



GRU General Fund Transfer Policy Review

Summary for City Commission Presentation

March 25, 2021

Draft of 3/19/2021 Preliminary_JN

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Purpose of nFront Consulting's Assignment



nFront Consulting was engaged to analyze and compare potential alternative methods for determining the level of transfer to the City's general fund ("GFT") level from GRU each year balancing the following considerations:

1. **Certainty of Funding (for GG)** – Stable or increasing GFT over Study Period
2. **Ability to Fund (for GRU)** – Minimal reduction in GRU cash reserves over Study Period
3. **Process Stability (for Both)** - Mechanism should NOT need to be revisited over an extended period

nFront Consulting then was to independently advise both the City and GRU by providing recommendations based on the analyses we prepared.

Options Analyzed

- A. **Initially identified and evaluated nine (9) alternative mechanisms**
 - Percentage of Revenues (3 variations)
 - Percentage of UPIF Calculation
 - Rate per-unit Sales (3 variations)
 - Franchise Fee Equivalent + Percentage of Available Funds
 - Percentage of Available Funds only (i.e., without Franchise fee)

- B. **Narrowed the List of Potential Mechanisms to Three (3) for More Detailed Assessment**
 - Option 1 – Percent of Revenues Less Fuel
 - Option 2 – Percent of UPIF Calculation
 - Option 3 – Rate per-unit of Retail Sales (includes Resale Sales for Water)

Scope/Process

1. **Compared Processes, Formulas, and Metrics for:**
 - 4 Florida & 3 non-FL municipals
2. **Formulated and Analyzed Alternative Mechanisms for GRU's GFT**
 - Initially identified and evaluated nine (9) alternative mechanisms
 - Developed parameters for each option to result in the targeted GFT on average (\$38.3 million) under the Base Case projections over the Study Period
 - Narrowed the List of Potential Mechanisms to Three (3) for More Detailed Assessment
3. **Reached conclusion that one of the Options analyzed, Option 2, best balanced competing considerations**
4. **Performed additional analysis comparing Option 2 to a new Option 10, at direction of GRU**

Basis for the Financial Analyses Performed

1. Base Case Assumptions

- Revenue, Operating Expense, and Debt Service projections provided by GRU
- Projections provided reflected rate increases in both FY2022 and in FY2023
 - 3% for electric
 - 5% for wastewater

2. Sensitivity Cases with respect to the following key assumptions

- Energy sales – *Higher and lower by 3%*
- Debt Service - *Higher by 10%*
- Planned Rate Increases – *No rate increases implemented in Study Period*

3. Compared Options 2 and 10 for the Period FY2022 thru FY2027 under Base Case assumptions only

Explanation of Options 2 and 10 GFT Mechanisms

	Option 2	Option 10
Bond Resolution specification of Available Funds to be Used to Compute UPIF Amount	<ol style="list-style-type: none"> 1. Revenue from Customers and other Sources 2. Plus, Transfers from (to) Rate Stabilization Account 3. Less, Operating Expense (other than Bond Interest) 4. Less, Senior Lien Debt Service 	
Adjustment 1? To Negate Effects of Rate Stabilization Deposits and Withdrawals (Line 2 above)	No	Yes
Adjustment 2? To Negate Reduction in Debt Service Achieved by the 2019 Refunding (from Line 4 Above)	No	Yes
Net Available Revenue Basis to be used in Computing GFT	Bond Resolution	Bond Resolution with Adjustments 1 and 2
Ratio of Net Available Revenue Basis to be Transferred to General Fund	41%	41%

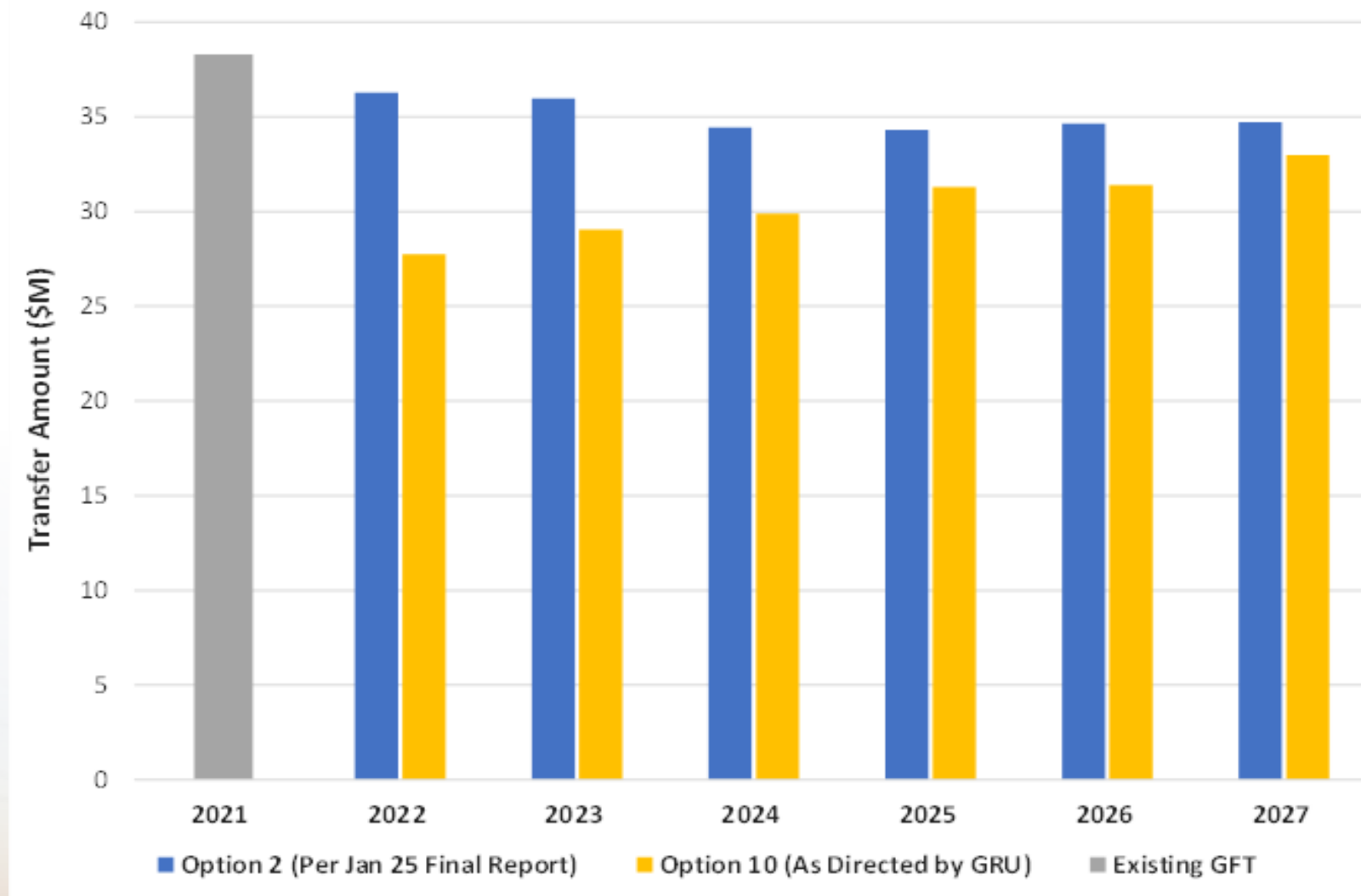
Projected GFT under Option 2 Mechanism (\$ Millions)

		Fiscal Year						
		2021	2022	2023	2024	2025	2026	2027
nFront Consulting Report - Option 2								
1	Net Revenues Per Bond Resolution	176.2	179.5	183.5	181.4	195.5	195.0	200.1
2	Less: Senior Lien Debt Service	87.7	91.8	99.6	97.7	111.0	110.3	115.5
3	Net Available Revenues Per Bond Resolution	88.5	87.7	84.0	83.7	84.5	84.7	84.6
Allocation of Net Available Revenues								
4	UPIF Contribution	43.7	44.2	43.9	42.0	41.8	42.3	42.3
5	General Fund Transfer	38.3	36.3	36.0	34.4	34.3	34.6	34.7
6	Subordinate Lien Debt Service	4.7	3.3	0.0	0.0	0.0	0.0	0.0
7	Net Remaining	1.8	3.8	4.2	7.3	8.4	7.8	7.5
8	Net Available after UPIF	44.8	43.5	40.1	41.7	42.7	42.4	42.2
GFT as Percent of Current Year								
9	Net Available Revenues	43%	41%	43%	41%	41%	41%	41%
10	Net Available after UPIF	85%	83%	90%	83%	80%	82%	82%

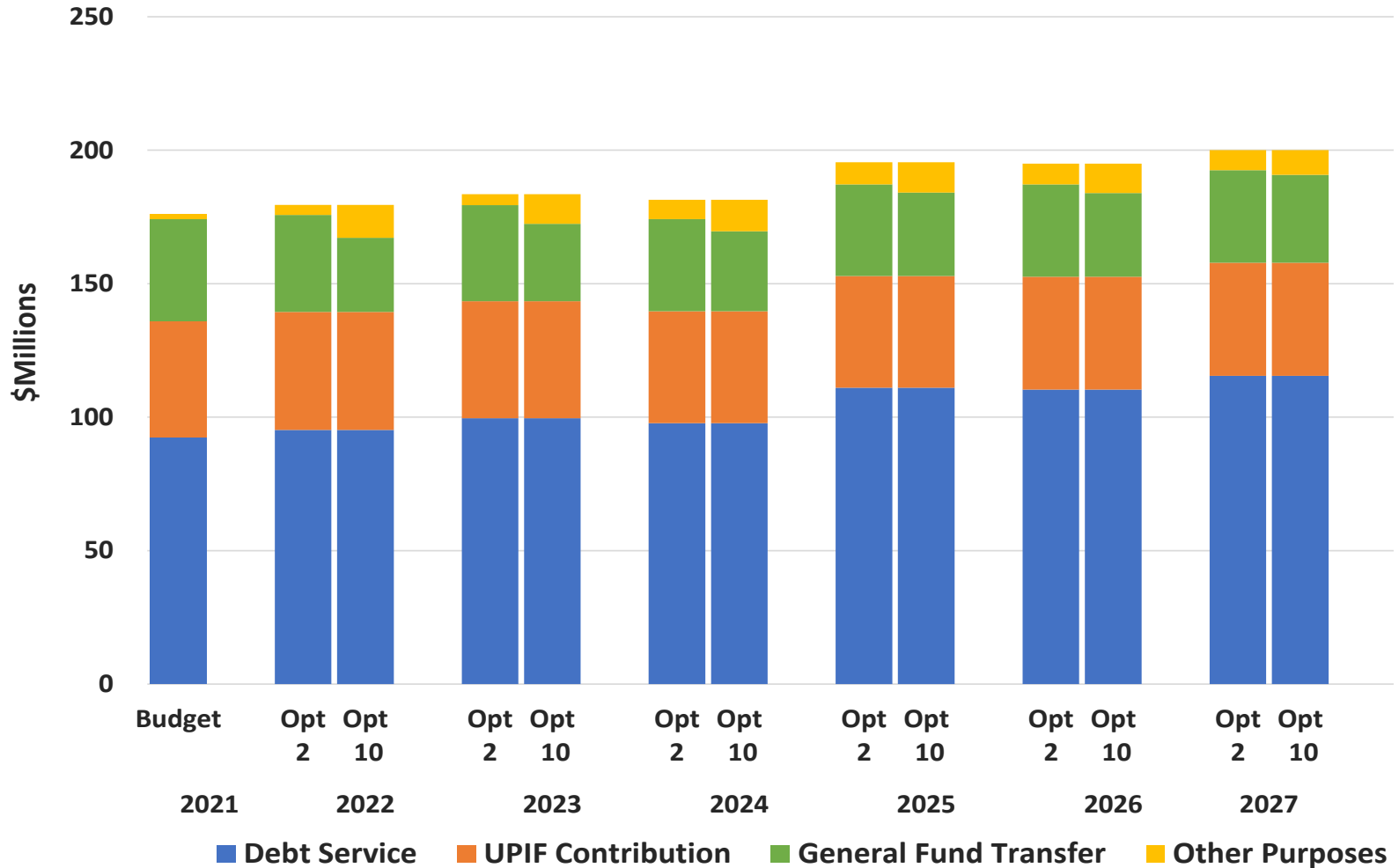
Projected GFT under Option 10 Mechanism (\$ Millions)

		Fiscal Year						
		2021	2022	2023	2024	2025	2026	2027
Option 10 - Excludes Transfers from (to) RSF and 2019 Restructuring Savings, and Limits GFT								
1	Net Revenues Per Bond Resolution	176.2	179.5	183.5	181.4	195.5	195.0	200.1
2	Less: Senior Lien Debt Service	87.7	91.8	99.6	97.7	111.0	110.3	115.5
3	Net Available Revenues Per Bond Resolution	88.5	87.7	84.0	83.7	84.5	84.7	84.6
4	Less: Transfers from (to) RSF	1.1	2.0	2.4	(2.9)	7.9	4.3	6.3
5	Less: 2019 Debt Restructuring Savings	13.0	10.4	8.7	10.3	0.0	0.0	0.0
6	Adj. Net Available Revenue - GFT Computation	74.4	75.3	72.9	76.3	76.6	80.4	78.3
7	Max GFT (Line 6 less UPIF and Subordinate D.S.)	26.0	27.7	29.0	34.3	34.7	38.1	36.0
Allocation of Net Available Revenues								
8	UPIF Contribution	43.7	44.2	43.9	42.0	41.8	42.3	42.3
9	General Fund Transfer	38.3	27.7	29.0	29.9	31.3	31.4	33.0
10	Subordinate Lien Debt Service (Sub DS)	4.7	3.3	0.0	0.0	0.0	0.0	0.0
11	Net Remaining	1.8	12.4	11.1	11.8	11.4	11.0	9.3
12	Net Available after UPIF	44.8	43.5	40.1	41.7	42.7	42.4	42.2
GFT as Percent of Current Year								
13	Net Available Revenues	43%	32%	35%	36%	37%	37%	39%
14	Net Available after UPIF	85%	64%	72%	72%	73%	74%	78%

Comparison of GFT Levels Under GFT Mechanism Options 2 and 10



Comparison of the Resulting Allocation of GRU Net Revenue* Under GFT Mechanism Options 2 and 10



*Generally, Net Revenue refers to total GRU revenue per the Bond Resolution, net of operating costs (other than interest on debt). Revenue amounts include transfers from, and are net of transfers to, the rate stabilization account.

Comparison of the Projected Impacts of GFT Mechanism Options 2 and 10

	Option 2	Option 10
<i>Level of Transfer Compared to \$38 million GFT for FY2021</i>	Projected to average \$34 to \$35 million for FY2022 thru FY2027	Projected to reduce to \$27 million for FY2022 And gradually increase thereafter to \$33 million by FY2027
<i>Rate Stabilization</i>	Rate Stabilization deposits and withdrawals would have the effect of stabilizing both GRU rates and GFT levels.	Rate Stabilization balances would be used only to stabilize GRU rate levels.
<i>Alignment of City and GRU on matters that Alter GRU's Net Revenue from the Current Plan</i>	<p>Stronger alignment than in prior years because 41% of any change in GRU net revenue from the current Plan will impact the GFT level.</p> <p>Accordingly, if new programs are implemented without being funded by GRU rate increases or needed GRU rate increases are not implemented, the GFT will absorb 41% of that change.</p>	<p>Similar alignment as under Option 2. However, the GFT level would be more volatile and uncertain.</p>

Overall Conclusions of nFront Consulting

- 1. Options 2 and 10 better align the interests of the City's efforts in managing its General Fund and GRU budgets.**
- 2. The GFT under Option 2 is projected to be more similar to current levels in the near term and more stable through 2027 than under Option 10.**
- 3. Based on our experience with municipal utilities, we expect the City would have a harder time adapting to the lower and less stable level of GFT under Option 10 than Option 2, but that determination should be made by the City working with GRU, not nFront Consulting.**
- 4. Option 10 would reduce to a greater extent the GFT, especially, for the next several years, and allow GRU more flexibility to strengthen its financial position, assuming revenue levels and costs would be the same whether Option 2 or Option 10 were to be implemented.**