



City of Gainesville

Budget & Finance Department

To: Lee R. Feldman, ICMA-MA, City Manager

Via: Fred Murry, Assistant City Manager

From: Cintya Ramos, Finance Director *CR*

Date: September 22, 2021

RE: FY 2021 Third Quarter Fuel Hedging Report for the Period Ended June 30, 2021

The City of Gainesville's Fuel Hedging Policy, effective April 27, 2020, Section 5 "Execution, Monitoring and Reporting" requires quarterly reports that provide an analysis of the status of the program's performance over the last quarter for the City.

The objectives of the City's petroleum fuel hedging program are to:

- seek to decrease the volatility of petroleum fuel cost;
- seek to increase the likelihood that actual net petroleum fuel cost will remain below the budgeted cost;
- seek to increase the certainty of future petroleum fuel cost;
- seek to attain a lower overall cost of petroleum fuel in the long-term;
- seek to manage year-over-year changes in petroleum fuel cost.

The purpose of this fuel hedging program is not to make or lose money but to manage risk by minimizing large budget variances resulting from the volatility of fuel prices. This program is not an investment and should not be construed as such. Realized gains or losses will be considered as an element of fuel cost. Cash flows produced or consumed by the Fuel Hedging Program will be considered as an element of fuel cost.

The purpose of this report is to present the status of compliance and performance for the Fuel Hedging Program and how this compliance and performance affected the cost of petroleum fuels purchased and consumed by the City during the quarter.

COMPLIANCE

As of the date of this report, the Fuel Hedging Program is in compliance with all the specified limitations and requirements. The Fuel Hedging Program guidelines are:

1. Maximum Allowed Hedge Maturity is 18 months – the Fuel Hedging Program is currently in compliance with this parameter. Current hedging for diesel fuel and gasoline extends from July 2021 through August 2022.

2. Maximum Allowed Percentage Hedged is 80% - the Fuel Hedging Program is currently in compliance with this parameter.

Petroleum Type	Fiscal Year 2021 (remainder)	Fiscal Year 2022
Diesel	78.97%	72.99%
Gasoline	73.02%	73.62%

PERFORMANCE – THIRD QUARTER OF FY 2021 (PERIOD ENDED JUNE 30, 2021)

During the third quarter, petroleum fuel costs not including hedging were approximately \$2.24 per gallon. Net of hedging, the fuel cost was approximately \$1.68 per gallon vs. a weighted average budgeted cost for diesel and gasoline for FY 2021 of about \$1.75 per gallon. Actual volume consumed was about 66,153 gallons less than budgeted. The effect of the hedge and lower-than-budgeted volume consumption caused a positive budget variance for the quarter of approximately \$142,869 including the effect of the hedge.

During the third quarter, the Fuel Hedging Program produced a negative fuel cost (hedging realized gain) of approximately \$218,194 or approximately \$0.56 per gallon on all gallons.

FINANCIAL ANALYSIS – GAINS/LOSSES

As of June 30th, 2021, there was an unrealized gain (contingent future negative fuel cost) of \$839,189 that corresponds to the time period July 2021 through August 2022. This is an unrealized gain of about \$0.39 per gallon on average for the time period for diesel and gasoline combined. Additional information is shown in Attachment A.

NEXT STEPS

Accumulate new hedges for FY 2022 and FY 2023 as market conditions allow within policy.

Maintain the size of the hedge in order to protect the City's petroleum fuels budget against adverse price movements in the petroleum market.

The Risk Oversight Committee, comprised of the City Manager, Finance Director, Pension and Investment Manager and Fleet Director will continue to meet quarterly to review the Fuel Hedging Program's status and performance as well as monitor the petroleum fuels market.