

GRU General Manager thoughts on Economic Outlook, Resiliency and Recovery Plan Topic at the December 10th General Policy Meeting

Economic Outlook for the next two budget cycles

History:

In order to understand the next two budget cycles, one must understand what GRU management has already done in regard to the previous systemic imbalance created within its financial structure. In February 2019, I delivered to the City Commission the first of several white papers, *GRU at a Crossroads* which was meant to serve the following purposes:

- Alert the Commission to projected annual cash shortfall within GRU of between \$6 and \$12 million a year over the following 6 years.
- Provide the historical perspective of how the utility got to this financial position.
- Propose solutions to mitigate the impact of that cash shortfall.

As part of the discussions surrounding this white paper and FY2020 budget deliberations GRU proposed the following mitigation actions, recommended by the UAB and approved by the City Commission:

- Undertake a bond refinancing (called the 2019 Transaction), which reduced debt service payments over the 6 year period, allowing GRU to develop leaner budget strategies and pay down debt in anticipation of higher debt service in year 7 and beyond.
- Freeze the GFT at current levels and work towards developing a formula based on GRU's ability to pay.
- Bring the biomass contract employees over to city employment, thus saving approximately \$ 1 million a year.
- Defer big ticket capital items, such as IT projects, AMI and CIS.
- Develop a cash reserve policy to ensure maintenance of bond ratings.
- Seize market opportunities to refinance and restructure additional debt, which we did in 2020.
- Cut over \$ 2 million in operation and maintenance (O&M) spending from the FY2020 budget.

The result is GRU has significantly reduced its overall O&M costs (down \$12 million a year between FY2018 and FY2021), even while absorbing another \$ 5 million of employee costs from the biomass facility (which used to be part of fuel costs).

Debt has fallen to just over \$ 1.6 billion, down from approximately \$ 1.9 billion and the utility has locked into historically low fixed interest costs on 94% of its debt.

Rating agencies have recognized our efforts through maintaining AA- from two agencies and an A+ rating from another.

Bottom Line: GRU has built a financial foundation of strength that places the utility in a good place to weather further headwinds, such as COVID-19 resurgence and hurricane events.

Moving forward:

GRU management will continue to manage its expenses in a prudent manner. In the FY2021, we took unprecedented steps in reducing take-home vehicles, eliminating organizational risk and cutting costs. We froze open positions and suspended travel. We will continue these practices in our next year's budget.

In spite of these efforts, GRU cannot maintain the level of service the community demands without offering employees pay increases year over year and paying the increased costs of chemicals, consumables, fuels and services imposed by our contractors and vendors. GRU's costs of business will necessarily increase and with it the cost of our services. Rate increases will be necessary over the next several years.

GRU doesn't retain any "profits" it earns on the \$410 million it receives from its customers. Instead those profits are transferred to General Government, in what we call a GFT. This year, as in previous years GRU actually remits more to General Government than it earns.

Key Point: Since 2003, GRU has remitted \$48 million more to General Government than what the utility has earned. This shortfall has come directly from GRU's monetary reserves. This continued depletion of reserves is not sustainable.

Bottom Line: Utility rate increases are important in continuing to modernize the utility, attract and retain employees and utilize the finest of contractors and vendors. In addition, without these rate increases, GRU cannot sustain the current level of GFT, which is imperative for General Government to fulfill the City Commission's vision and overall strategic plan.

Revenue Estimates

History:

GRU has a stellar track record of developing revenue estimates, which have resulted in only minor variances. This performance has resulted in customers only paying rates on the services provided. In this pursuit, GRU staff utilizes industry publications, experts and other sources including historical trends and leading opinions from the American Public Power Association.

Best and Worst scenarios:

Looking forward past FY2022, any worst case scenario must consider the continued loss of commercial power consumption as more and more folks work from home and industrial, commercial and small business activities continue to decline.

Furthermore, it is conceivable that the consuming habits of our customers will permanently shift, as they did after the Great Recession and GRU will see a post-pandemic revenue slump. Early forecasts are that retail energy sales could fall between 1 and 2% over the next decade.

Combined with continued consumer conservation with upgrading to more efficient appliances and more diligent management of their resources, GRU could be faced with the following required actions:

- Need for higher rate hikes,
- Need for wider open position freezes,
- Diminished spend on projects, whether there is a strong payback or not,
- Reduction in the GFT,
- Use of higher levels of reserves,
- Acceptance of bond rating reductions and higher borrowing costs.

The good news is that GRU's strength is in its diversity of customer base. Although it would be nice to have a large industrial consumer of power, not having one during potential economic downturns actually work in the utility's favor.

Bottom Line: GRU is working on its budget for FY2022 and will be delivering a fully vetted financial blueprint in the near future.

Five Year Horizon Document for GRU

Currently, GRU works under an annual budget process, which drives the annual ratemaking process. Although we extend numbers into the future, the reliability of those 2 year, 3 year and 5 year estimates diminish as they age. However, going back to *GRU at a Crossroads* and the work we have done it is fair to say GRU's five year time horizon is impacted most greatly by the following factors:

- Commitment to pay down debt, in anticipation of increased debt service in FY2026 and beyond.
- Increased cost of operating the utility, specifically unfunded mandates from the federal, state, local governments as well as UAB's energy policy directives.
- Commitment to increase utility rates when necessary to maintain GRU's financial strength,
- Commitment to restrict growth in expenses to the growth in revenue.
- Ability to secure a new Trunked Radio System agreement, currently being operated at a loss with the County and the City.
- Commitment to have GRU fund the GFT based on its ability to pay.
- Commitment to taking prudent steps in developing GRU's next generating assets.

Bottom line: In my opinion, GRU's five year horizon is more greatly impacted by these structural financial and operational components than by the impacts resulting from the Covid-19 pandemic.

SWOT- Identifying and Addressing Gaps

This is not the place for a full-blown SWOT analysis (Strengths, weaknesses, opportunities and strengths), however I will offer the following gaps and sustainability GRU needs to address.

Long before GRU reaches 2045, its generation fleet will not be serviceable and will need to be retired. The utility cannot make a mistake in choosing its next power generation technology, or next path in replacing DH2, Kelly and even DHR. The big decision, like the big idea for GRU is what technology we choose, when do we build it or do we just need access to it?

The work on that answer began with the Integrated Resource Plan (IRP) in 2019, followed by discussions with FPL in early 2020.

Other gaps include:

- The need for an Electric system that requires rate increases every year to support Capital infrastructure and maintenance needs, while already requiring some of the highest rates in the state.
- A Telecommunications system that is not financially self-supporting, while there remains pressure to provide municipal broadband service.
- Flat or declining revenue growth against continued regulatory requirements increasing underlying capital and operational financial needs. This is particularly pernicious on the electric side of the business, where conservation reduce revenues and our territory is geographically constrained.

The GM's philosophy about resiliency

Resiliency of GRU is the following:

- Economic viability of the system we operate, including access to capital to stay modern and offer customers a valuable product at a fair price.
- Ability to service the needs of the community.
- Ability to sustain operations through any and all weather events, including storm hardening and weatherizing.
- Commitment to being Gainesville employer of choice, where people want to work and have an opportunity to work.
- Creating a value-added service to the City of Gainesville through efficient operations of a utility, whose profits add to the value of the community.
- Being as environmentally sustainable as is economically feasible.

How are we addressing energy security/water security?

Energy Security:

GRU maintains a portfolio of generating assets that deliver power to its customers, whether there is any power available from outside of our grid. This is not a viable concept in most communities. GRU has been designed as a self-sufficient, islandized utility. We are quite unique.

As part of this concept, GRU balances its own power demands with its power generation. We comply with North American Electric Reliability Corporation (NERC) standards and in fact our record of compliance is remarkable compared with Investor-owned utilities (IOU's), like Duke.

In order to ensure this continued security, we have undertaken a dual-fueling upgrade at Deerhaven 2, which will allow us to operate on coal and/or gas.

We have brought in a new turbine, generator and switchgear to Kelly to upgrade a 1964 unit that has experienced metal fatigue.

GRU has its own qualified crews of electric professional from line-workers to line locators to engineers to meter-readers who ensure every day that everyone has the power.

Water Security:

GRU maintains a self-contained water/wastewater system which starts with drawing from our wells at the Murphree wellfield, finishing that water in our plant and distributing that water to homes throughout Gainesville. That water is returned to us as wastewater, or is absorbed through irrigation or enjoyed in a glass of water.

GRU's wastewater system is state-of-the-art, with its passive remediation at Sweetwater Wetlands to its reuse as reclaimed water.

To ensure the sustainability of this network GRU replaced a more than 50 year old electrical system at Murphree this past year. We are redesigning and contracting for more capacity at the Main Street Reclamation Plant.

Like on our electric side, we have professional crews who flush and televise (TV) the lines to make sure that there aren't blockages or leaks. We have engineers and planners who look ahead 50 years and ensure the proper capacity of water distribution and wastewater collection.

Just like the electric side, we are not dependent on outside folks.

Bottom Line: Residents of Gainesville should be very proud to have a utility that ensures energy and water security by building, maintaining and operating their own electric and water/wastewater systems. We return 70% of what we draw out of our wells back to the aquifer. That is a superior process and it ensures water security.

Trends and outlook with shutoffs

This past year was historically low in regard to shutoffs given our moratorium and waiving of fees due to the COVID-19 pandemic. Between April and September, GRU disconnected 1,397 customers compared to 23,645 in the same period last year.

In addition we offered extended payment arrangements for customers that had built up balances during that period.

I wish that the utility could avoid dealing with shutoffs. However, we are simply not allowed to continue providing services to customers who don't pay their bill, while demanding that others pay. Such practice

would not be fair and equal treatment of utility customers, as regulated by the Florida Public Service Commission (PSC).

We continue to fund Project SHARE through employee payroll deductions and donations from customers. We also are having delinquent customer bills paid by the CARE funding from the City.

From my perspective, I believe that within the next year GRU will return to its historical base of shutoffs and delinquencies. The good news is that we will be bringing forth an AMI program (Smart meter technology) which will have significant benefits to the utility and its customers in reducing instances of mis-read meters, excessive bills resulting from undetected water leaks and customers managing their own usage.

Summary

The answers I've provided to Commissioner Johnson's questions should not overshadow the overwhelming value GRU provides the City of Gainesville and surrounding community. That value includes:

- Over \$38 million of general fund transfer payment each year,
- Employment to many skilled neighbors and being one of Gainesville's employers of choice,
- A platform of energy and water independence within the community as a self-sustaining, locally-controlled electric, water/wastewater and natural gas utility,
- Utility services that are as environmentally-friendly as any utility in the state,
- Community services that have included extraordinary caring treatment of our customer's needs during the pandemic,
- Coordinated approach to overall city services with integration with virtually every city department.

Bottom Line: There are risks in owning and operating a utility the size of GRU in the midst of a changing utility landscape. Identifying and mitigating those risks are essential in order to reap the aforementioned rewards, which are so essential to our community.