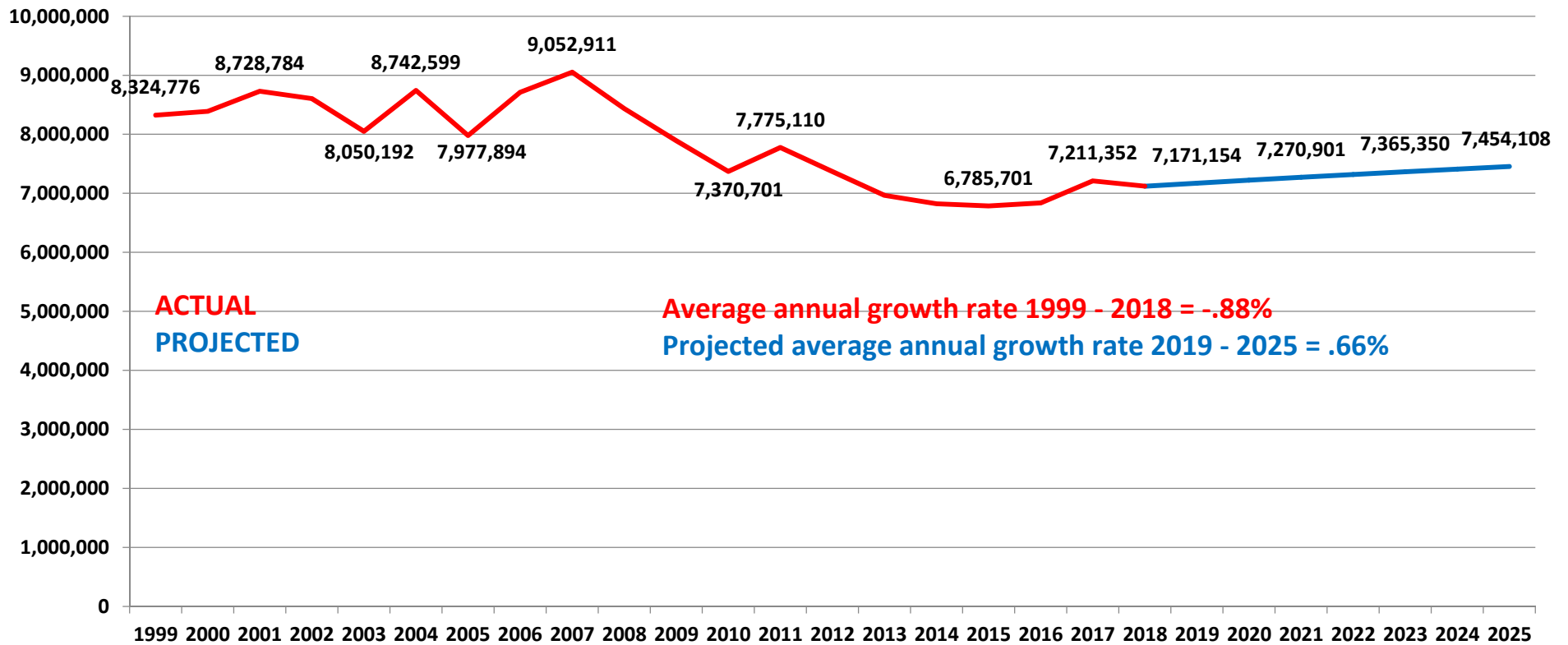
Electric System Trend in MWh Sales Little or No Growth



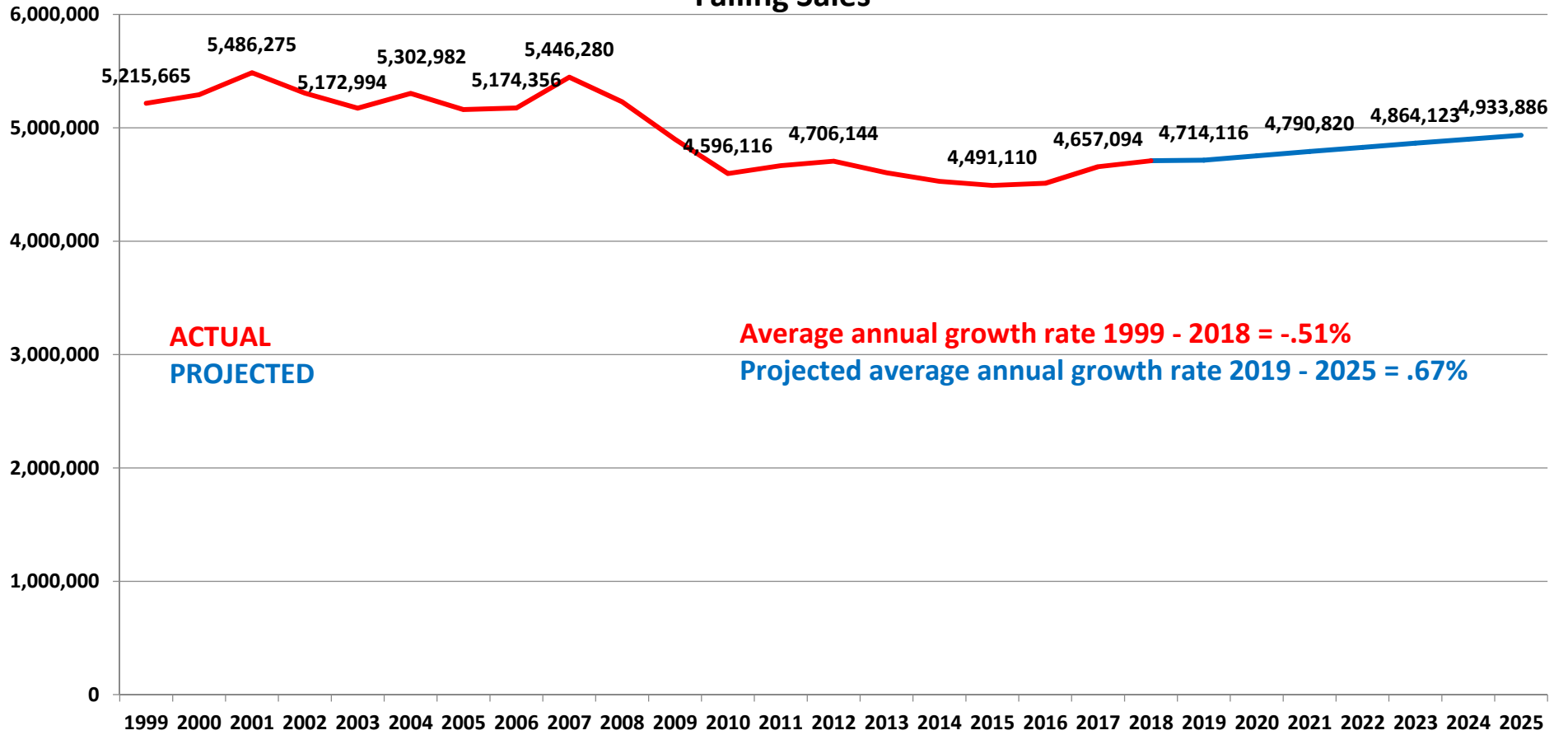
Gas System Trend in Therms Sold Little or No Growth



Water System Trend in kGals Sold Falling Sales

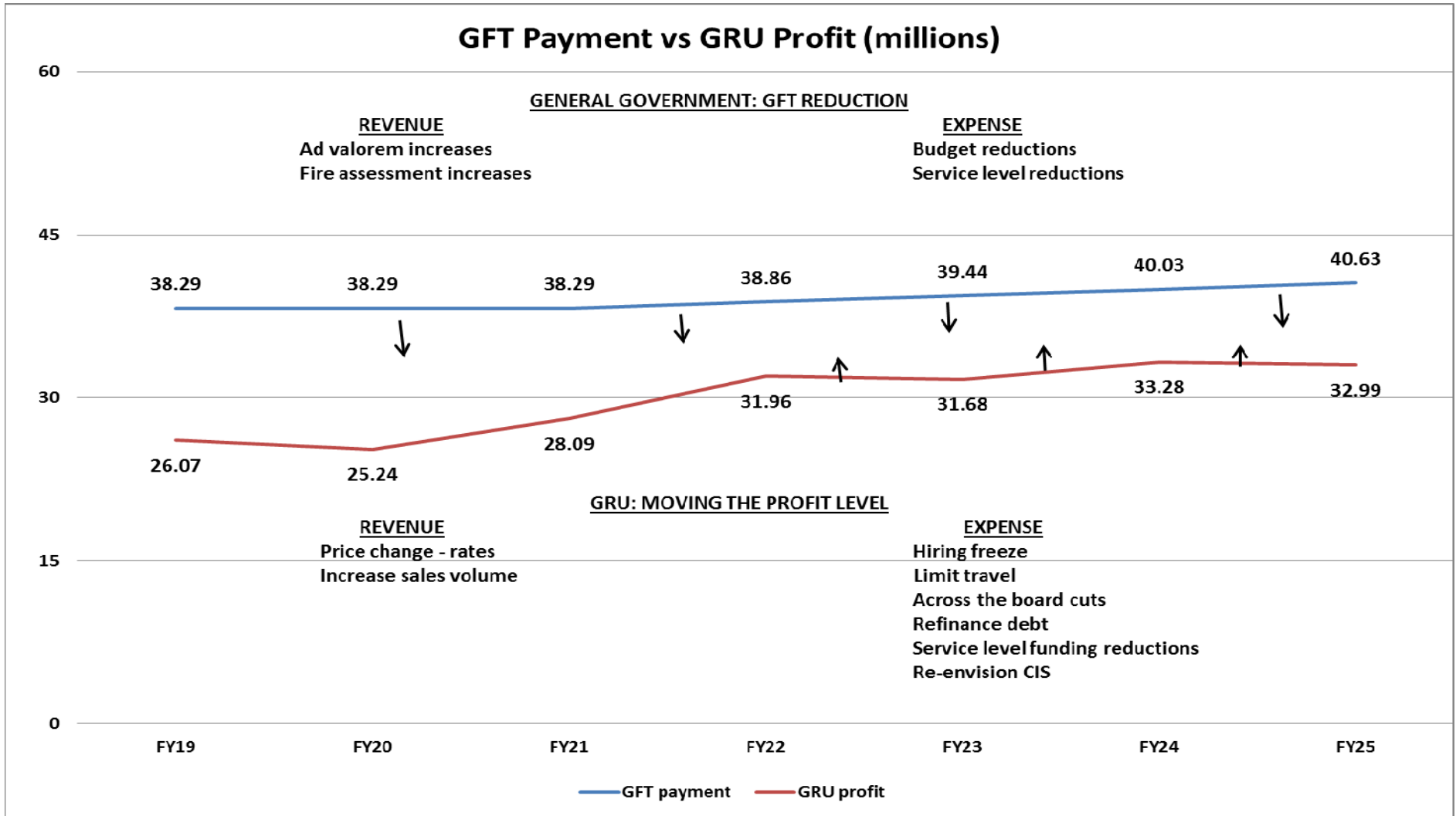


Wastewater System Trend in kGals Sold Falling Sales



General Fund Transfer

Sharing the Burden in the GFT Reduction



ADDENDUM

General Fund Transfer History

General Fund Transfer History

- Prior to 1986 no predetermined or formulaic mechanism for calculating GFT
- General Government prepared budget which included a dollar amount to be derived from transfer as part of annual General Fund revenue budget
- Amount proposed by General Government was based on its need to support expenditure budget requirements

General Fund Transfer History

- During FY86 budget hearings GRU presented report to City Commission proposing that transfer was too high
- GRU contended that over the period FY81 – FY86 there was no apparent correlation between utility's ability to pay and the amount of the transfer
- GRU staff noted that bond rating agencies preferred that transfers from a municipally owned utility to a general government be based on a formula

General Fund Transfer History

- Based on these issues GRU recommended that General Manager and City Manager should develop a formula for approval by the City Commission to determine future transfers
- Formula should include the following characteristics:
 - Track the utility's ability to pay
 - Be stable rather than volatile
 - Be simple and easy to administer
 - Provide an appropriate return to General Government

General Fund Transfer History

- April 14, 1986 the City Commission voted to establish a formula to determine the amount of Electric Fund and Water Fund revenues to be transferred to General Government
- Components of the transfer were:
 - 14.65% of gross electric revenues from second preceding year, less fuel and electric surcharge from second preceding year, plus
 - Electric surcharge from current year, plus
 - Water surcharges from current year, less
 - Water surcharges from second preceding year

General Fund Transfer History

- 1989
 - Gross percentage of revenue similar to electric component introduced for water and wastewater systems
 - 5% of gross water & wastewater revenues from second preceding year

- 1990
 - Gross revenue component for water & wastewater increased from 5% to 11.5%
 - Gainesville Gas Company purchased – GRU transfers equivalent of gas franchise fee of \$187,500 to General Government

General Fund Transfer History

- 1991
 - Gross revenue component for water & wastewater is increased to 14.65% to match electric system percentage
 - Gas System incorporated into transfer formula

- 1993
 - Gross revenue component for Water System is adjusted to exclude water sales to the University of Florida
 - Consistent with practice of selling water to UF at a price that does not include profit

- 1999
 - GRUCom introduced into transfer process with negotiated dollar amount

General Fund Transfer History

- 2001
 - Concerns about potential deregulation
 - Impact of transfer on GRU competitive position
 - Craft a methodology that would furnish General Government with resources to continue service delivery levels and allow GRU to compete in a deregulated environment
 - Wanted modified formula to
 - Be predictable, verifiable, and stable
 - Provide for growth
 - Enable GRU to compete
 - Deal with electric surcharge as impediment to competitiveness
 - Provide a competitive return to shareholders, and
 - Satisfy rating agency issues

General Fund Transfer History

- 2001 continued
 - Electric System formula that came from this process was departure from gross revenue methodology
 - Moved to a retail kilowatt hour delivered basis
 - Two components
 - Base
 - Base component represented equivalent return would receive from private utility
 - Property tax
 - Franchise fee
 - Dividends (return on investment to shareholder)
 - Grows at 3% per year as long as 3 year rolling average of retail kilowatt hours delivered is equal to or greater than 0
 - Incentive
 - 3% of net interchange sales
 - One-half of the percentage growth in retail kilowatt hours delivered in excess of 3% multiplied by the base amount
 - Electric surcharge now retained by GRU

General Fund Transfer History

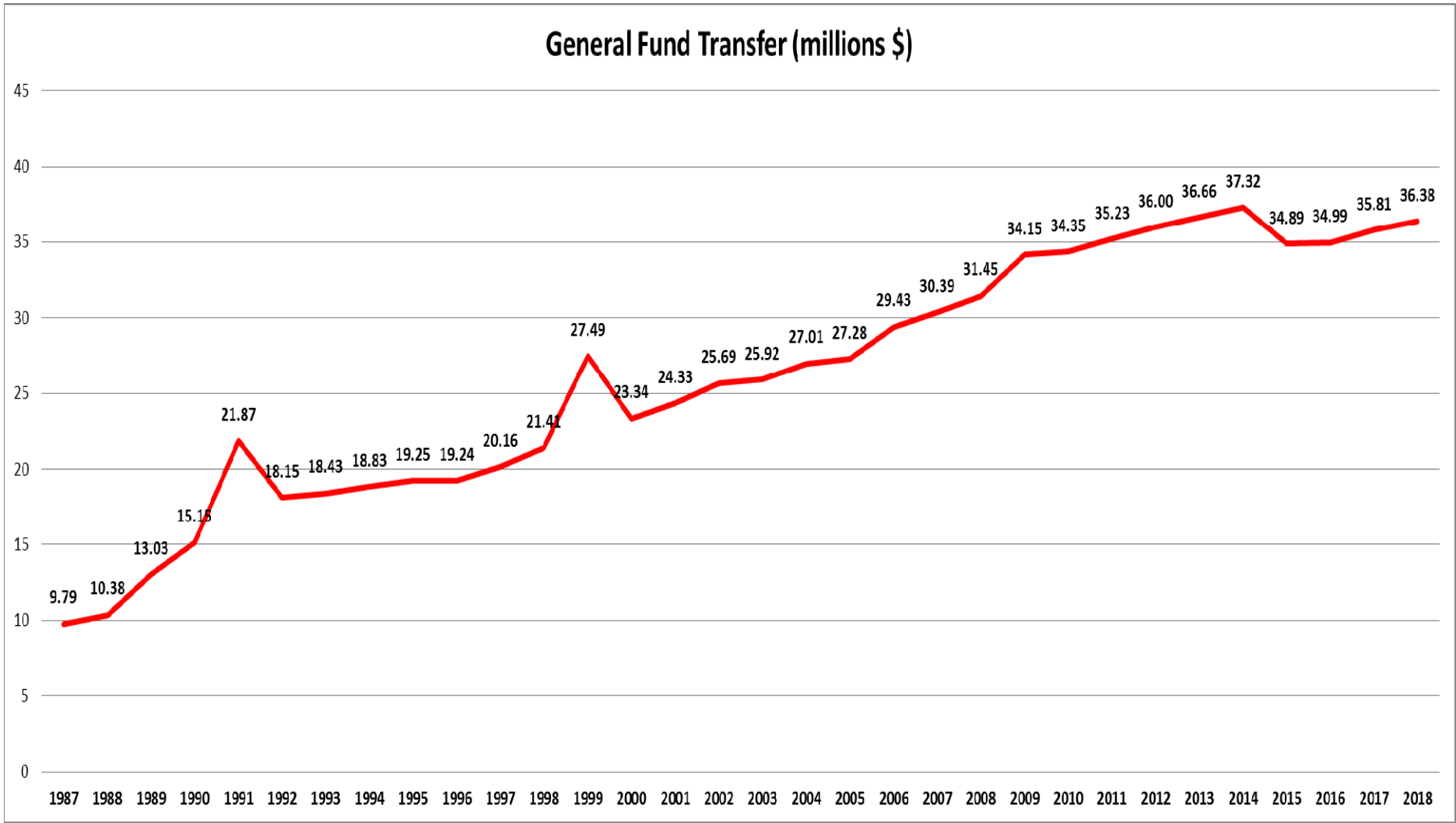
- 2002
 - Water/Wastewater connection surcharge added
- 2006
 - 10% gas surcharge added
- 2011
 - During the period FY00 – FY10 three year rolling average of retail kilowatt hours delivered was negative only one time, so transfer grew by 3% nine of ten years
 - But the three year average actually reached 3% only one of those ten years
 - From GRU perspective more was paid than was made nine out of ten years
 - Economic issues facing GRU and General Government in wake of recession
 - Both sides agreed changes to transfer methodology could be useful
 - General Government desired
 - Predictability
 - Stability
 - Element of guaranteed growth
 - GRU desired
 - Predictability
 - Stability
 - Flexibility to provide transfer from any system which had financial ability to pay rather than defined transfer by system as in existing model

General Fund Transfer History

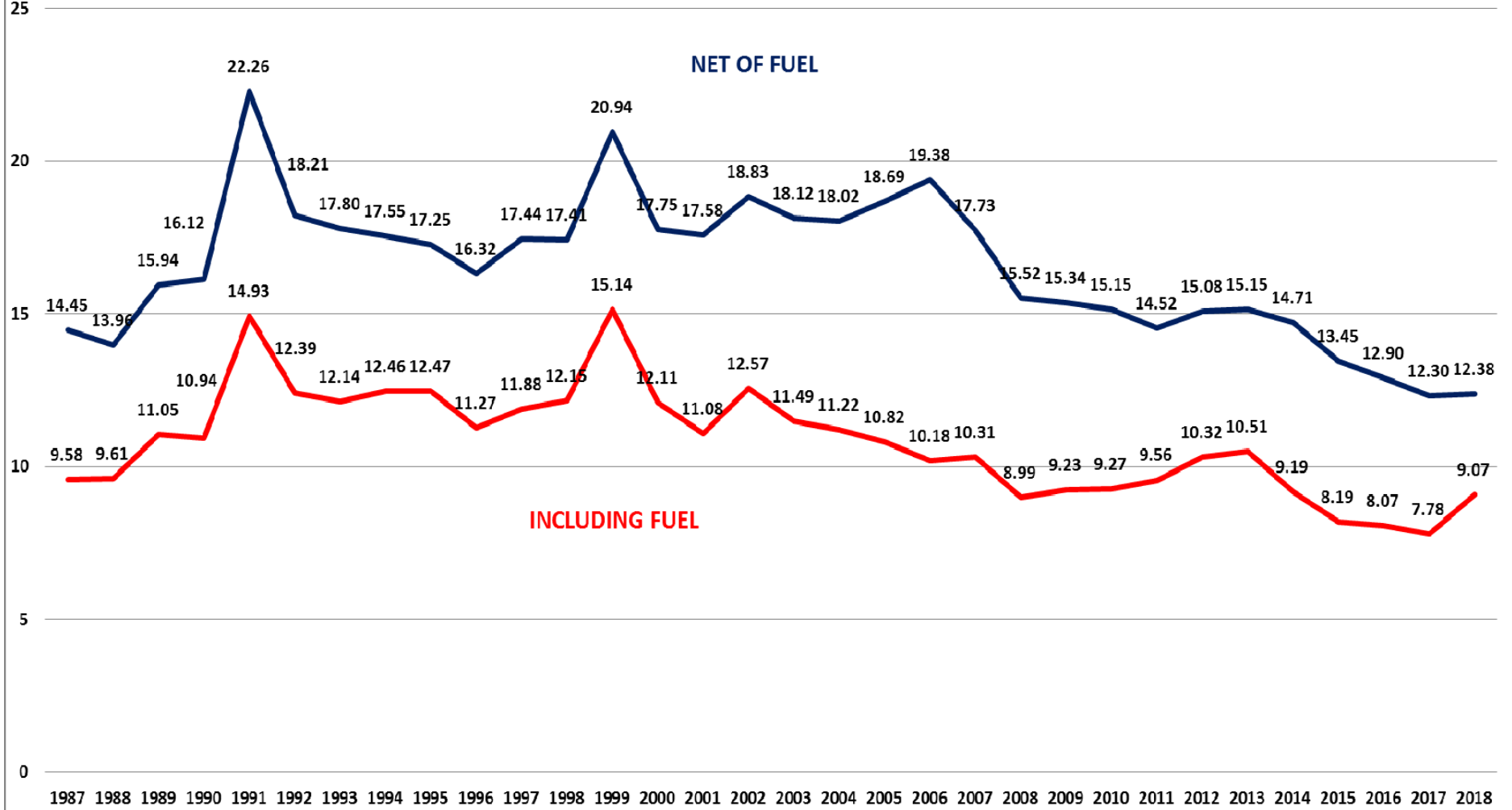
- 2011 continued
 - Result was four year agreement (FY11 – FY14) with fixed dollar transfers per year for each of the four years
 - Any difference between revised and former methodology in excess of \$500,000 would be shared between General Government and GRU
- 2015
 - Both sides seeking defined agreement to provide budget stability
 - Generated five year agreement with 1.5% per year growth in GFT
 - Ad valorem tax associated with biomass facility deducted from transfer
 - In recognition of GRU need for rate relief, first year amount of agreement (FY15) was approximately \$3 million reduction from FY14 level

General Fund Transfer

- FY18 GRU payments to General Government \$51,850,005 (unaudited)
 - General Fund Transfer \$36,379,079
 - Utility Tax \$12,275,758
 - Indirect Costs \$3,195,168



General Fund Transfer as a % of GRU Total Operating Revenue



COMPARABLE UTILITIES	
FY17 TRANSFER AS A % OF TOTAL OPERATING REVENUES	
Chattanooga Electric Power Board	3.1
Springfield Mo. Public Utility	3.4
Colorado Springs Utilities	3.8
Jacksonville Beach Combined Utility	4.1
Fort Pierce	5.8
Winter Park	6.1
Vero Beach	6.2
Lincoln Neb. Electric System	6.3
GRU	7.8
Kissimmee	8.9
Leesburg	8.9
Lakeland	9.8
Tallahassee	10.9
JEA	11.7
OUC	12.7