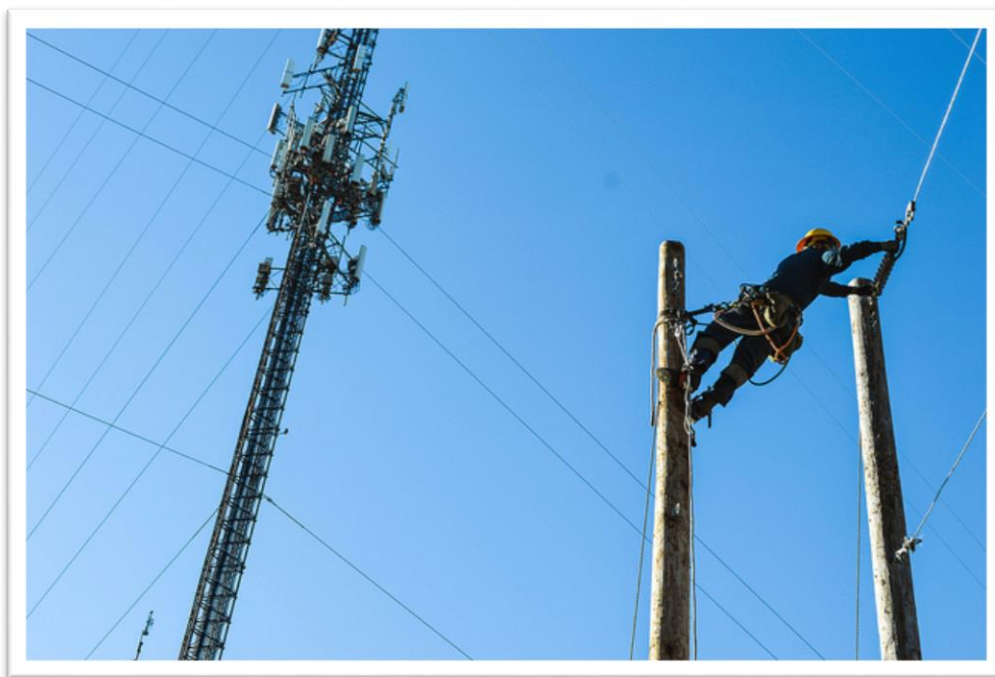




GRU by the Numbers

An analysis of suggested cost-saving measures

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Introduction

At a special Gainesville City Commission meeting held on Jan. 16, 2019, in the GRU Multi-Purpose Room, commissioners directed GRU to conduct analysis and explore potential savings on a host of suggestions related to a projected pre-GFT shortfall in GRU's cash flow.

As part of my Feb. 7, 2019, white paper, *GRU at a Crossroads*, I attached my initial response to those suggestions in Appendix 12. In this follow-up analysis, I will elaborate on these initial thoughts and the potential impacts of instituting these suggestions.

The following list captures the commissioners' suggestions from that meeting:

1. Analyze a debt restructure.
2. Review opportunities for wholesale power contracts.
3. Discuss Utility Plant Infrastructure Fund (UPIF) opportunities.
4. Explore solutions with UF power opportunities.
5. Explore Customer Service opportunities, such as combining GG and GRU.
6. Right-size GRU facilities (merge EOC with downtown Office, etc.).
7. Analyze the impacts of a hiring freeze.
8. Analyze the impacts of a travel ban.
9. Analyze charging customers for paper bills.
10. Analyze the impact of electric vehicles.
11. Update Commission on the current process of on-boarding NAES employees (current contract employees who run the DHR plant).
12. Analyze revenue opportunities of expanding GRUCOM into retail Internet.
13. Reconsider rehabbing Kelly Unit #8.
14. Analyze impact of service-level reductions and/or deferred maintenance.

Note: I have excluded the OneERP project from this discussion because I don't believe the suspension of the project is the end of its implementation. Rather the suspension is a pause to refresh the process and analyze our goals, hopefully driving down the overall costs. I will have more information on the OneERP project during the course of the budget meetings.

Suggestion #1 – Analyze a debt restructure

GRU issued an RFP on Nov. 20, 2018, requesting bids for approximately \$208 million to provide financial resources for the following purposes (see addendum 1):

- \$93 million to replace commercial paper.
- \$40 million in additional capital needs, previously planned as commercial paper issuance.
- \$75 million in additional capital needs, to include reimbursement of UPIF.

You will note that this RFP was strictly for a ~\$208 million fixed-rate transaction, later named the “2019 Transaction.”

On December 28, 2018, GRU issued a separate RFP requesting bids for approximately \$70 million, with a planned closing in March 2019 (see addendum 2). The intent of this RFP was to amortize the \$70 million variable-rate debt with a final maturity of approximately 30 years. This transaction was the debt restructuring.

The result was that GRU has combined the \$208 million fixed-rate transaction and the \$70 million debt restructuring into a 2019 Transaction that contains the following components (see addendum 3):

Series	Details
Tax-exempt Series A	<ul style="list-style-type: none"> • Provide \$73 million of funding for capital projects in FY2019 and FY2020 • Provide \$23 million to replenish the UPIF • Convert \$85 million of GRU’s outstanding tax-exempt short-term commercial paper to long-term bonds
Taxable Series B	<ul style="list-style-type: none"> • Generate \$8 million of GRUCom capital projects over the next several years • Convert \$8 million of taxable commercial paper previously used for GRUCom projects to long-term bonds • Refund \$10.1 million of outstanding Series 2005B bonds maturing in FY2019 through FY2021
Tax-exempt Series C	<ul style="list-style-type: none"> • Provide \$10 million to fund capital projects and refund \$57 million of certain maturities of outstanding variable-rate bonds

The 2019 Transaction was designed this way to accomplish the following goals:

- Take advantage of current low, long-term rates and convert rising short-term debt vehicles (see addendum 4), thus converting \$93 million of short-term commercial paper into long-term bonds.

- Provide \$91 million for capital expenditures in FY2019 and FY2020.
- Provide \$23 million to replenish UPIF.
- Provide \$67 million to refund the FY2019 through FY2021 variable-rate maturities and create a new debt payment schedule. This component represents the debt restructuring the City Commission requested.

The debt restructure portion of the 2019 Transaction will generate the following debt reductions in FY2019 through FY2024 (see addendum 5):

FY2019	\$9.9 million
FY2020	\$13.3 million
FY2021	\$12.9 million
FY2022	\$10.3 million
FY2023	\$8.6 million
FY2024	\$10.2 million

The debt restructure portion of the 2019 Transaction will also generate the following debt payment increases in FY2025 through FY2047 (see addendum 5):

FY2025 through FY2040	\$2.1 million per year
FY2041	\$10.9 million
FY2042	\$14.1 million
FY2043	\$10.8 million
FY2044	\$14.7 million
FY2045	\$14.7 million
FY2046	\$10.5 million
FY2047	\$.4 million

BOTTOM LINE: This is the most significant financial vehicle to gain headroom in managing current shortfalls, albeit at the expense of paying higher debt payments in the future. As discussed in *GRU at a Crossroads*, we cannot pursue this option without employing spending discipline and systematically sustaining reserves.

Suggestion #2 – Review opportunities for wholesale power contracts

GRU responds to bids from other municipalities and other potential wholesale power customers whenever the opportunity arises. In the past year, GRU has entered bids to sell power to the City of Bartow, the City of Winter Park and the City of Homestead. In all cases, GRU failed to secure the bid due to our higher costs for power generation and transmission.

The difficulty GRU has in responding to these bids is that the marketplace has not yet monetized the “green power” component of GRU’s portfolio.

Until Florida legislates a system of Renewable Energy Credits (RECs), which provides a network to monetize the value of GRU’s green portfolio, GRU will be at a competitive disadvantage in these bids.

BOTTOM LINE: No prudent way to project any additional revenues.

Suggestion #3 – UPIF Funding Opportunities

The Utility Plant Improvement Fund, known as UPIF, is a formulaic reserve required under GRU’s debt covenants. Its purpose is to assure bondholders, customers and other stakeholders that GRU is setting aside the appropriate level of funds to insure that its five utility systems (electric, water, wastewater, natural gas and telecommunications) are being maintained and capital improvements are being made.

GRU will utilize the UPIF in a flexible fashion depending on the overall borrowing costs at the time of construction. From time to time, GRU will replenish the UPIF with funds from financings, such as the 2019 Transaction.

The UPIF provides the utility year-to-year capital funding flexibility; however, it is not a reserve that provides expense relief, or working capital resources (see addendum 6).

BOTTOM LINE: Not a source of overall mitigation of shortfalls.

Suggestion #4 – Explore solutions with UF power opportunities

The reality is that UF’s main campus has been a customer of Progress Energy, now Duke Energy, since the 1970s. Although it is appealing to consider us replacing Duke’s delivery of on-campus electric and steam — worth approximately \$39 million in revenue to Duke — it is a political and legal conundrum, which will take years to negotiate.

GRU approached UF twice over the past four years in an effort to replace Duke as its supplier. Both times, UF rejected GRU’s approach of treating the on-campus load as a wholesale power customer, offering the university an all-in energy rate in the high \$50 a megawatt range.

UF seems to believe that GRU would have to charge them a higher rate as a commercial customer, rather than a wholesale power customer. As such, the university has not accepted GRU’s proposals and instead provides literature showing the additional cost of being a GRU customer (see addendum 7).

I suggest that GRU work with the city's legal department to ascertain the legal status of serving UF's on-campus load, while also pursuing political solutions in Tallahassee and Gainesville.

BOTTOM LINE: No prudent way to project any additional revenues in the near term.

Suggestion #5 – Explore Customer Service opportunities, such as combining GG and GRU

In the limited time GRU has to analyze a structural, organizational change to its customer service experience, combined with the need to work with GG on a joint process, I see this suggestion as a long-term undertaking and should not be evaluated as a cost or a savings in the shortfall scorecard.

BOTTOM LINE: Not a source of overall mitigation of shortfalls in the near term.

Suggestion #6 – Right-size GRU facilities

With the construction of the Eastside Operations Center (EOC), GRU was bifurcated between the downtown Administration Building and the EOC. We have already transferred staff to the EOC but still have a significant employee presence downtown, most importantly the Customer Service Department and the lobby.

Selling the Administration Building has been on our radar for some time but raises the following questions?

- How much does the commission value having a lobby downtown?
- How much does the commission value walk-up and drive-thru service?
- What is the value of GRU's Administration Building?

We believe four options exist to right-size the GRU facilities. Assuming we could sell the Administration Building for \$11.15 million (plus \$1 million closing costs), these options generate the following one-time net revenues and recurring expense reductions (see addendum 8) and the chart below:

Option	Detail	Net Revenue	Annual Cost Reductions
1	Sell the Administration Building, lease back the first floor to customer operations, lease back the ground-floor data center and relocate all other employees to the EOC.	\$8.15 million	\$334,000
2	Sell the Administration Building, discontinue lobby and drive-thru services, lease back the data center and relocate all employees to a new building at the EOC.	\$4.15 million	\$401,000
3	Sell the Administration Building, discontinue lobby and drive-thru services, lease back the data center and relocate all employees to EOC (completely reconfigured).	\$5.15 million	\$551,000
4	Sell the Administration Building, relocate the contact center, lease back the data center and relocate all remaining employees to EOC.	\$7.6 million	\$479,000

BOTTOM LINE: Option 4 has the highest net present value benefit due to leasing only the computer room at the Administration Building and locating cheaper space for the Customer Contact Center. In addition, GRU would relocate at least 135 employees to the EOC with minimal reconfigurations.

Suggestion #7 – Analyze the impacts of a hiring freeze

GRU currently engages in a non-traditional form of a hiring freeze as a standard practice by applying a vacancy factor. As a result, GRU typically holds over 50 positions vacant at any particular point in time, which saves the utility over \$5 million in salaries and benefits (see addendum 9).

BOTTOM LINE: Not a source of overall mitigation of shortfalls.

Suggestion # 8 – Analyze the impacts of a travel ban

GRU has budgeted over \$500,000 for travel expenses in FY2019, mostly related to employees attending conferences under our memberships with the Florida Municipal Power Association (FMPPA), The Energy Authority (TEA) and Florida Municipal Electric Association (FMEA). GRU also has employees attend mandatory compliance meetings sponsored by state regulators.

It is possible to limit out-of-state travel to regulatory-required attendance and reduce in-state travel to fewer participants, while requiring those participants to write reports or deliver presentations to staff on the knowledge they gained through their attendance.

BOTTOM LINE: I recommend limiting out-of-state travel to only regulatory-required attendance and reduce the number of participants. I would hope to see \$100,000 to \$150,000 savings.

Suggestion #9 – Analyze charging customers for paper bills

The idea that customers ought to cover the expenses of generating paper bills is not a new concept for customer service. We have explored charging paper-bill customers \$1 per bill but have been reluctant to move forward for the following reasons:

- Customers who cannot or simply don't want to transact with GRU electronically may view this as a punitive charge. Remember that a \$1 increase to the GRU bill has been met with a great deal of resistance in the past.
- Managing the transactions for customers with multiple accounts, such as the Alachua County School Board, will be challenging. In addition, a host of customers are set up under Master Billing (a practice that one customer has multiple meters under one billing account), which could place an administrative burden on these customers.
- The age and inflexibility of the Customer Information System (CIS) may make it difficult to choose this option.

At \$1 a paper bill, GRU would generate \$108,000 a month, assuming a 100% acceptance rate. A more realistic acceptance level of 33% would generate about \$36,000 a month and \$432,000 annually.

The Information Technology (IT) costs to implement this change are somewhat unknown, but I suspect it would be less than \$10,000.

BOTTOM LINE: I believe GRU should conduct an analysis of how easily this charge could be placed on a customer's bill, upon City Commission approval.

Suggestion # 10 – Analyze the impact of electric vehicles (EVs)

The emergence of electric vehicles and to what extent their promulgation throughout the community can improve GRU's financial future has generated a great deal of excitement. Using estimates provided by UAB member Wes Wheeler, Alachua County currently has about 335 EVs. That number will almost certainly rise over the coming years. The question is how fast, how many and what does GRU have to spend to incentivize that growth? And most importantly, how much net revenue does an average EV generate for GRU?

Based on an average usage of 12,000 miles a year, an EV would generate net revenue of approximately \$300 per year for GRU. It would take the purchase and use of four EVs a year to match the growth of one household in GRU's territory.

If we were to assume EVs will grow at 10% a year, that would generate \$10,000 a year in net revenue to GRU at the beginning, adding up to over \$60,000 a year by the fifth year. At 20% a year, that would result in \$20,000 a year and over \$120,000 in the fifth year.

GRU could build charging stations, which cost between \$15,000 (normal charging) and \$50,000 (fast charging). We could also offer credits (e.g. \$250 up to \$2,000) to potential purchasers of EVs. However, it's hard to determine what impact the credits truly have on incenting new EV purchases and how many new charging stations private industry would build.

BOTTOM LINE: EVs will build GRU's net revenue in the future, but given GRU's current financial profile, building charging stations in and around downtown at \$50,000 a station would only deepen the shortfall in the short term. I recommend reviewing GRU's business profile in another year and re-evaluating our position.

Suggestion #11 – Onboarding of NAES Employees

It would seem to be an easy transition to bring NAES employees over to the City of Gainesville to become GRU employees. The dilemma is that as employees of NAES (GRU's contractor for the DHR plant), many of the almost 40 employees are recipients of bonuses and much more competitive salaries and wages than our other power plant employees. Although we have been able to transition jobs such as warehouse operations over to GRU, other NAES employees with higher salaries may opt to work elsewhere if presented with the loss of performance bonuses and income.

Given the nature of maintaining a bubbling bed technology boiler is more specialized than our other plant operations, GRU management has worked with Human Resources to develop a solution. Unfortunately, paying the former NAES employees a higher wage would cause an inequity in our pay structure. The solution to that problem would be to pay current GRU employees a higher wage, which would significantly reduce the projected savings of \$750,000 a year.

Developing and implementing a plan to have additional GRU employees work alongside the current NAES employees for up to six months also reduces the savings.

We are hopeful that the current Total Rewards Study will offer the utility another lever to mitigate the difference in pay structures to facilitate the move to have DHR operated by GRU employees.

BOTTOM LINE: Not a source of overall mitigation of shortfalls within the next year. I would project a \$300,000 a year savings in FY2020 and beyond.

Suggestion #12 – Expansion of GRU Com into retail internet

The Broadband Subcommittee has established the goal of making Gainesville “The most connected city in the United States,” and GRU staff has been supportive of the process. A study was commissioned and is being reviewed; surveys are being conducted, and government relations staff is working with our lobbyists to ascertain if any outside funding is available.

Without outside funding, it is highly unlikely that GRUCom would be credit-worthy enough to borrow the capital required to provide Gainesville residents with retail internet. Virtually all the examples of successful retail internet through municipal organizations were made possible through significant government funding. The prime example is Chattanooga, Tennessee, which received over \$100 million in grant funding during the economic stimulus package passed during President Obama’s term.

In reality, GRUCom is a small organization, with revenues of approximately \$11 million derived from cell tower revenue, trunk radio reimbursements and internet carrier fees. It hasn’t produced net revenue and is effectively a cost center for GRU.

BOTTOM LINE: Not a source of overall mitigation of shortfalls in the near term.

Suggestion #13 – Reconsider rehabbing Kelly Unit #8

In 2001, GRU installed a new combustion turbine (CT4) as part of the turbine/generator assembly at the Kelly Plant. This allowed GRU to use the General Electric Frame 7EA unit in combined-cycle mode, which made the assembly the most efficient and cheapest to operate in GRU’s fleet. As part of the combined cycle process, waste heat is extracted from CT4 and must pass through a Heat Recovery Steam Generator (HRSG), which is pronounced, “her-sig.” The HRSG was not replaced in 2001, due to budget constraints, although it was commissioned in 1964.

A 2012 turbine inspection found significant metal creep, fatigue and cracking in the turbine inlet steam chest, which is part of the HRSG. The steam chest was repaired in 2012 but with instructions to inspect it in 2017.

The inspection in 2017 found more extensive cracking and metallurgical fatigue. The conclusion was that the steam chest was nearing its end of life.

It is anticipated that GRU would need to spend \$20 million in total over FY2019 and FY2020 to extend the life of the HRSG through 2051. Without rehabbing Unit #8, GRU would lose its most efficient operating unit, requiring it to run in simple cycle (meaning no heat recovery efficiencies would be used) or buying power from the grid.

The alternatives to rehabilitation are running Unit #8 to failure, or running Kelly only in emergencies, or decommissioning the plant and/or buying lost power off the grid.

BOTTOM LINE: I am hesitant to recommend foregoing an engineering requirement to repair the HRSG to extend the Kelly plant's useful life and safely operate the plant in combined-cycle mode without a full vetting of other options surrounding purchasing the required power off the grid. I recommend committing to the \$20 million rehab of Unit #8 at Kelly.

Suggestion #14 – Consider service-level reductions and deferred maintenance

My staff continues to work on potential reductions, which will impact the utility's service levels at the lowest-level possible, while still creating noticeable cost reductions. The options at this point revolve around the issues I included in *GRU at a Crossroads*. I am looking for a minimum of \$2 million of payroll reductions, starting with the General Manager's reduction of two employees (Chief Change Officer and Advisor to the GM). Energy Supply, Energy Delivery, Water and Wastewater, Gas and GRUCom are each looking to leave positions unfilled and reduce the levels of unscheduled overtime. I will have a better plan at the time of the Feb. 28 meeting.

Additional Option # 1 – GRU and GG execute a new GFT MOU

GRU and GG management teams have met and begun work on developing a strategy to reduce the base level of the GFT. We have discussed a reduction of \$6 million in the \$38.5 million GFT, with further discussions anticipated on the term of the MOU and size of annual increases. As Mayor Poe stated in the Jan. 16 meeting, the commission will need to weigh the need to increase city property taxes as compared to raising GRU rates above the rates already being discussed.

BOTTOM LINE: A \$6 million reduction in the annual GFT over the next three to five years would solidify a GRU sustainability plan, as evidenced by the shortfall scorecard.

Conclusion

The potential impact of the suggestions and additional options discussed above are reflected in the shortfall scorecard in Addendum 10 and below. In FY2019, the projected \$12.2 million shortfall can be converted to a loss of \$1.7 million and in FY2020 through FY2025, GRU can reverse fortunes with the following funds available to build reserves:

- FY2020 \$15.9 million
- FY2021 \$12.3 million
- FY2022 \$13.0 million
- FY2023 \$10.4 million
- FY2024 \$13.0 million
- FY2025 (\$0.1 million)

Obviously the cornerstones of this transformation are the debt restructuring combined with an organizational discipline and a new arrangement with GG for a new lower GFT. I am confident that acceptance of this course of action, with all of its elements, are the right path for GRU.

Shortfall Scorecard
(in millions)

Options	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Status Quo	(\$12.2)	(\$13.1)	(\$10.2)	(\$6.9)	(\$7.8)	(\$6.8)	(\$7.6)
Debt Restructure	9.9	12.3	12.9	10.3	8.6	10.2	(2.1)
Wholesale Power							
UPIF							
UF Power							
Right-size Facilities		7.6	0.5	0.5	0.5	0.5	0.5
Hiring Freeze							
Travel Limits		0.1	0.1	0.1	0.1	0.1	0.1
Paper Bill Charges		0.4	0.4	0.4	0.4	0.4	0.4
EVs							
On-boarding NAES		0.3	0.3	0.3	0.3	0.3	0.3
GRUCom Expansion							
Rehab Kelly Unit #8							
Service-level Reductions	0.5	2.0	2.0	2.0	2.0	2.0	2.0
New GFT		6.0	6.0	6.0	6.0	6.0	6.0
New Cash Flows	(1.8)	15.6	12.0	12.7	10.1	12.7	(0.4)