GRU FY21 Budget Workshop Utility Advisory Board 1st Presentation July 9, 2020

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Fiduciary Responsibility

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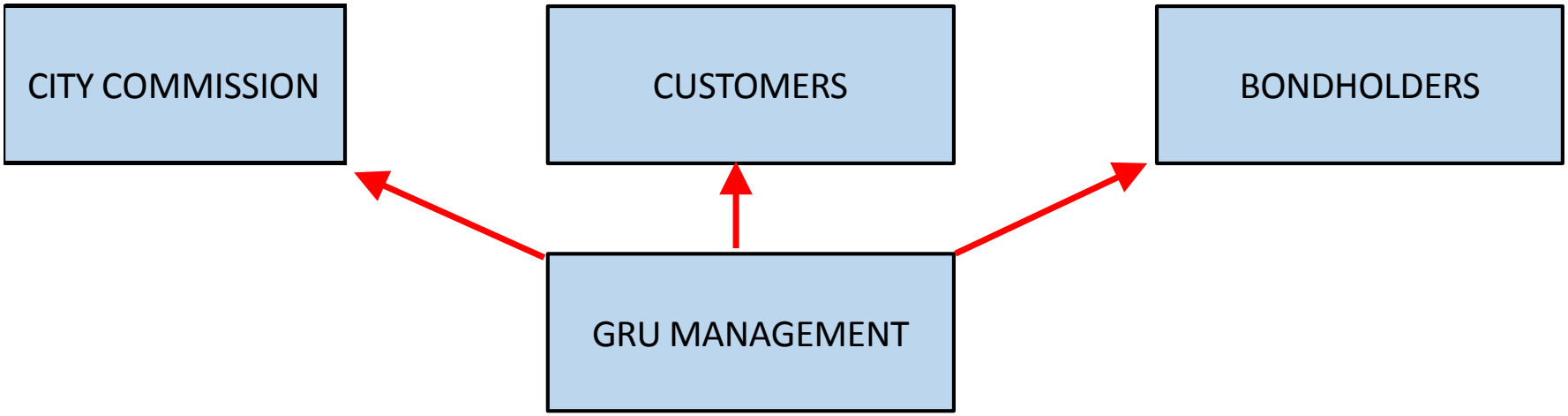
Fiduciary Responsibilities



GRU has multiple stakeholders and significant fiduciary responsibilities

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Fiduciary Responsibilities

- GRU has a fiduciary responsibility to the:
- Commission -
  - to maintain the financial health of the Utility (cash, liquidity, and reserves)
  - to protect GRU's credit ratings (rating agencies)
  - to provide safe and reliable capital infrastructure and services (Capital and Operations and Maintenance expenses)
  - to return profits to General Government to be utilized for services (General Fund Transfer – the last payment made after all other above items are paid)

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Fiduciary Responsibilities

- GRU has a fiduciary responsibility to:
- Customers: both ratepayers and taxpayers -
  - to maintain the financial health of the Utility (cash, liquidity, and reserves)
  - to protect GRU's credit ratings (rating agencies)
  - to provide safe and reliable capital infrastructure and services (Capital and Operations and Maintenance expenses)
  - to return profits to General Government to be utilized for services (General Fund Transfer – the last payment made after all other above items are paid)

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Fiduciary Responsibilities

- GRU has a fiduciary responsibility to:
- Bondholders who have invested money in GRU -
  - to maintain the financial health of the Utility and to protect GRU's credit ratings which reflects an ability of GRU to pay its creditors (cash, liquidity, and reserves)
  - to provide safe and reliable capital infrastructure and services which ensures continued revenues
  - to pay back the funds that are loaned for capital infrastructure
- Without funds from outside investors, GRU could not maintain its capital asset infrastructure

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Debt

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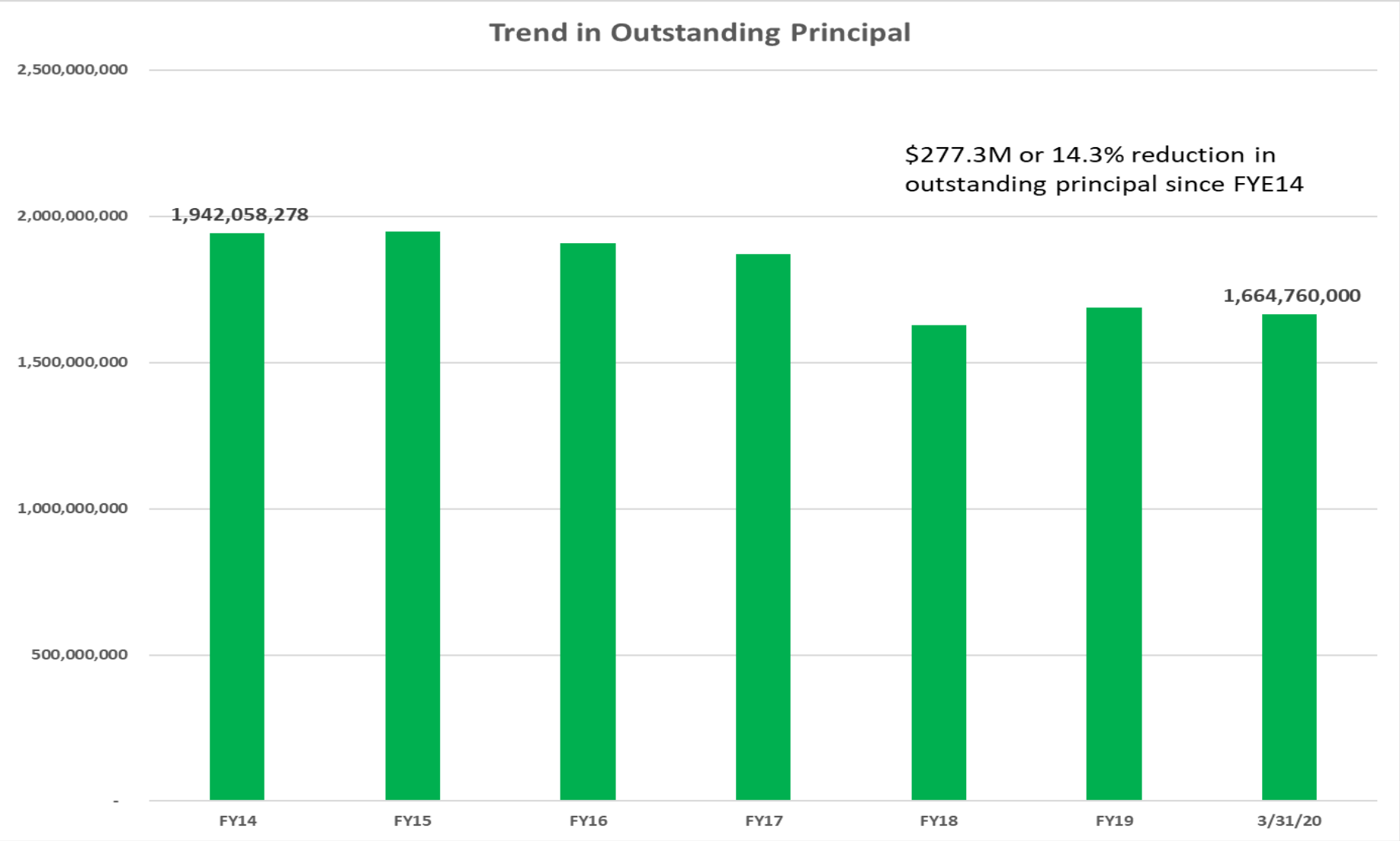

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Debt Defeasance Plan and Execution

Thanks to the support of the City Commission we have completed the planned restructurings listed below:

DEBT RESTRUCTURINGS			
COMPLETED TRANSACTIONS	2017 C SWAP	2010 C/2020 A	2017 B GS CALL EXT.
	2019 A FSS	2017 B CITI CALL EXT.	2014 A FSS

Creates free cash flow

DEBT DEFEASANCE	
COMPLETED	2005 A
IN PROGRESS	VARIOUS SERIES

REDUCES OUTSTANDING PRINCIPAL

REDUCES INTEREST EXPENSE

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Cash Available to Defease Debt

DEBT RESTRUCTURINGS DEBT SERVICE EXPENSE REDUCTIONS (ADDITIONS)	
YEAR	FY20 Transactions
2019	-
2020	1,129,600
2021	1,830,051
2022	1,825,875
2023	1,826,802
2024	1,836,513
2025 - 2029	14,079,842
2030 - 2034	37,817,261
2035 - 2039	35,334,011
2040 - 2044	30,643,600
2045 - 2047	7,731,469
Totals - Gross	134,055,024
PV Savings	99,784,158

Together with our financial advisor PFM LLC we are putting together a plan to identify specific series and maturities to advance redeem principal

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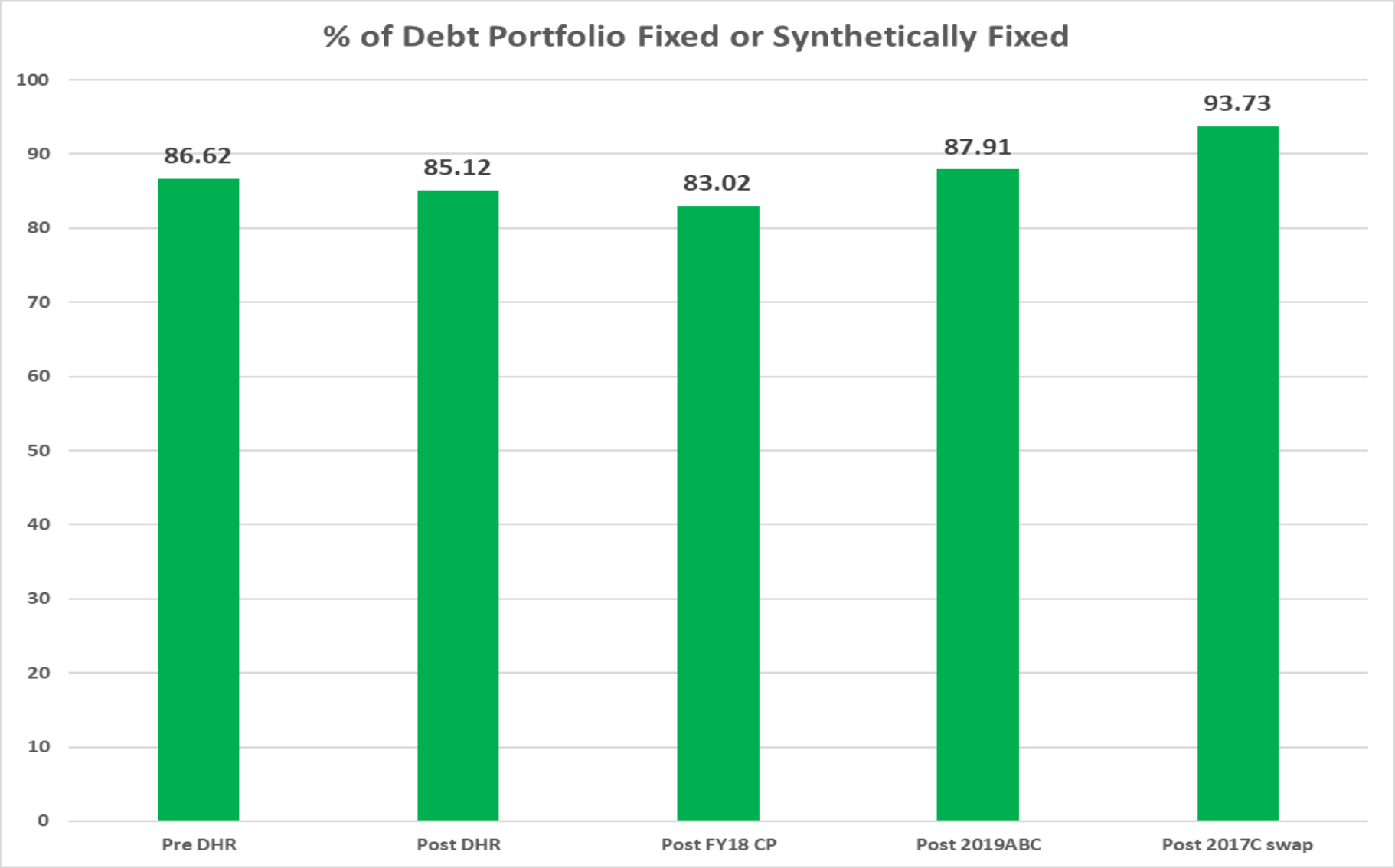

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Credit Ratings and Ratios

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Recent Rating Agency Reviews

- February 2020 Moody's periodic review – no rating action, remain at Aa3
- March 2020 Fitch affirms A+ rating
- May 2020 S & P affirms AA- rating with stable outlook

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Recent Rating Agency Reviews

- All rating agencies expressed concerns:
  - High Electric rates
  - High leverage
  - High General Fund Transfer beyond the Utility's ability to pay. A higher GFT pressures rates.
  - Downgrades are possible in the event of deterioration of financial metrics

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Trend in Financial Ratios

Fitch Ratings Definitions

	Leverage*	Debt Service Coverage	Coverage of Full Obligations	Days Cash On Hand	Days Liquidity on Hand
FY14	13.9	1.9	1.6	226	311
FY15	13.8	1.9	1.6	219	297
FY16	14.2	1.8	1.5	228	312
FY17	13.9	1.7	1.4	235	315
FY18*	11.6	1.9	1.5	158	249
FY19*	11.2	2.1	1.7	176	411
Fitch AA- median	4.6	2.7	1.5	206	259
Fitch A+ median	3.7	2.05	1.38	157	186

* Leverage ratios exclude principal payments on GREC lease as components of Funds Available for Debt Service

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How Everything Fits

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How It Fits Together

- Fiduciary Responsibilities include:
  - Having adequate Cash and Reserves—the Cash Balance Policy provides support
    - Commission supported policy enacted in February 2019 for cash and reserves

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How It Fits Together

- Fiduciary Responsibilities include:
  - Liquidity—commercial paper capacity and the lines of credit provide support
    - Commission supported freeing commercial paper capacity in 2019 and an additional line of credit in early 2020

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How It Fits Together

- Credit Ratings:
  - Commission supported cash balance policy for cash and reserves well received by agencies
  - Commission supported debt defeasance plan well received by agencies
  - Commission supported liquidity program by freeing commercial paper capacity in 2019 and an additional line of credit in early 2020 well received by agencies

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Next Steps

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Next Steps

- June 16th for Revenues, Operations and Maintenance Expenses and Capital Expenditures; Rate approvals
- General Fund Transfer formula beginning in fiscal year 2022

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FLOW OF FUNDS

REVENUES

LESS EXPENSE	GRU shall pay from Revenues such sums as are necessary to meet Operation & Maintenance expenses

= NET REVENUES

USE OF NET REVENUES:

DEBT SERVICE	GRU shall forward to the Trustee for deposit in the Debt Service Fund the amount equal to aggregate debt service
UPIF	GRU shall next pay into the Utilities Plant Improvement Fund an amount equal to at least one-half of Net Revenues less aggregate debt service during the immediately preceding fiscal year
GENERAL FUND TRANSFER	The balance of any moneys remaining after the above required payments have been made may be used for any lawful purpose

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GFT Proposal

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GFT Proposal

- GFT is a proxy for what an IOU would pay to a municipality:
  - Property taxes
  - Franchise fee
  - Dividend to shareholders

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Property Taxes

- Uses net capital assets from balance sheet as a proxy for GRU taxable value

Projected FYE 21 net capital assets	$1,774,747,351
Divided by 1,000	1,000
Multiplied by millage rate	5.2974
Equals property tax component	$ 9,401,547

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Franchise Fee

- Franchise fee of 7% of (gross revenues less fuel & rate stabilization fund transfers)

FY21 projected revenues net of fuel & RSF	$335,088,428
Multiplied by 7%	.07
Equals franchise fee component	$ 23,456,190

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Dividend to Shareholders

- 10% of earnings
- Earnings defined as deposits to rate stabilization fund

FY21 projected deposit to RSF	$ 11,373,834
Multiplied by 10%	.10
Equals dividend to shareholders component of FY21 GFT	$ 1,137,383

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FY21 GFT Projection

Component	GFT $
Property Tax	9,401,547
Franchise Fee	23,456,190
Dividend to Shareholders	1,137,383
Total	33,995,120

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Characteristics of Proposed Formula

- Provides General Government some input into property tax component
  - Can propose millage rate changes
- Aligns General Government and GRU interests
  - As GRU revenues net of fuel and RSF transfers increase, franchise fee component of GFT increases
  - As GRU earnings increase, dividend component of GFT increases

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GFT Projections

FY21	FY22	FY23	FY24	FY25	FY26
33,995,120	33,730,495	33,890,494	34,181,564	33,514,102	33,770,776

- **Assumptions:**
  - **3% annual reduction in net capital assets value**
  - **Revenues net of fuel & RSF and earnings from FY20 corporate model**
  - **Millage rate held constant at 5.2974**

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GFT Proposal

- Move to formula basis for GFT
  - Property taxes based on GRU net capital assets X millage rate
  - Franchise fee equal to 7% of non-fuel revenues
  - Dividend to shareholders at 10% of earnings
  - Maximum equal to GRU profit for year
- Implement in FY22 – General Manager & City Manager considering engaging consultant to assist with development of formula

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Funds Available for GFT Payments vs Payments Made

Payment in excess of available funds FY15-FY19 = $11.6M

	FY15	FY16	FY17	FY18	FY19	FY15-FY19
Net Revenue net of transfers to or from RSF	145,360,745	143,163,018	128,535,574	163,755,181	165,710,218	746,524,736
Debt Service expense	61,638,702	62,027,441	62,571,817	90,095,336	91,095,672	367,428,968
UPF contribution	42,255,401	43,778,139	41,858,096	41,120,553	41,284,409	210,296,598
Available for GFT payment	41,466,642	37,357,438	24,105,661	32,539,292	33,330,137	168,799,170
GFT payment	34,892,425	34,994,591	35,814,010	36,379,079	38,285,001	180,365,106
Payment in excess of available funds	(6,574,217)	(2,362,847)	11,708,349	3,839,787	4,954,864	11,565,936

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Wrap Up

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Fiscal Year 2021 Budget

- The Commission and GRU have worked diligently to support a financially healthy Utility for the Community for the last two years
  - Adequate cash and reserves to support needed cash and potential emergencies
  - Adequate liquidity if cash reserves are not adequate

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Fiscal Year 2021 Budget

- To continue a positive path:
  - Work to maintain strong credit ratings to keep borrowing costs lower for ratepayers
  - Develop a multiyear formula that provides funds to General Government based on the Utility's profits

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Appendix

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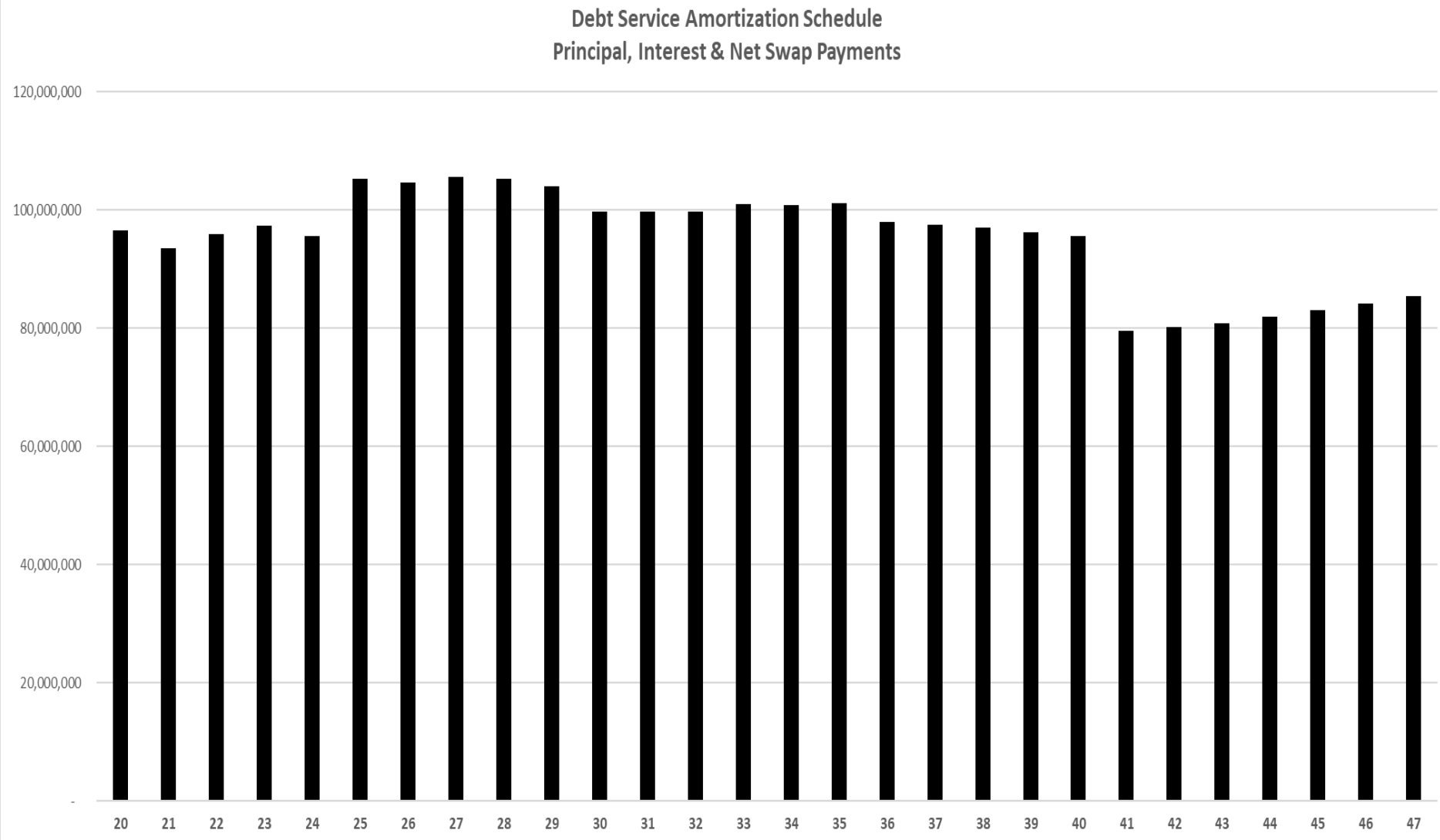

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PROJECTED RESERVES VS TARGET BY SYSTEM

	Target Reserves	Projected Reserves	Designated For Redemption	Adjusted Reserves	Adjusted Over (Under) Target
Electric	59,092,130	60,351,869	22,211,019	38,140,850	(20,951,280)
Water	5,092,320	21,013,901	3,792,137	17,221,764	12,129,444
Wastewater	6,259,310	18,846,045	5,098,945	13,747,100	7,487,790
Gas	4,667,960	10,722,054	1,423,781	9,298,273	4,630,313
GRUCom	2,015,710	(25,434)	6,204,690	(6,230,124)	(8,245,834)
Total	77,127,430	110,908,435	38,730,572	72,177,863	(4,949,567)
Based on final FY20 Budget corporate model- will change as FY21 budget is completed					

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Moody's February 18, 2020 Periodic Review

" GRU's rating is constrained by high leverage, high electric rates, the age of some of its coal and natural-gas fired generation assets and high annual transfers to the city's general fund which reduces the utility's ability to apply free cash flow generation towards rate reductions or investments into the system."

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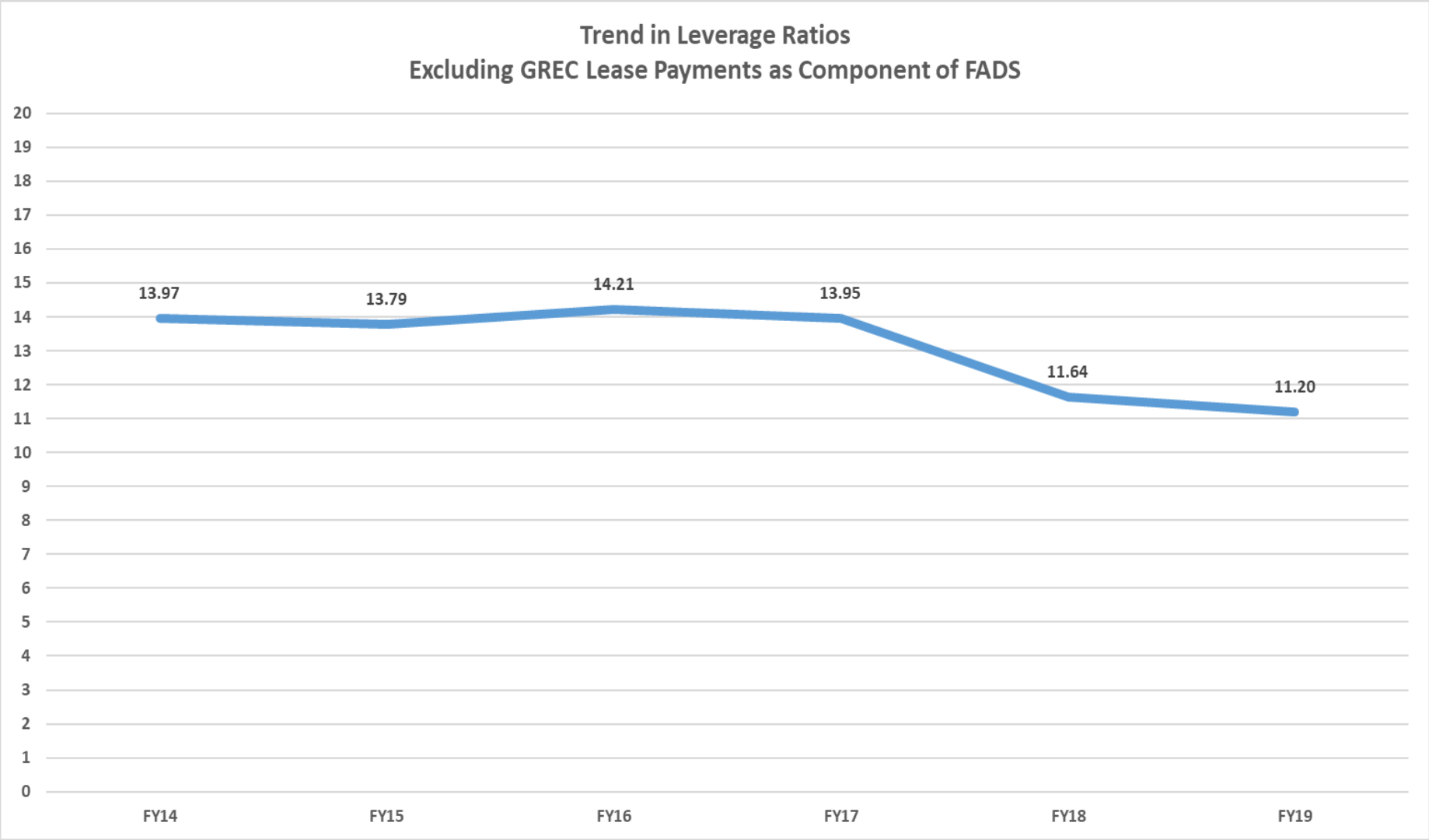

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