

GFT Formula Discussion

March 25, 2021
General Policy Committee

General Fund Transfer

- The GFT represents more than a third (1/3) of the City's General Fund budget and is used to fund critical services such as the Police, the Fire Department, Parks & Recreation and Public Works.
- That formula has predominantly tied the transfer directly to the utility's revenue generation.
- GRU's Bond Resolution states: the transfer to the General Fund **may be made only to the extent such monies are not necessary to pay operating and maintenance expenses**; to pay debt service on outstanding bonds and subordinated debt; or to make other necessary transfers under the Resolution.
- In other words, the General Fund Transfer should not be more than the Utility can afford to pay.

General Fund Transfer Update

- GRU and General Government retained a consultant to provide formula options for the General Fund Transfer in October 2020 per the Commission's direction
- The consultant developed several options to be considered by the Commission with two being presented today: Option 2 and Option 10
- Option 2, as recommended by the consultant, provides for an initial \$36 million GFT payment from GRU to GG. The \$36 million is recognized by the consultant to be beyond GRU's ability to pay without significant rate increases in fiscal year 2022
 - The consultant backed into a formula that created the \$36 million payment
- Option 10, as recommended by GRU, provides for a \$27 million GFT payment that allows GRU to afford the payment without significant rate increases, although rate increases are still required, for fiscal year 2022
- Including a normal return on investment of 9.55%, as standard in the Utility industry, provides for a \$22 million GFT payment

from Statement of Work, Contract 2020-103 with nFront Consulting

Observations from Sensitivity Analyses

Mechanism	Certainty of Funding and Ability to Fund	Certainty of Funding	Ability to Fund	In Common Use	Ranking
Option #1 (Percent of Revenue Less Fuel)	Not Balanced	Yes	No	Yes	2
Option #2 (Percent of UPIF Calculation)	Balanced	No	No	No	1
Option #3 (Rate per-Unit Sales)	Not Balanced	Yes, but Limited	No	Yes	3

from nFront's GFT Options Evaluation presentation to CC, Jan 20, 2021

Observations from Sensitivity Analyses

Option 2 (Percent of UPIF Calculation)

- No Rate Increase Case
 - Lower GFT (\$3M in FY23)
 - Reduced cash reserves (\$11M in FY23)
- Decreased Sales Case
 - Lower GFT (\$4M in FY23)
 - Reduced cash reserves (\$5M in FY23)
- Higher Debt Service Case
 - Lower GFT (\$4M in FY23)
 - Reduced cash reserves (\$6M in FY23)
- GFT varies with changes in net revenue less debt service
- Certainty of Funding and Ability to Fund – Balanced under sensitivity cases
- Ties directly to a calculation from the Bond Resolution
- Not a commonly used GFT mechanism

from nFront's GFT Options Evaluation presentation to CC, Jan 20, 2021

nFront Proposed: Option 2

Table 1- Option 2 GFT Mechanism

		Fiscal Year						
		2021	2022	2023	2024	2025	2026	2027
nFront Consulting Report - Option 2								
1	Net Revenues Per Bond Resolution	176,174	179,546	183,546	181,426	195,514	194,990	200,065
2	Less: Senior Lien Debt Service	87,678	91,840	99,582	97,737	111,006	110,330	115,490
3	Net Available Revenues Per Bond Resolution	88,496	87,706	83,964	83,689	84,508	84,660	84,576
Allocation of Net Available Revenues								
4	UPIF Contribution		44,248	43,853	41,982	41,845	42,254	42,330
5	General Fund Transfer		36,283	35,959	34,425	34,313	34,648	34,711
6	Subordinate Lien Debt Service		3,347	0	0	0	0	0
7	Net Remaining		3,827	4,152	7,282	8,351	7,758	7,535
8	Net Available after UPIF		43,458	40,111	41,707	42,663	42,406	42,246
GFT as Percent of Current Year								
9	Net Available Revenues		41%	43%	41%	41%	41%	41%
10	Net Available after UPIF		83%	90%	83%	80%	82%	82%

from nFront communication, February 4, 2021

nFront Proposed: Option 10, per GRU Direction

Table 2 – Option 10 GFT Mechanism, Reflecting Changes as Directed by GRU

		Fiscal Year						
		2021	2022	2023	2024	2025	2026	2027
Option 10 - Excludes Transfers from (to) RSF and 2019 Restructuring Savings, and Limits on GFT								
1	Net Revenues Per Bond Resolution	176,174	179,546	183,546	181,426	195,514	194,990	200,065
2	Less: Senior Lien Debt Service	87,678	91,840	99,582	97,737	111,006	110,330	115,490
3	Net Available Revenues Per Bond Resolution	88,496	87,706	83,964	83,689	84,508	84,660	84,576
4	Less: Transfers from (to) RSF	1,069	2,028	2,422	(2,893)	7,923	4,261	6,282
5	Less: 2019 Debt Restructuring Savings	13,015	10,357	8,657	10,259	0	0	0
6	Adjusted Net Available Revenue - GFT Computatio	74,411	75,321	72,885	76,323	76,585	80,399	78,293
7	Max GFT (Line 6 less UPIF and Subordinate D.S.)		27,726	29,032	34,341	34,740	38,145	35,963
Allocation of Net Available Revenues								
8	UPIF Contribution		44,248	43,853	41,982	41,845	42,254	42,330
9	General Fund Transfer		27,726	29,032	29,883	31,293	31,400	32,964
10	Subordinate Lien Debt Service (Sub DS)		3,347	0	0	0	0	0
11	Net Remaining		12,385	11,079	11,824	11,371	11,006	9,282
12	Net Available after UPIF		43,458	40,111	41,707	42,663	42,406	42,246
GFT as Percent of Current Year								
13	Net Available Revenues		32%	35%	36%	37%	37%	39%
14	Net Available after UPIF		64%	72%	72%	73%	74%	78%

from nFront communication, February 4, 2021

GRU Return on Equity Calculation

Net Capital Assets	1,896,590,230
Less Outstanding Debt	1,665,165,000
= Ownership (Equity)	231,425,230
Current GFT	38,285,000
Divided by Equity	231,425,230
= Return On Equity	16.54%
Average authorized ROE by state commissions*	9.55%
Times Ownership	231,425,230
= GFT Based on Average ROE	22,101,109

* Recent Decisions: Electric ROE Authorizations Drift Lower in H1'20 As Virus Worries Continue, Aug. 4, 2020

<https://www.spglobal.com/marketintelligence/en/news-insights/research/>

State of the Utility Rates Forecast

GRU will require the following rate increases:

- Based on current operations and approved projects,
- Not including costs to become 100% renewable,
- To meet the current \$38.3m or the consultant driven \$36m Option 2 GFT if frozen

	FY22	FY23	FY24	FY25	FY26	FY27
Electric*	7.00%	2.00%	2.00%	1.50%	1.00%	1.00%
Water	0.00%	0.00%	0.00%	3.00%	2.00%	2.00%
Wastewater	5.00%	5.00%	5.00%	5.00%	4.00%	4.00%
Gas	3.00%	1.00%	0.00%	0.00%	0.00%	0.00%

Additional Utility Tax \$** **830,000** **1,149,000** **1,415,000** **1,688,000** **1,881,000** **2,069,000**

* Energy Supply estimates an approximate \$2.5 - \$3.0 million annual reduction in fuel costs beginning in FY22 based on the conversion of DH2 to a dual fuel facility.

** These rate increases if implemented are projected to add approximately \$9.03M to existing utility tax revenues distributed to General Government over the period FY22 - FY27.

IMPACT ON MONTHLY BILL BASED ON STANDARD CONSUMPTION*

	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Electric*	123.13	131.75	134.38	137.07	139.13	140.51	141.93
Water	30.64	30.64	30.64	30.64	31.56	32.19	32.83
Wastewater	53.14	55.80	58.59	61.52	64.59	67.18	69.86
Gas	32.74	33.72	34.06	34.06	34.06	34.06	34.06
Total	239.65	251.91	257.67	263.29	269.34	273.94	278.68
Increase		12.26	5.76	5.62	6.05	4.60	4.74

* Electric 1,000 kWh, Water & Wastewater 7,000 gallons, gas 25 therms

Recommendation

GRU management recommends that the City Commission adopt a General Fund Transfer for the fiscal years 2022 through 2027 that incorporates GRU's ability to pay with either of these two options:

Option 10 - \$27 million GFT

ROI - \$22 million GFT