



# GRU General Fund Transfer Policy Review

## Final Report

January 25, 2021



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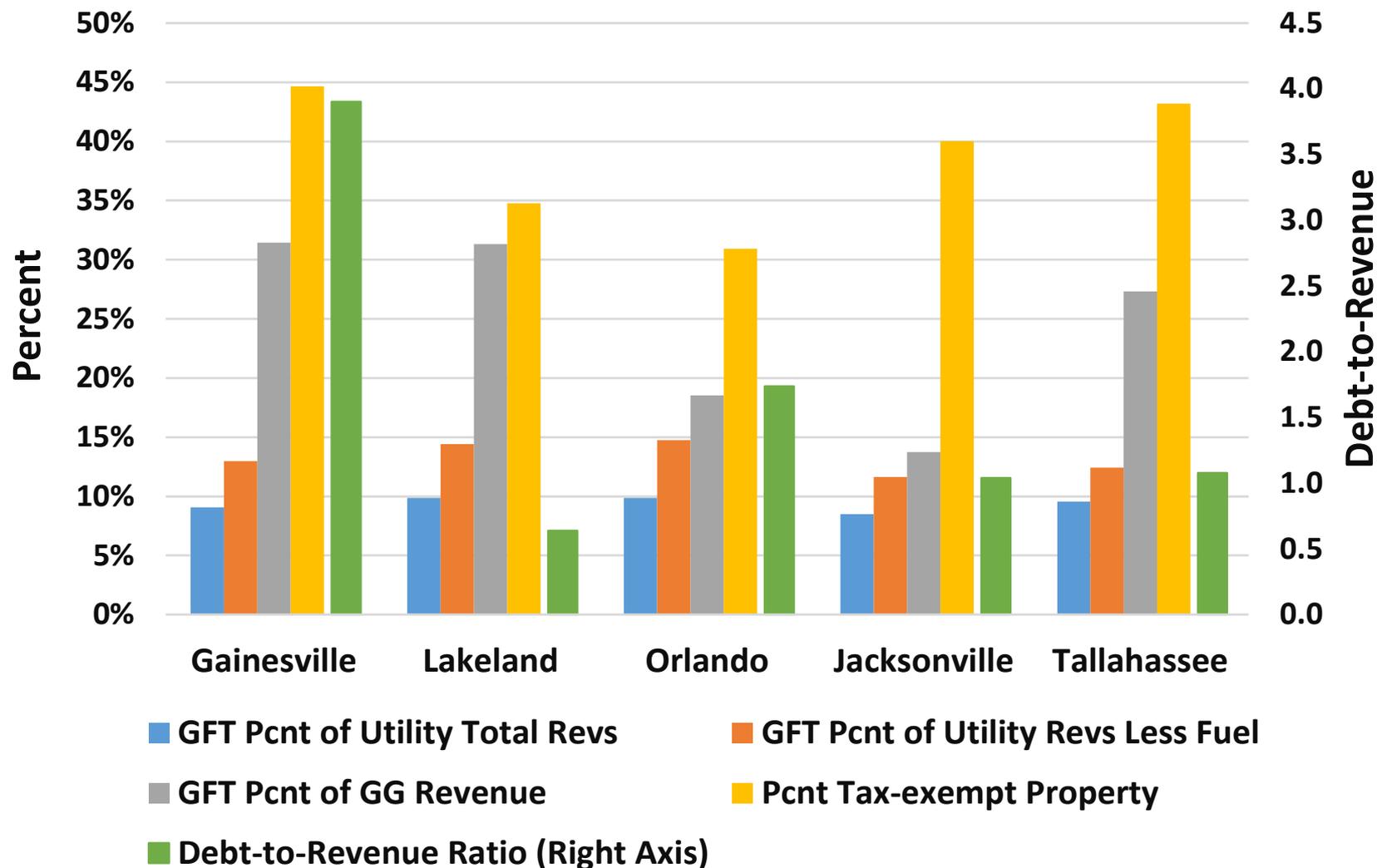
# Outline

- GFT Policies of Other Municipals
- Comparison of Relevant Metrics Across FL Municipals
- Evaluation of Alternative GFT Mechanisms
- Review of GRU Comments
- Conclusions
- Appendix

# GFT Policies of Selected Municipal Utilities

- Reviewed Public Documents
  - 4 FL municipalities & 3 non-FL municipals
- Example GFT Mechanisms
  - Percent of Revenues – Common mechanism
  - Rate per-Unit Sales – Lakeland & JEA (plus franchise fee)
  - OUC – Percent of net income (i.e., dividend) plus franchise fee equivalent
  - Utility and other services provided to the municipality free of charge (not common in FL)
  - Combinations of the above
  - Periodic agreements on GFT level (e.g., Tallahassee)

# Selected Statistics of FL Municipal Utility Cities (Avg. 2017-19)<sup>1</sup>



<sup>1</sup> Debt-to-Revenue reflects 2019 data; debt data was provided by GRU

# Evaluation of Alternative General Fund Transfer Mechanisms

- Study Period: FY2021 - FY2023
- Considered 9 alternative general fund transfer mechanisms
  1. Percentage of Revenues (3 variations)
  2. Percentage of UPIF Calculation
  3. Rate per-unit Sales (3 variations)
  4. Franchise Fee Equivalent + Percentage of Available Funds
  5. Percentage of Available Funds only (i.e., without Franchise fee)
- 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
- Base Case projections were provided by GRU and reflect rate increases in FY2022 and 2023 (3% for electric & 5% for wastewater in both years)

# Evaluation of Alternative General Fund Transfer Mechanisms (cont'd)

Selected 3 options for further evaluation, based on commonly used mechanisms and variance of the resulting yearly GFT under the Base Case:

- 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)

# Evaluation of Alternative General Fund Transfer Mechanisms (cont'd)

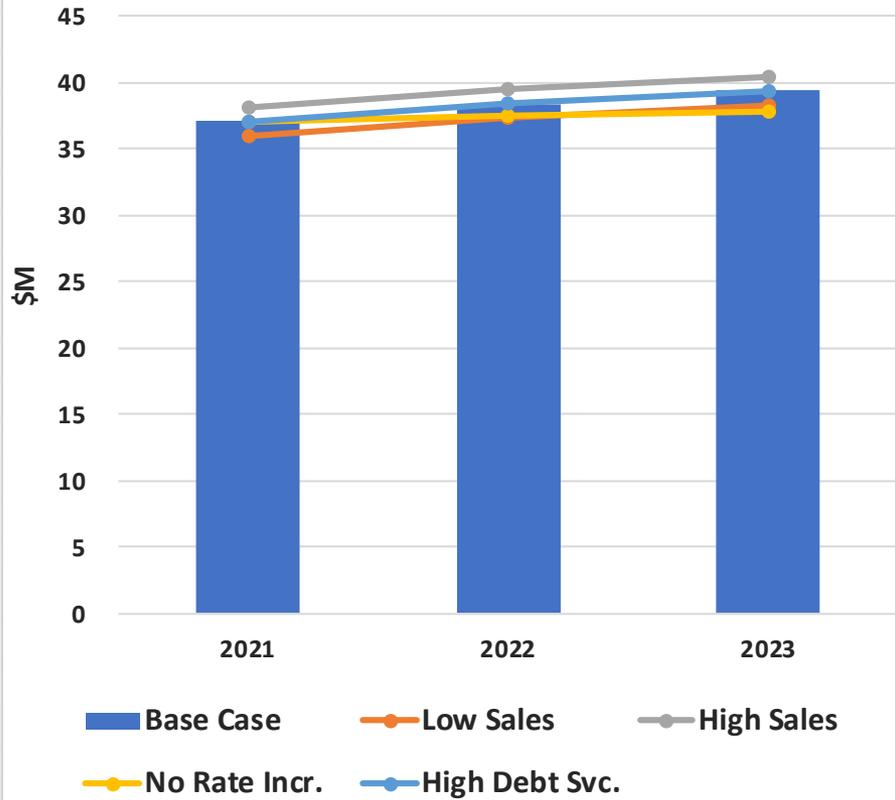
- Conducted Sensitivity Analyses on 3 selected Options
  - **Lower Sales:** Decrease sales by 3%
  - **Higher Sales:** Increase sales by 3%
  - **Eliminate Rate Increases:** Remove projected rate increases (3% electric & 5% wastewater in both FY2022 and FY2023)
  - **Higher Debt Service:** 10% Increase in debt service
- Sensitivity analyses performed to test the variability of the GFT level and GRU cash reserves under each GFT mechanism

# Evaluation of Alternative General Fund Transfer Mechanisms (cont'd)

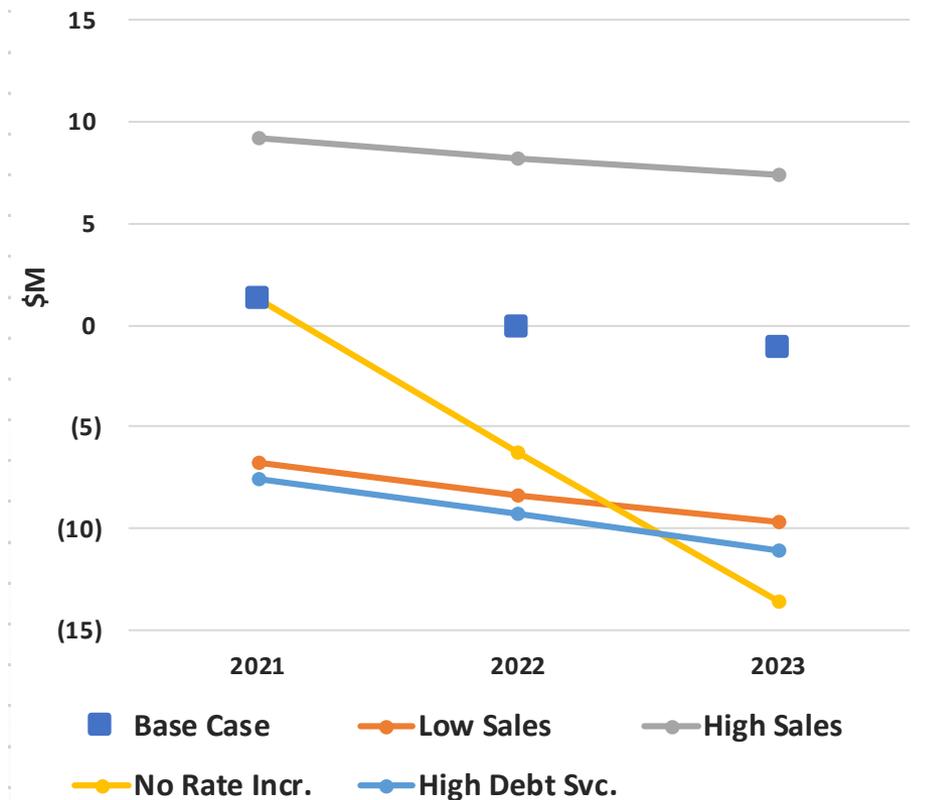
- GFT mechanisms were assessed based on balancing the following goals and objectives
  - **Certainty of Funding (for GG)** – Stable or increasing GFT over Study Period
  - **Ability to Fund (for GRU)** – Minimal reduction in GRU cash reserves over Study Period
  - Mechanism should NOT need to be revisited over an extended period
- Following 5 slides depict projected GFT and GRU reserves impact under Options 1 - 3

# Option 1 - Percent of Revenue Less Fuel

### General Fund Transfer

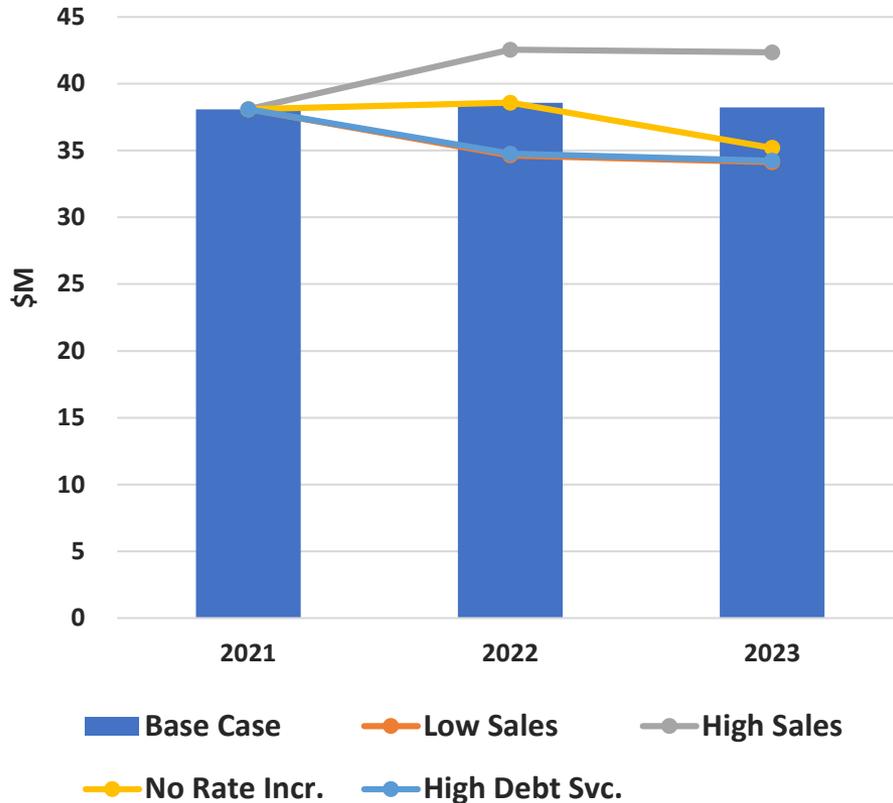


### GRU Reserves Impact

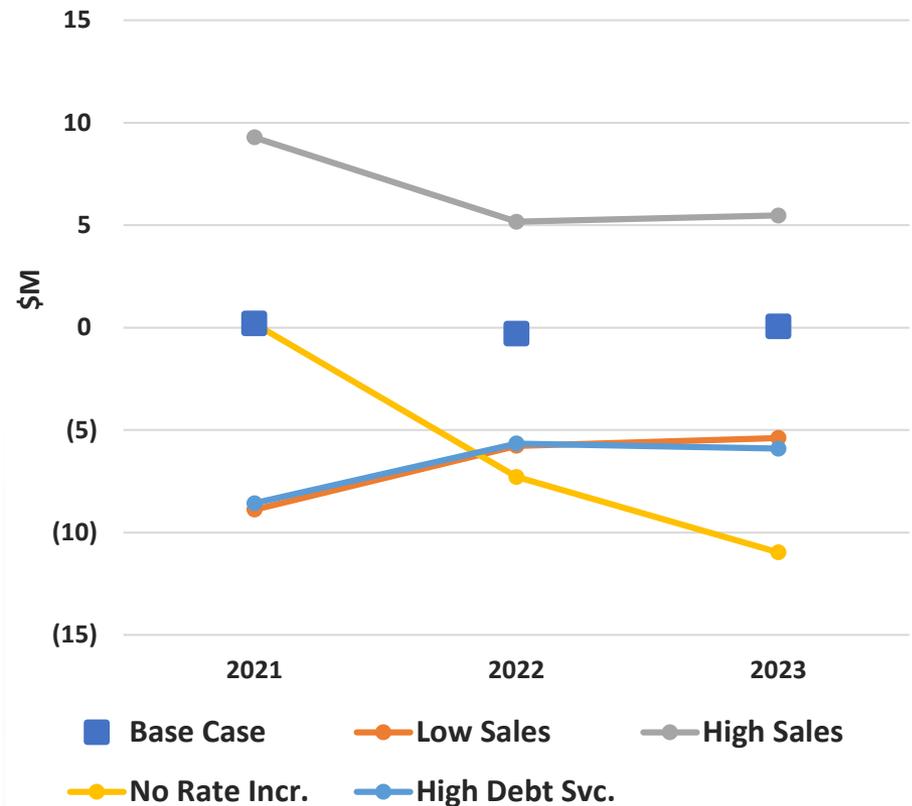


# Option 2 - Percent of UPIF Calculation

## General Fund Transfer

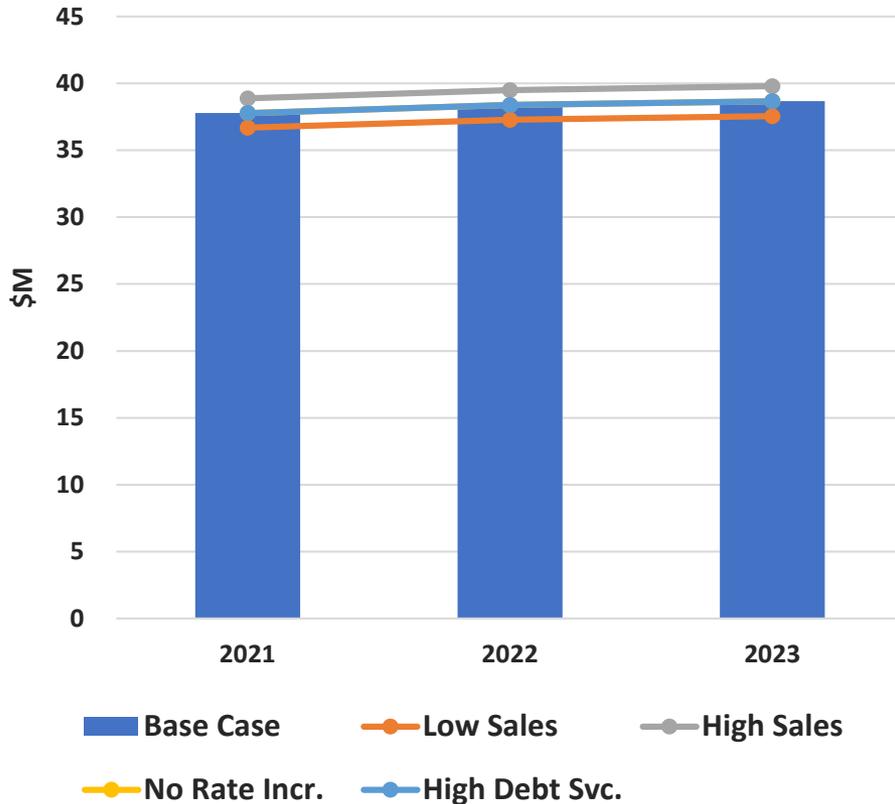


## GRU Reserves Impact

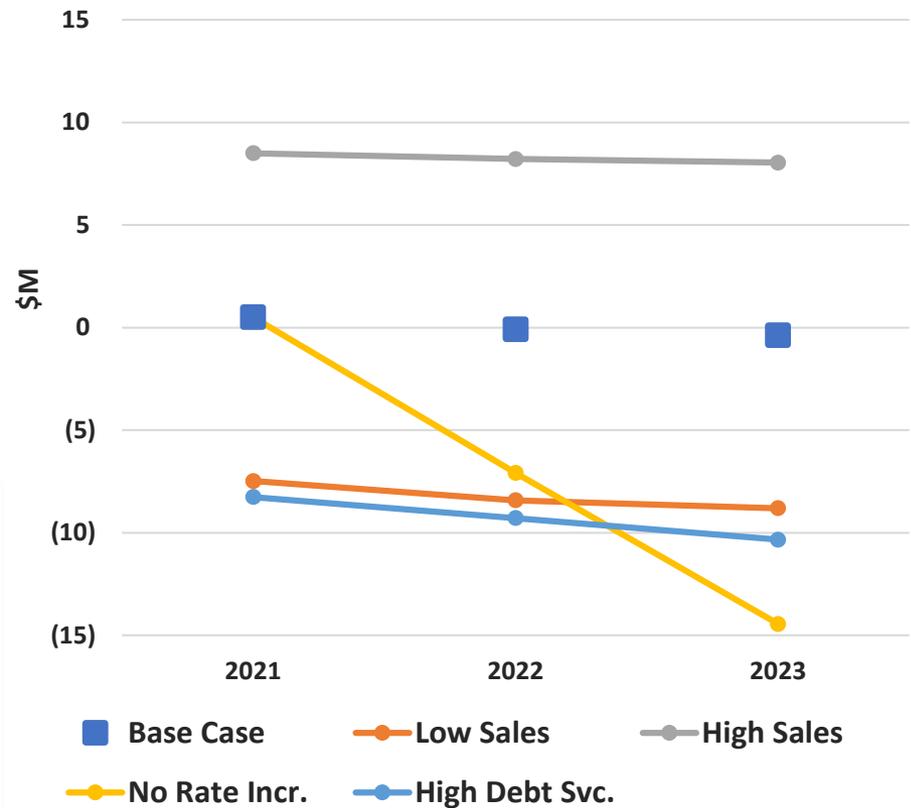


# Option 3 - Rate per Unit Sales

### General Fund Transfer

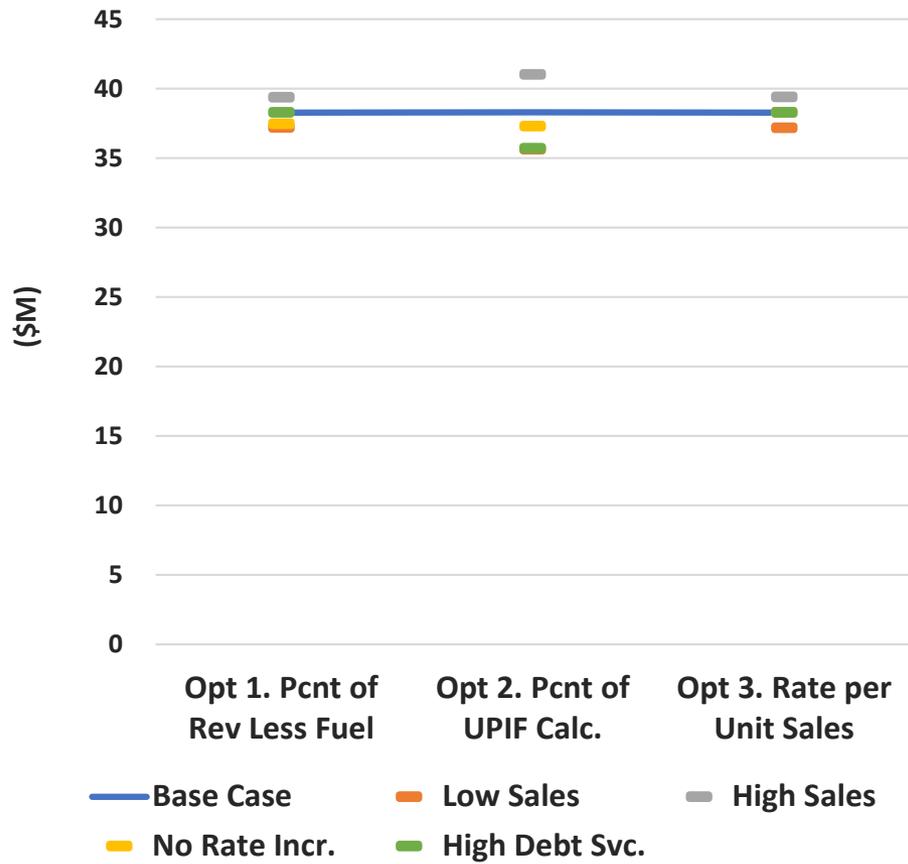


### GRU Reserves Impact

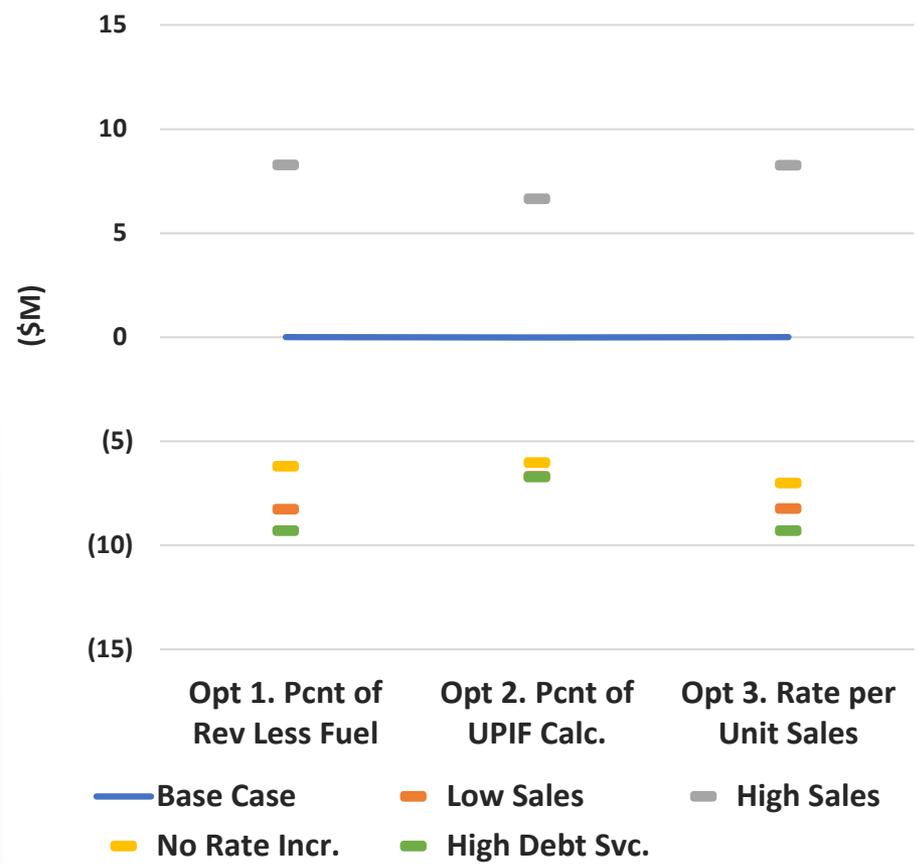


# Options 1, 2 & 3: Avg. 2021-23

### General Fund Transfer

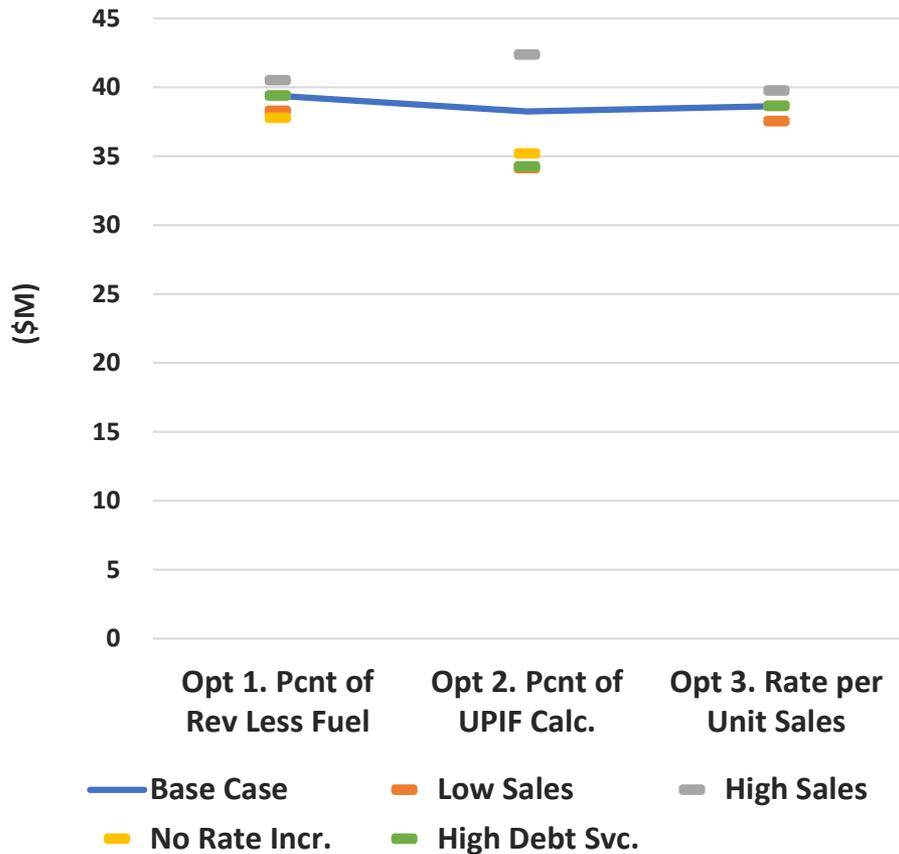


### GRU Reserves Impact

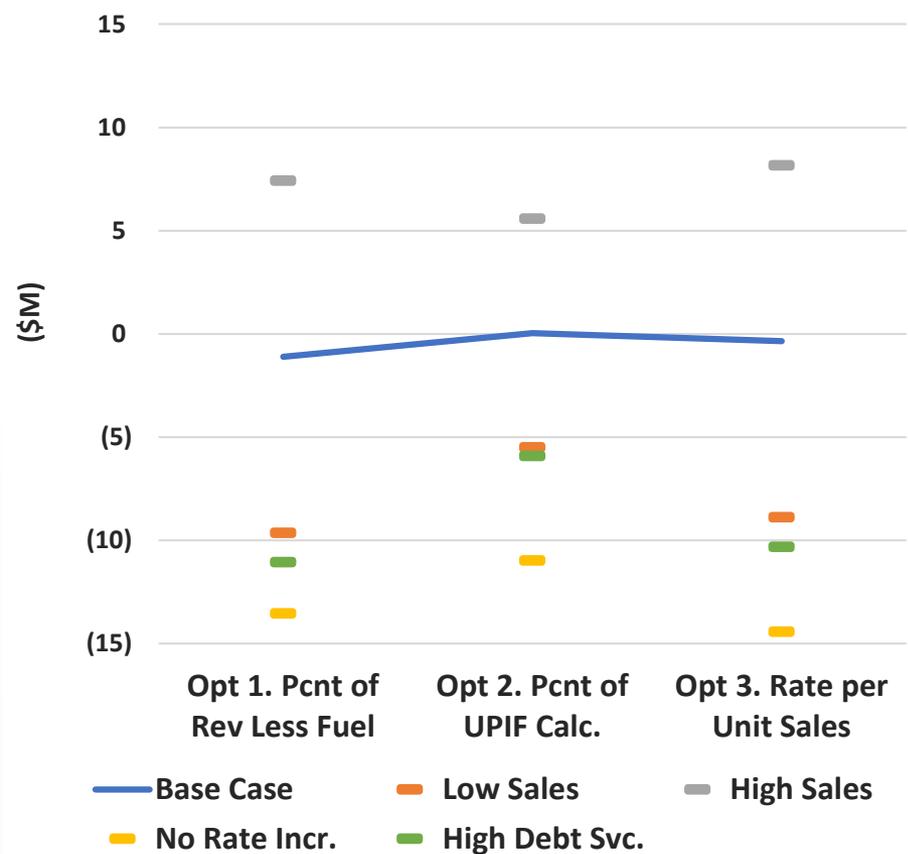


# Options 1, 2 & 3: 2023

## General Fund Transfer



## GRU Reserves Impact



# Observations from Sensitivity Analyses

## Option 1 (Percent of Revenue less Fuel)

- No Rate Increase Case
  - Lower GFT (\$1M in FY23)
  - Reduced GRU cash reserves (\$14M in FY23)
- Decreased Sales Case
  - Lower GFT (\$1M in FY23)
  - Reduced GRU cash reserves (\$10M in FY23)
- Higher Debt Service Case
  - No impact on GFT
  - Reduced GRU cash reserves (\$11M in FY23)
- GFT varies with revenues (impacted by sales, rates, and RSF activity)
- Certainty of Funding and Ability to Fund – Not balanced in sensitivity cases
- Percent of revenues is a commonly used GFT mechanism

# 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

# Observations from Sensitivity Analyses

## Option 3 (Rate per-Unit of Sales)

- No Rate Increase Case
  - No change in GFT
  - Reduced cash reserves (\$14M in FY23)
- Decreased Sales Case
  - Lower GFT (\$1M in FY23)
  - Reduced cash reserves (\$9M in FY23)
- Higher Debt Service Case
  - No change in GFT
  - Reduced cash reserves (\$10M in FY23)
- Certainty of Funding and Ability to Fund – Not balanced under sensitivity cases
- Provides minimal increases in GFT over time, based on sales growth (forecasted at 0.5% to 0.7%)
- Mechanism utilized by two FL municipal utilities

# Observations from Sensitivity Analyses

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

# Review of GRU Comments and nFront Consulting Responses (in BLUE italics)

- Comments from GRU 1/12/21 e-mail
- Pre-determination of \$36M GFT target for FY2022-23
  - *Based on Base Case projections, this level removes the need for RSF withdrawals over FY2022-23*
  - *Balances Certainty of Funding and Ability to Fund*
  - *As projections change and differing financial situations arise, the GFT level would change*
- Removal of rate stabilization fund activity in GFT mechanism
  - *RSF transfers could be removed from GFT mechanism*
  - *Will reduce Certainty of Funding*
  - *Over time average GFT transfers would be unaffected, assuming use of RSF ONLY to stabilize rates*
- Debt service savings from 2019 transaction should be excluded in computation of GFT
  - *Option #2 was designed to use GRU audited financials with no adjustments*
  - *Debt service savings have a material impact on the GFT amount under Option #2*

# Review of GRU Comments and nFront Consulting Responses (in BLUE italics)

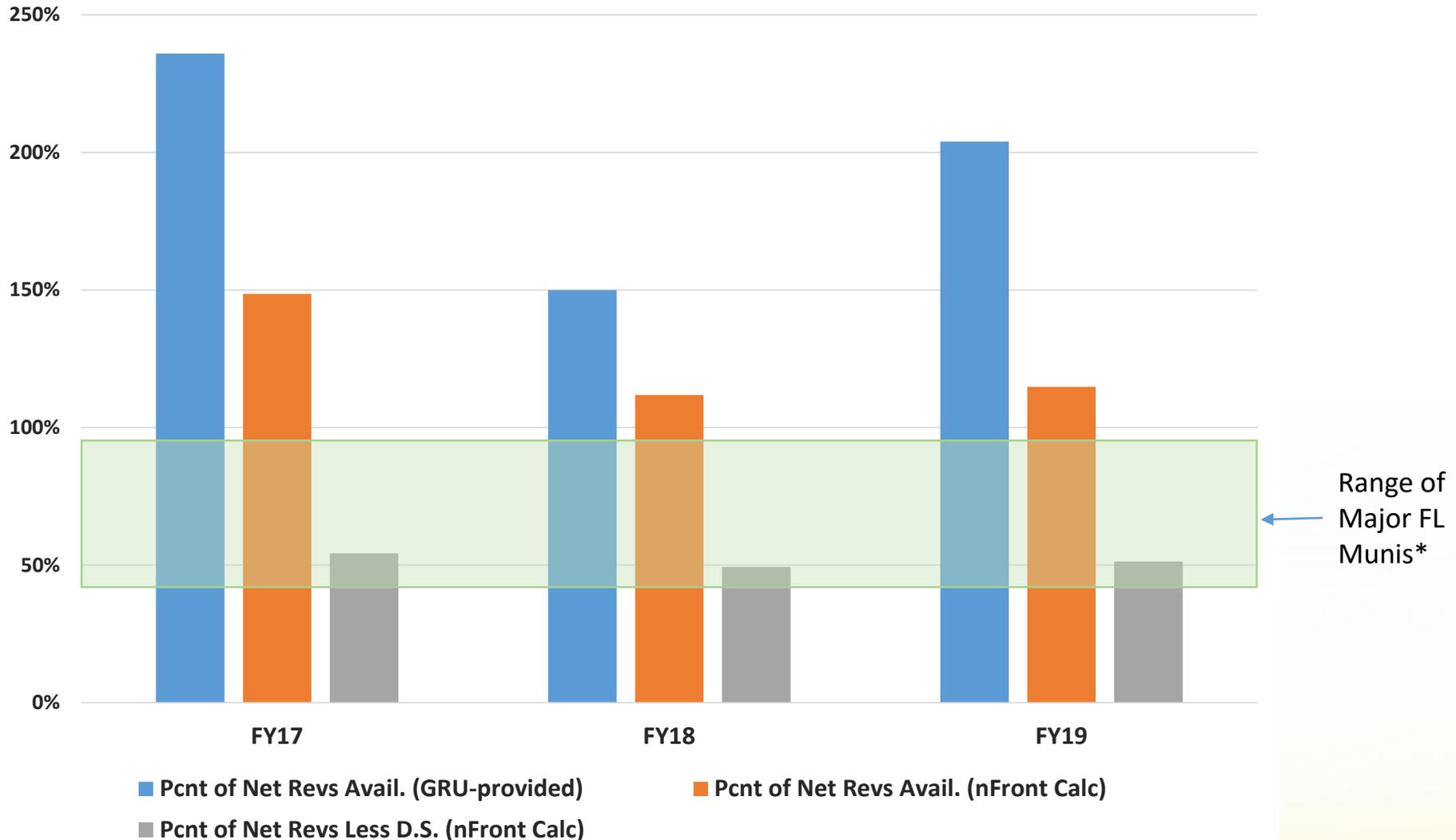
- Impact of these three assumptions [prior slide] results in \$20.4M over-payment of GFT over 2022-27, as compared to \$35.2M based on originally budgeted \$38.3M GFT
  - *GRU's over-payment computation reflects subtraction of D.S. savings from Available Funds (approximately \$29.3M over 2022-24)*
    - *Without this subtraction, the \$20.4M above would be reversed to a \$8.9M "surplus" and the \$35.2M over-payment above would be reduced to \$6.0M.*
  - *With RSF transfers removed from Option #2, the \$8.9M "surplus" above would increase to \$14.7M*

# Review of GRU Comments and nFront Consulting Responses (in BLUE italics)

- GRU document (via 1/16 e-mail) with a chart showing GRU GFTs as a percent of net available revenues far exceeding other major FL municipals
- *The basis for other municipals in GRU's calculation was not clear*
  - *Not apparent other FL municipals values reflect a deduction from net available revenues of component similar to UPIF*
  - *Appears that JEA and OUC statistics exclude franchise fees*
- *nFront Consulting computed similar statistics for GRU based on data provided by GRU (next slide)*
  - *GFT as a percent of net revenue less RSF transfers less debt service and UPIF contribution*
  - *GFT as a percent of net revenue less RSF transfers less debt service*

# Review of GRU Comments

## GRU GFT as a Percent of Net Available Revenues



\*Based on data provided by GRU, adjusted for franchise fees for JEA and OUC (i.e., not independently verified)

# Review of GRU Comments

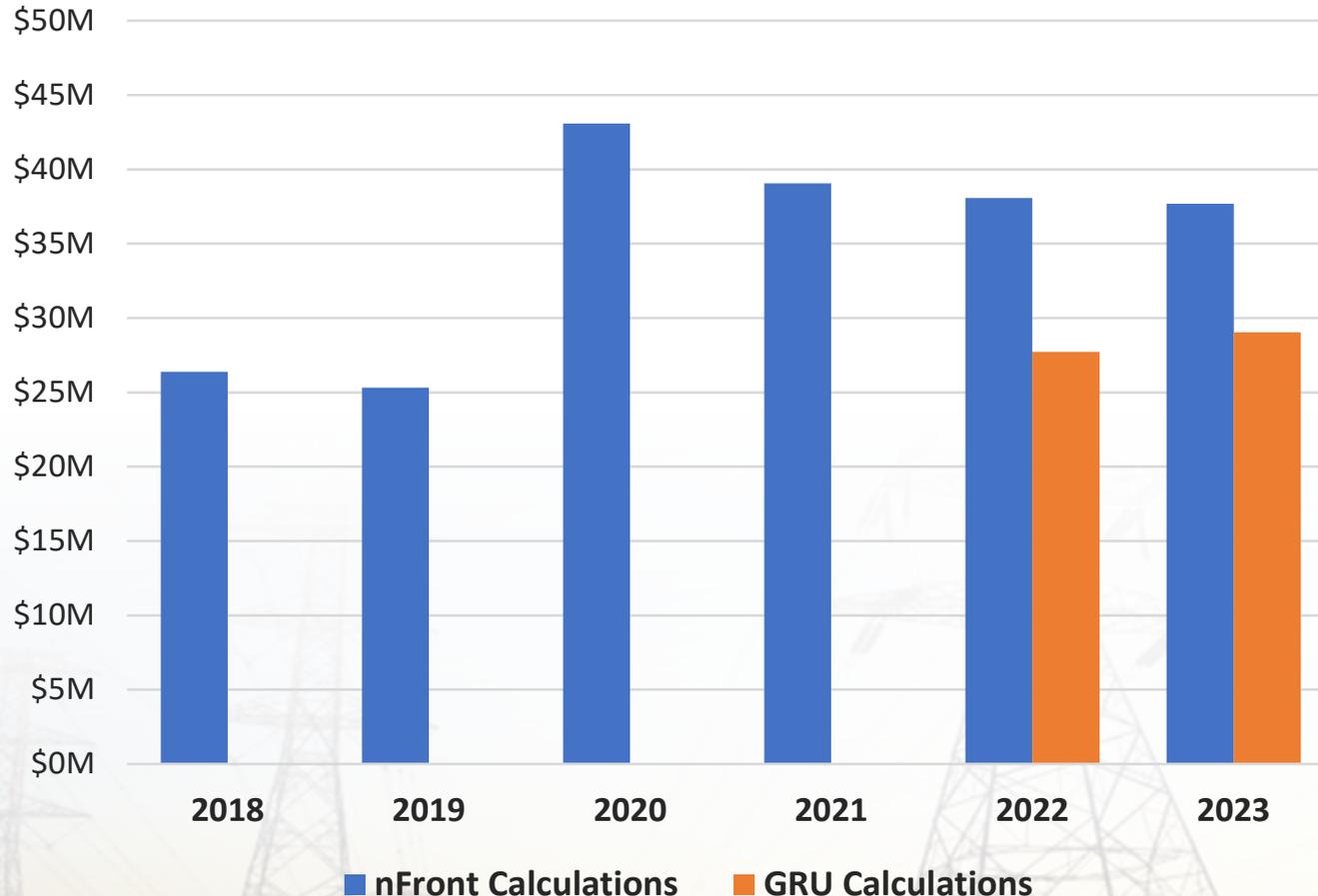
## GRU Proposal #1 – Funds Available

- Comments from GRU 1/12/21 e-mail (nFront comments in *blue italics*)
- Proposed GFT mechanism is based on GRU's funds available to pay the GFT consistent with the provisions of the bond resolution
  - Net revenues net of transfers (to)/from RSF
  - Less debt service
  - Less UPIF contribution
  - *Similar to Option #5*
- Projected GFT amounts (per GRU)
  - FY2022: \$27.7M
  - FY2023: \$29.0M
  - *Calculation subtracts debt service savings (2019 debt restructuring) from funds available*
- GRU: "Under no circumstances should the GFT exceed the Utility's profit for any one year."
  - *Option #2 is designed to achieve this objective on average*

# Review of GRU Comments

## GRU Proposal #1 – Funds Available

### Computation of GFT Amounts under GRU Proposal #1\*



\* nFront Consulting calculations based on historical data and Base Case projections provided by GRU; GRU calculations for FY2022-23 subtract D.S. savings from Funds Available (2018-21 not available).

# Review of GRU Comments

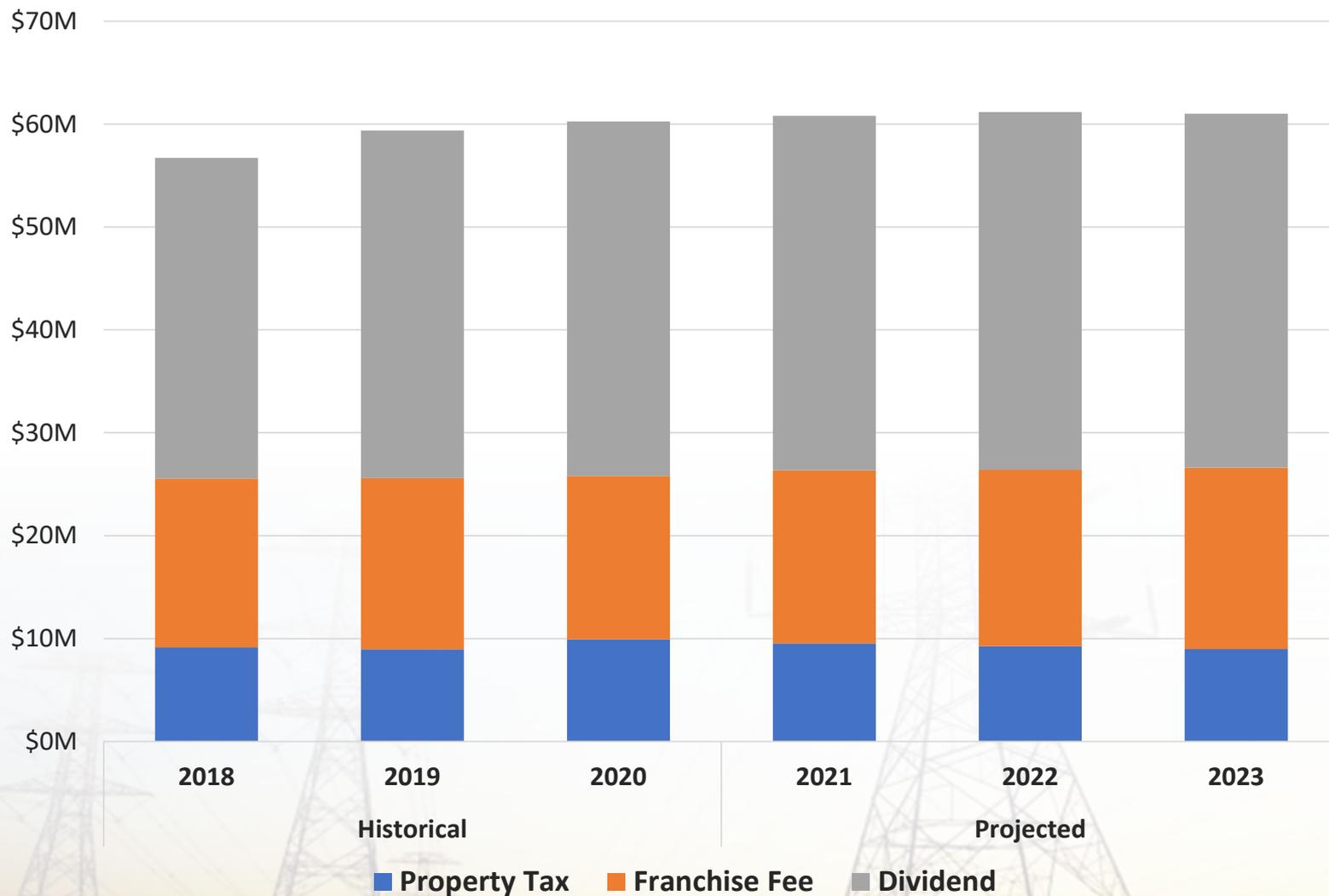
## GRU Proposal #2 – Three Components

- Comments from GRU 1/12/21 e-mail (nFront comments in *blue italics*)
- Components – Property taxes, franchise fees, and dividend amounts computed by GRU totaling \$32M-\$33M over 2022-23 (though GFT should be limited to funds available)
- *nFront Consulting independently computed the GFT level based on these components for 2018-20 using historical data and 2021-23 based on GRU projections*
  - ***Property Taxes** – Based on net plant in service of GRU and ad valorem rates provided by GRU*
  - ***Franchise Fees\*** – Based on operating revenues (excluding resale sales) within city limits x 6%*
  - ***Dividend\*** – Based on Net Revenue less D.S. multiplied by a dividend payout rate, assumed to be 60%*

\* The methodologies for these components are different from GRU's computation.

# Review of GRU Comments

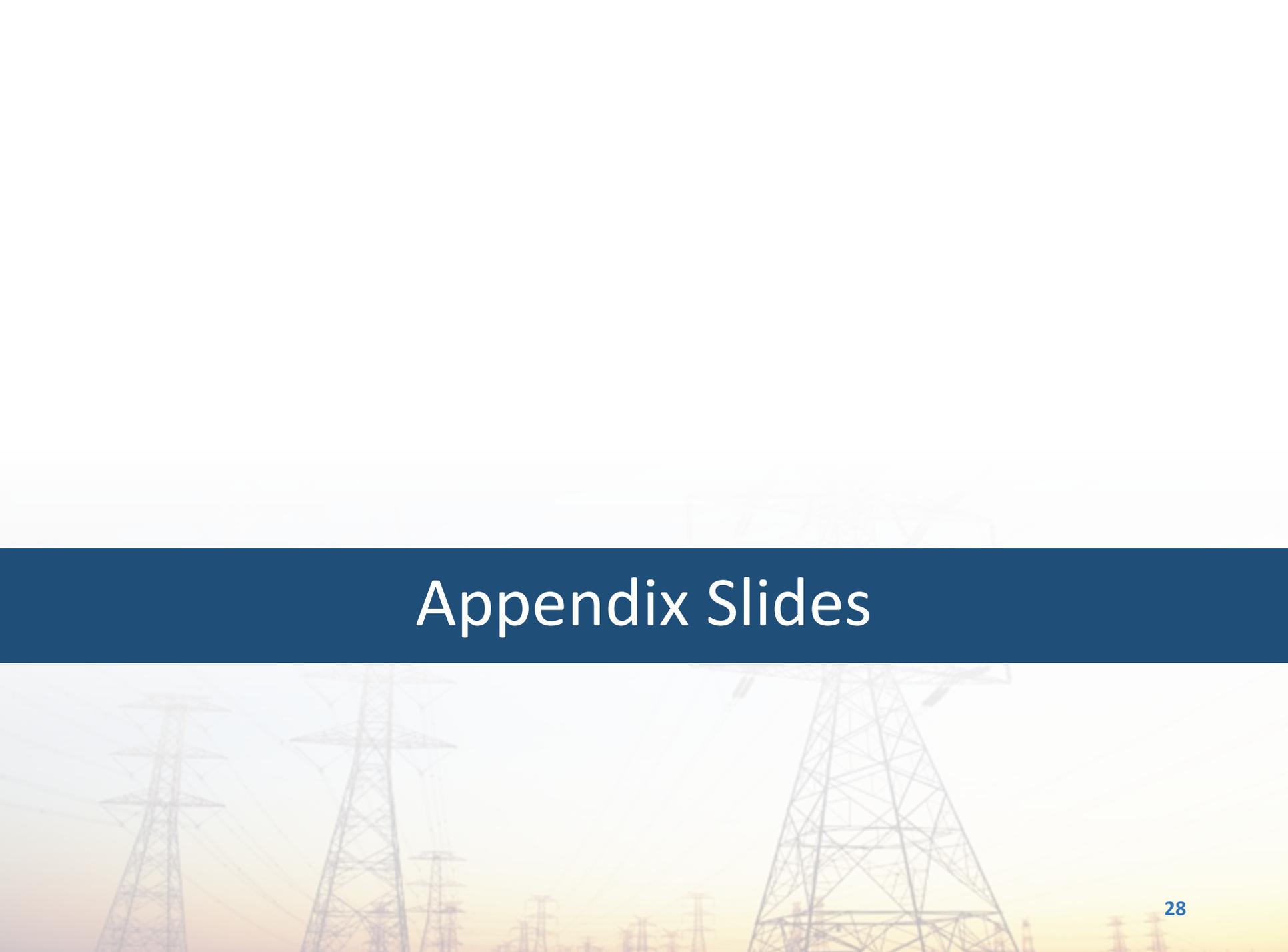
## GRU Proposal #2 – Three Components\*



\* These components are shown as additive for purposes of responding to GRU's 1/21 e-mail only.

# Conclusions

- Option #2 (Percent of UPIF Calculation) most effectively balances Certainty of Funding and Ability to Fund, though it is not commonly used.
- Based on the Base Case projections, approximately \$36 million represents a reasonable level for the GFT for FY2022 and FY2023.
  - Balances Certainty of Funding and Ability to Fund
  - Minimizes rate increases and/or decreases RSF withdrawals
  - Resulting GFT would be more comparable to similar municipalities
    - Reduces GFT as % of GG revenues from approximately 31% to 28%
    - Reduces GFT as % of GRU revenues from approximately 9.1% to 8.7%
- Under Option #2, without rate increases or with higher debt service, the GFT will be lower. As financial conditions vary, the GFT level would vary from \$36 million.
- Option #2 (Percent of UPIF Calculation) using 82% as the percentage is projected to result in a GFT of approximately \$36 million for FY2022 and FY2023, assuming Base Case rate increases are approved.
- A reasonable variation to Option #2 would be to remove RSF activity from the calculation, which would improve Ability to Fund but reduce Certainty of Funding.

The background of the slide features a series of high-voltage power transmission towers and their associated power lines, stretching across the horizon. The scene is captured in a soft, hazy light, likely during dawn or dusk, with a warm, yellowish-orange glow. The towers are silhouetted against the lighter sky, and the lines create a sense of depth and perspective. A dark blue horizontal band is overlaid across the middle of the image, containing the text.

# Appendix Slides

# Appendix Outline

- Historical GRU GFT Methods and Trends
- GFT Policies of Other Municipals
- Comparison of GRU GFT Level v. Other FL Munis
- Application of Other FL GFT Mechanisms to GRU
- Evaluation of Alternative GFT Mechanisms

# Historical GRU GFT Method

## ■ FY2000-10

- Electric system – Base value increased 3%/year if growth in 3-year average of kWh sales was positive
- Water/Wastewater – Based on a percent of revenue (1990s basis)
- Gas system – Percent of revenue
- Telecom – Negotiated amount

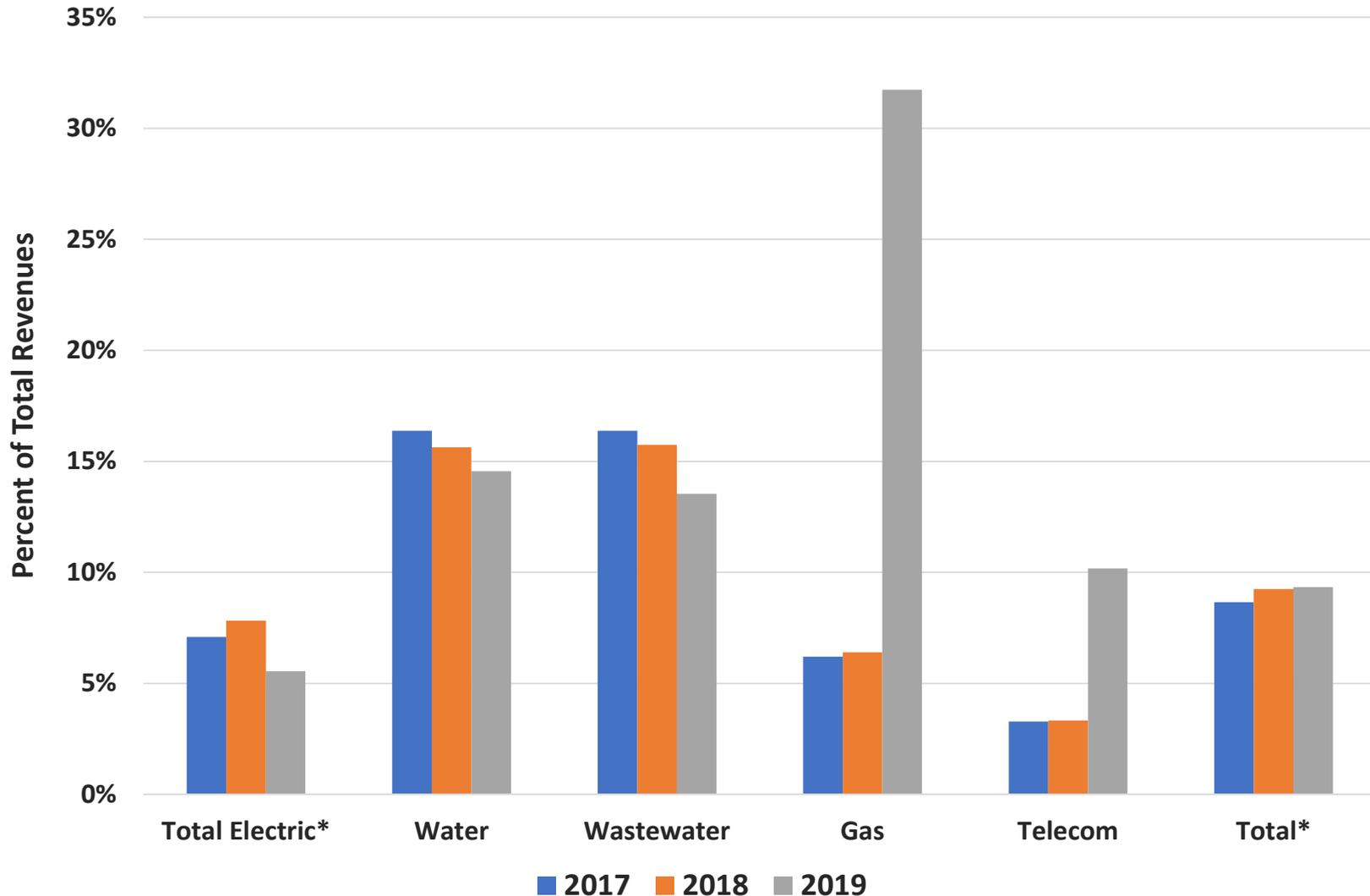
## ■ FY2011-14: Agreement with fixed total system transfers per year (differences to former method in excess of \$500k shared between General Government and GRU)

## ■ FY2015-2019: Five-year agreement, starting with FY15 level at \$3 million lower than FY14 and 1.5% per year growth

- FY19 GRU payments to General Government: \$56.4M (per DR#4)
  - General Fund Transfer: \$38.3M
  - Utility Tax: \$14.9M
  - Indirect Costs: \$3.2M

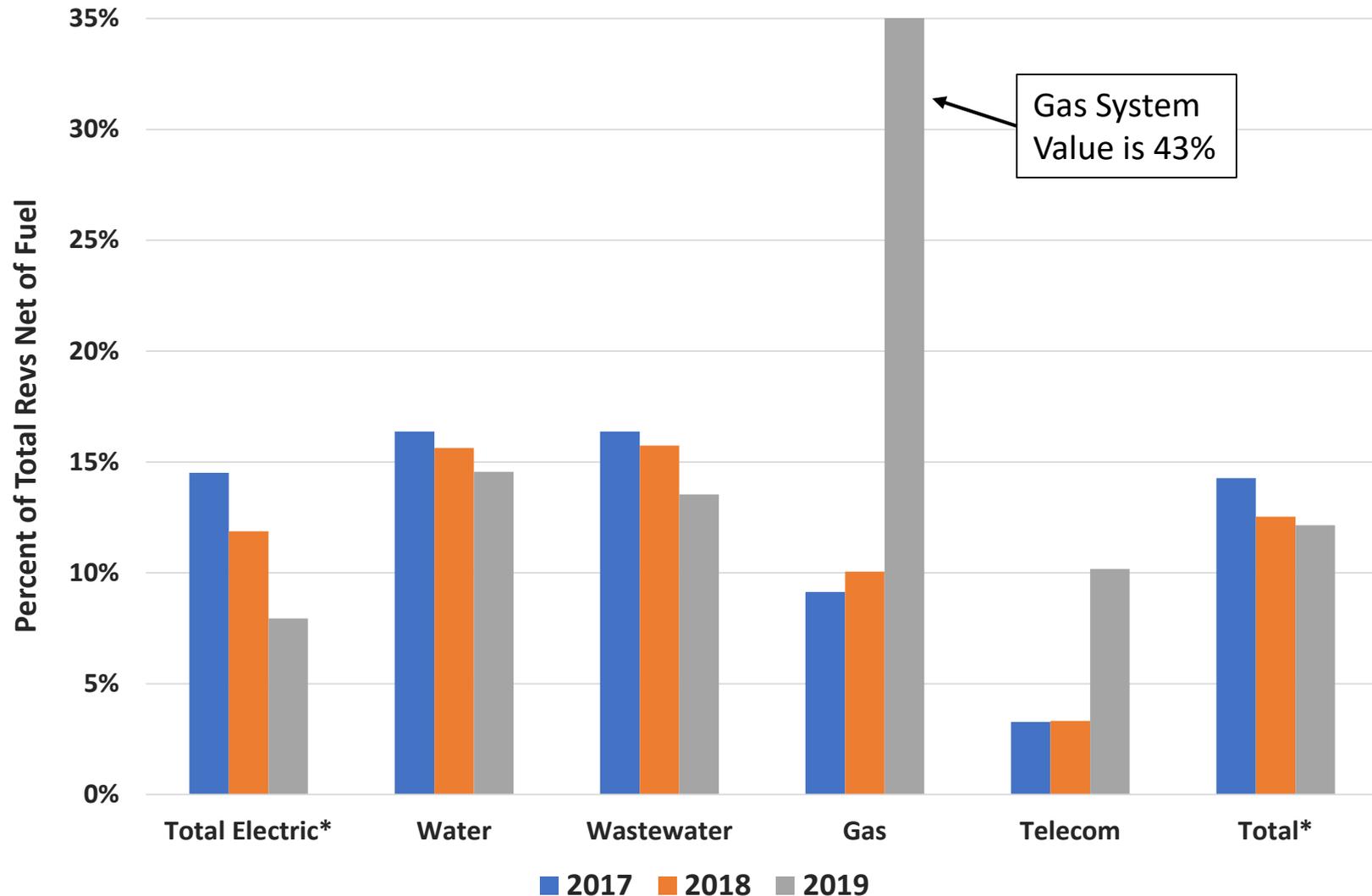
## ■ FY2020+: No agreement in place; GFT budgeted at \$38.3M

# Historical GRU Transfer by Utility (Percent of Total Revenues)



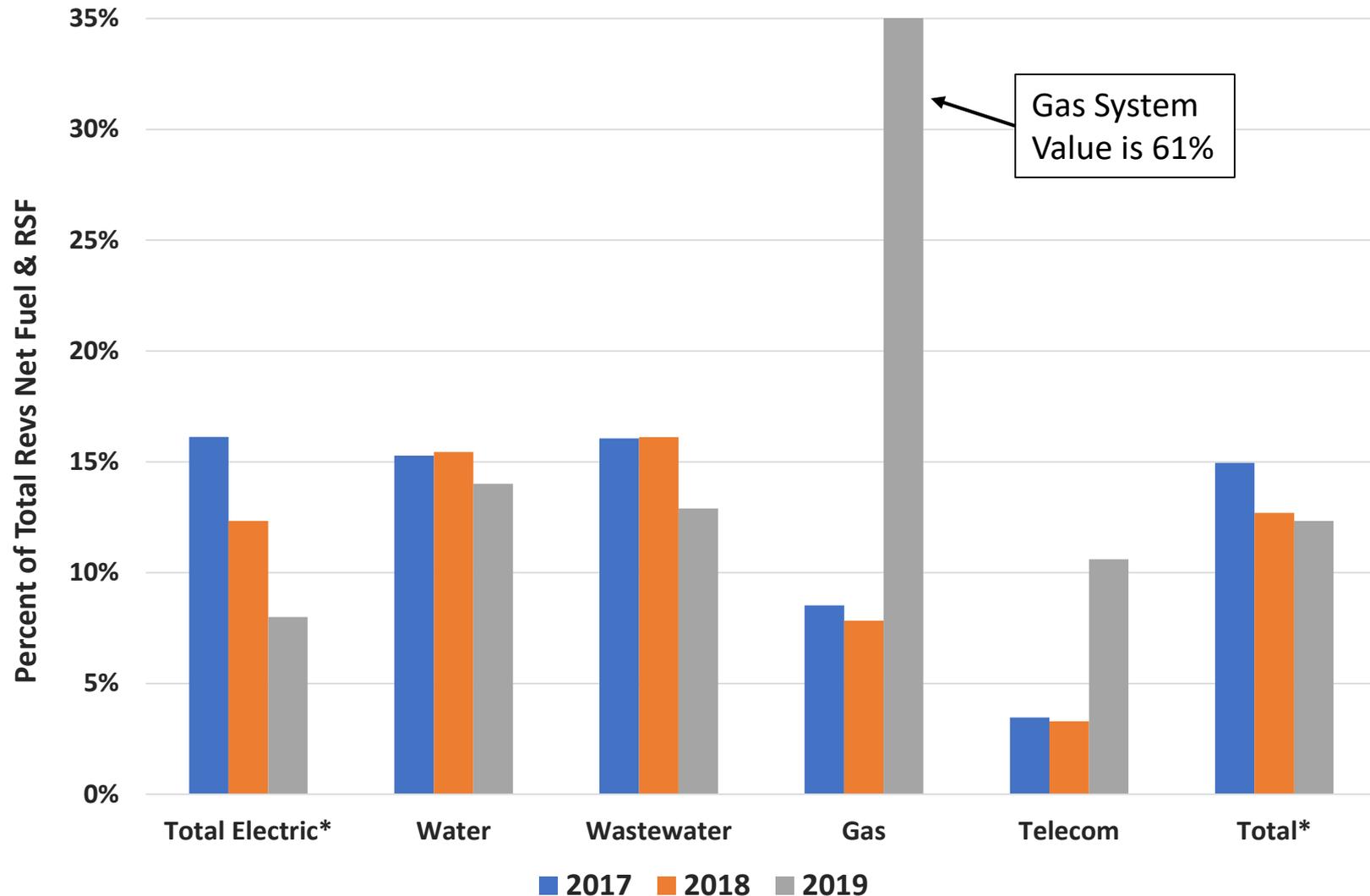
\* Includes GREC Property Taxes for 2017-18

# Historical GRU Transfer by Utility (Percent of Revenues Less Fuel)



\* Includes GREC Property Taxes for 2017-18

# Historical GRU Transfer by Utility (Percent of Revenues Less Fuel & RSF)



\* Includes GREC Property Taxes for 2017-18

# GFT Policies of Selected Municipal Utilities

- **JEA (Effective FY17-21)**
  - **Rate per-Unit Sales Transfer**
    - \$7.47/MWh of retail and firm wholesale electric sales
    - \$389 per million gallons of potable water and sewer service
    - Must be at least FY16 transfer plus 1% escalation per year (2019 Agreement reflects \$15M adder thru 2023)
  - **Franchise Fee – 3% of Revenues**
- **Lakeland (FY2019)**
  - **Electric:** \$9.96/MWh of retail sales
  - **Water/wastewater:** Not available

# GFT Policies of Selected Municipal Utilities (cont'd)

## ■ OUC

- Fixed payments in effect over FY2018-20 equal to FY17 values with 3% escalation
- Payments to revert to previous bilateral agreement, effective beg. FY21
  - 6% of revenues within city, plus
  - 60% of net income before contributions (CIAC)

## ■ Tallahassee

- Transfers agreed upon at certain points and typically indexed to the CPI
- **Electric:** 2015-16: \$28.8M, indexed thereafter (est. in 2013)
- **Gas:** 2015-16: \$2.8M, indexed thereafter
- **Water/Sewer**
  - 2012-17: three-year average of retail revenues x 6.99%
  - 2018+: 2017 value (\$8.1M) indexed to CPI

# GFT Policies of Selected Municipal Utilities (cont'd)

## ■ Lincoln, NE

- **Payment in Lieu of Taxes (PILOT)** – 5% of gross revenues within city limits
- **Dividend** – 2.4% of LES total net position

## ■ Rochester, MN

- **PILOT** – Percent of operating revenues (electric - 5%; water - 3.6%)

## ■ Springfield, MO

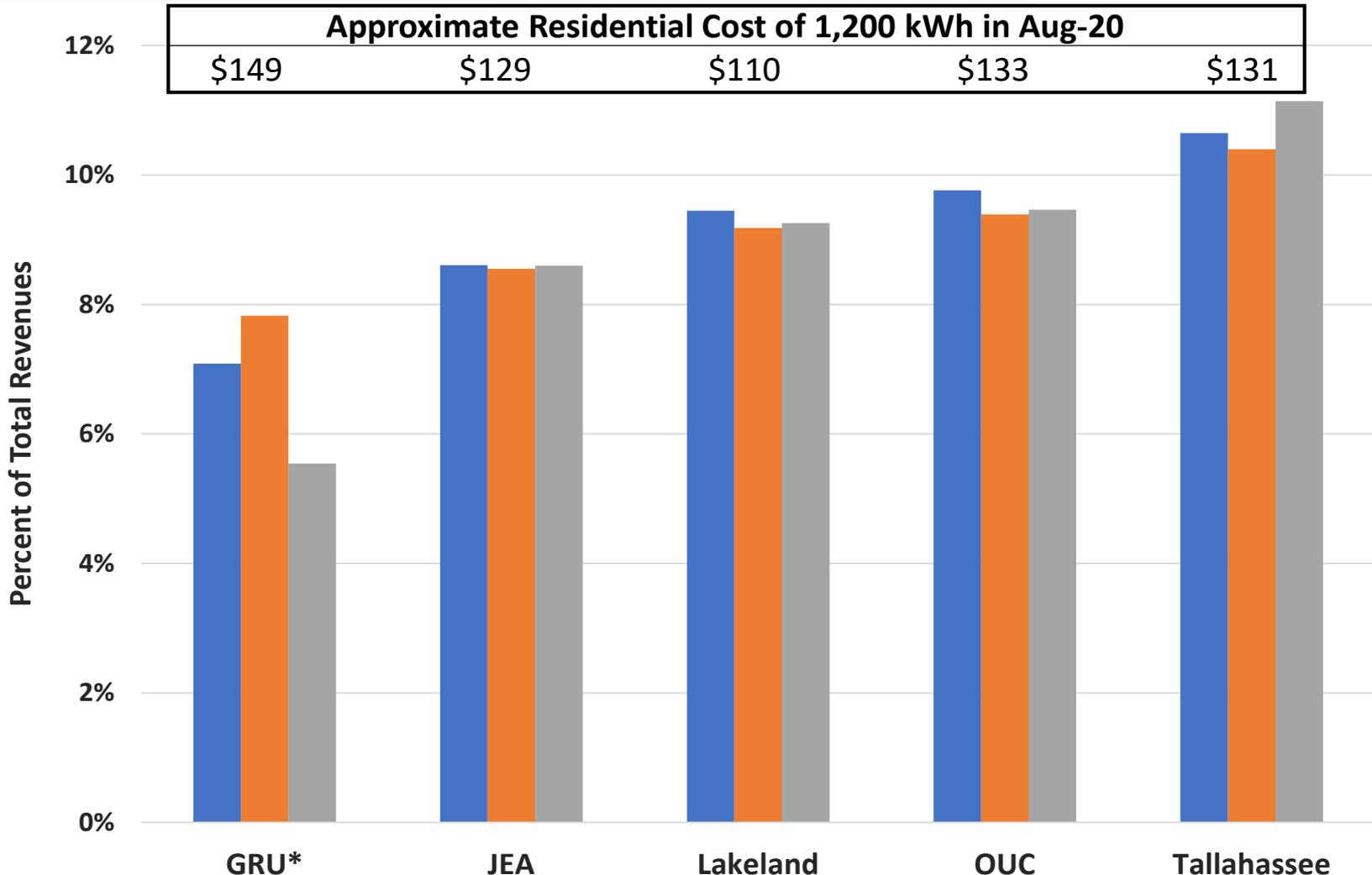
- **PILOT** – Percent of revenue (electric - 3%, NG and water - 4%)
- **Free Utility Services** – Street lighting and other electric, NG, and water services to the city without charge (recently estimated at \$12M v. PILOT of \$15M)
- **Other** – Other services possibly provided to city without charge (estimated at \$14M in value)

# Approach to Comparison of Transfers Across FL Munis

- Transfer Payments to City
  - General fund transfers (or dividend payments) + franchise fee payments (if any)
  - Data taken from Comprehensive Annual Financial Reports (CAFR)
- Revenues
  - From CAFR, most recent year available (to capture restatements)<sup>1</sup>
  - Bond resolution basis, if available; otherwise, Operating Revenues plus other revenue elements
  - Capturing total revenues on a reasonably consistent basis across municipals

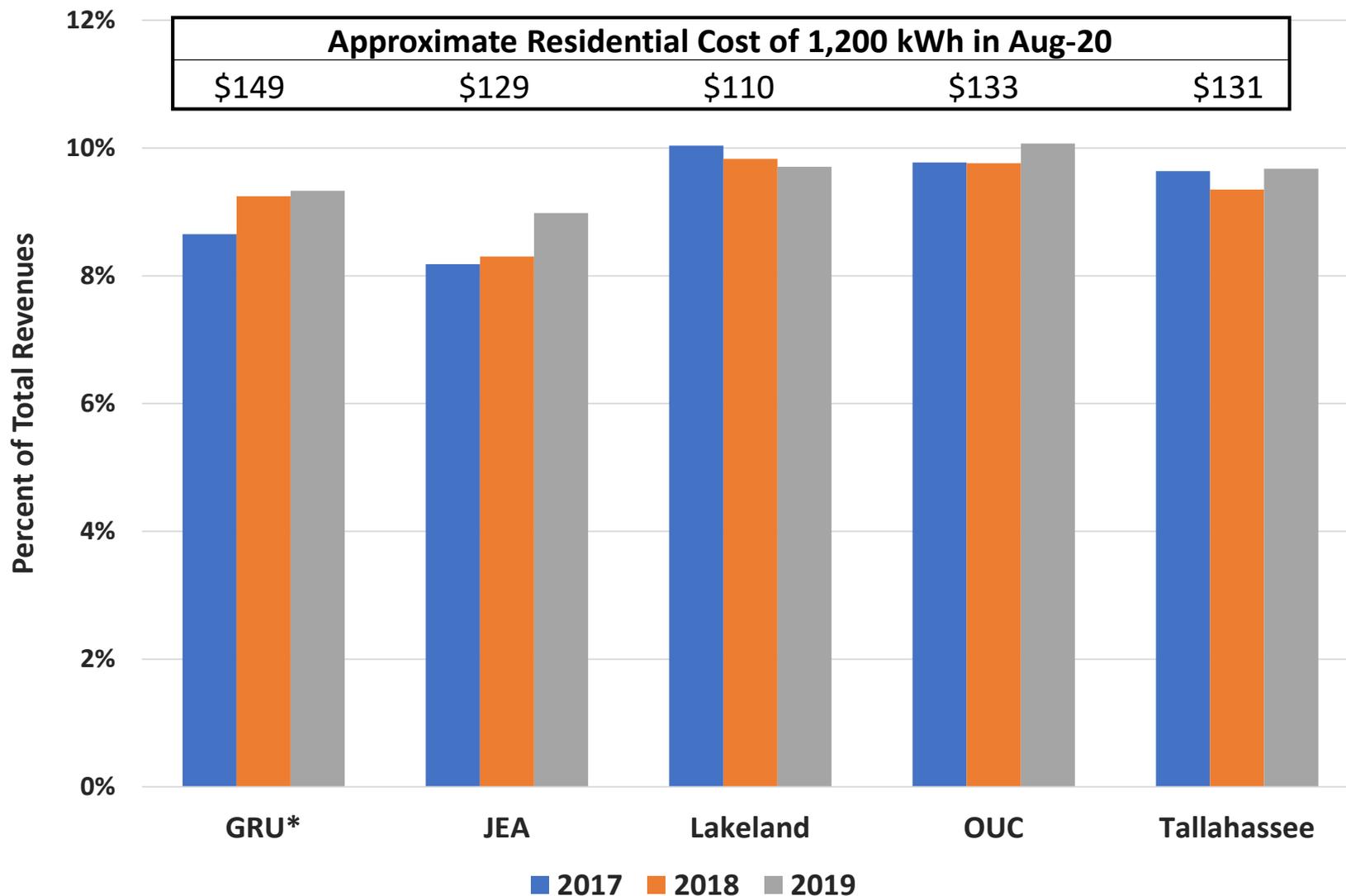
<sup>1</sup> For TAL, separate annual reports to Bondholders and for OUC, its 2019 Financial and Statistical Report, supplemented this CAFR data to provide for sufficient detail by utility operation.

# GFT Comparison Across FL Munis – Electric (Percent of Total Revenue)



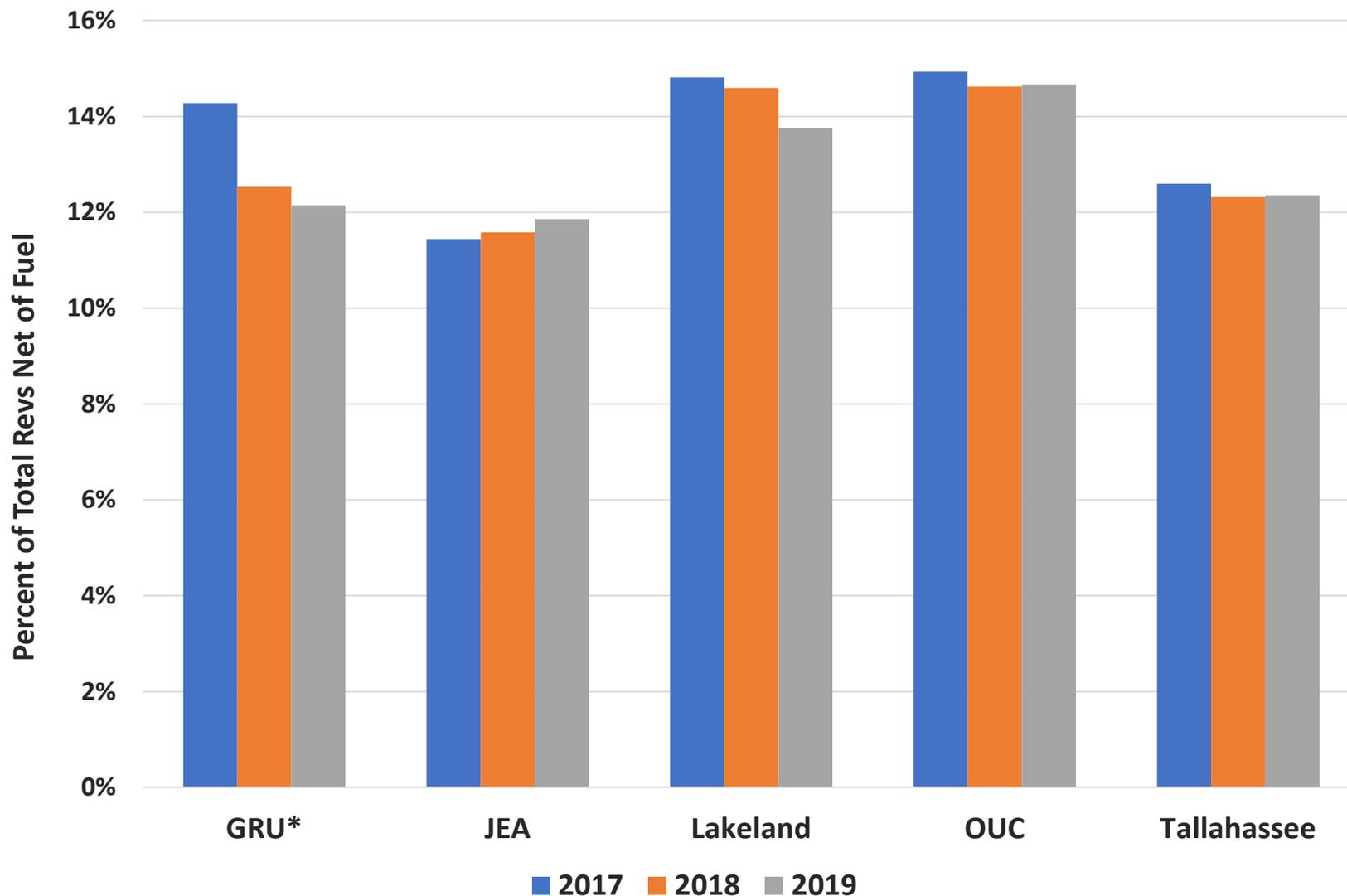
\* Includes GREC Property Taxes for 2017-18

# GFT Comparison Across FL Munis – Total System (Percent of Total Revenue)



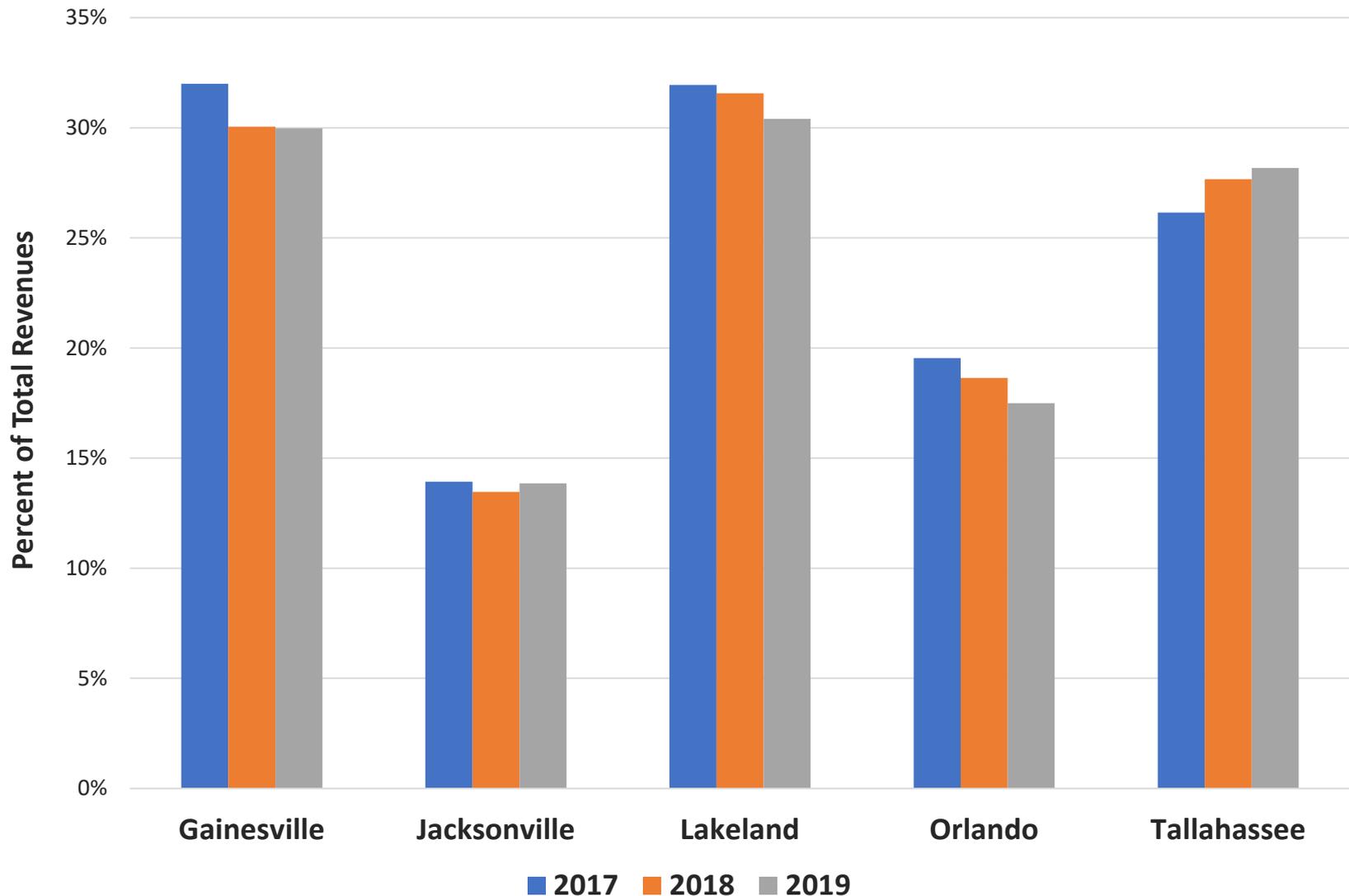
\* Includes GREC Property Taxes for 2017-18

# GFT Comparison Across FL Munis – Total System (Percent of Revenues Less Fuel)



\* Includes GREC Property Taxes for 2017-18

# Utility Transfers to City General Fund Across FL Munis (Percent of General Fund Revenues)



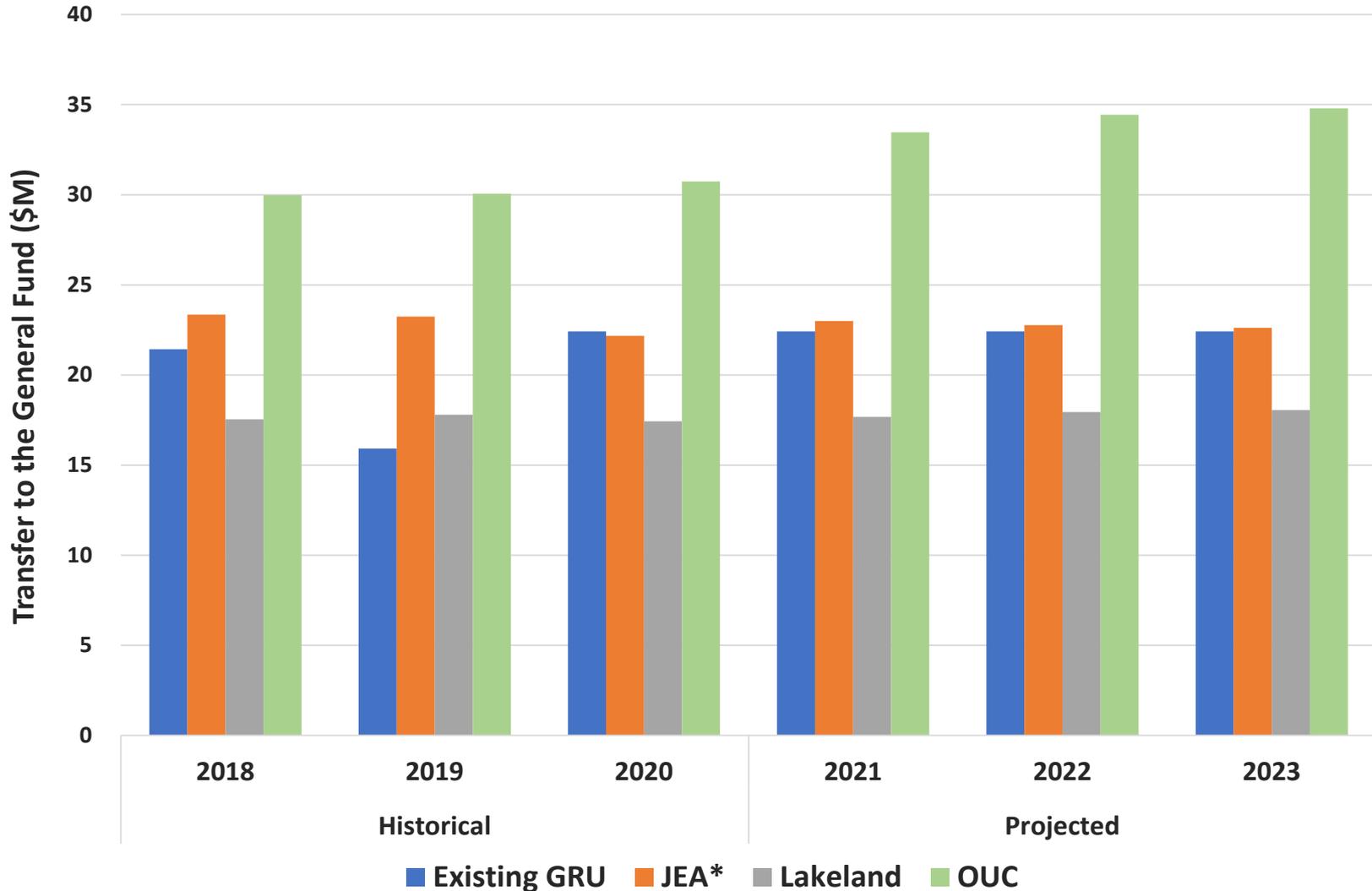
# Other FL Muni Transfer Mechanisms Applied to GRU Data

- Other FL municipal GFT mechanisms were applied to GRU's historical and projected system/financial data
  - Excludes munis for which specific formula is not used (e.g., dollar agreement) or not available
  - Resulting GFT compared to existing GRU GFT
- Table below summarizes mechanisms analyzed

FL Muni	Electric	Water	Waste water	Gas	Telecom
JEA	✓	✓	✓		
Lakeland	✓				
OUC*	✓	✓	✓	✓	✓
TAL					

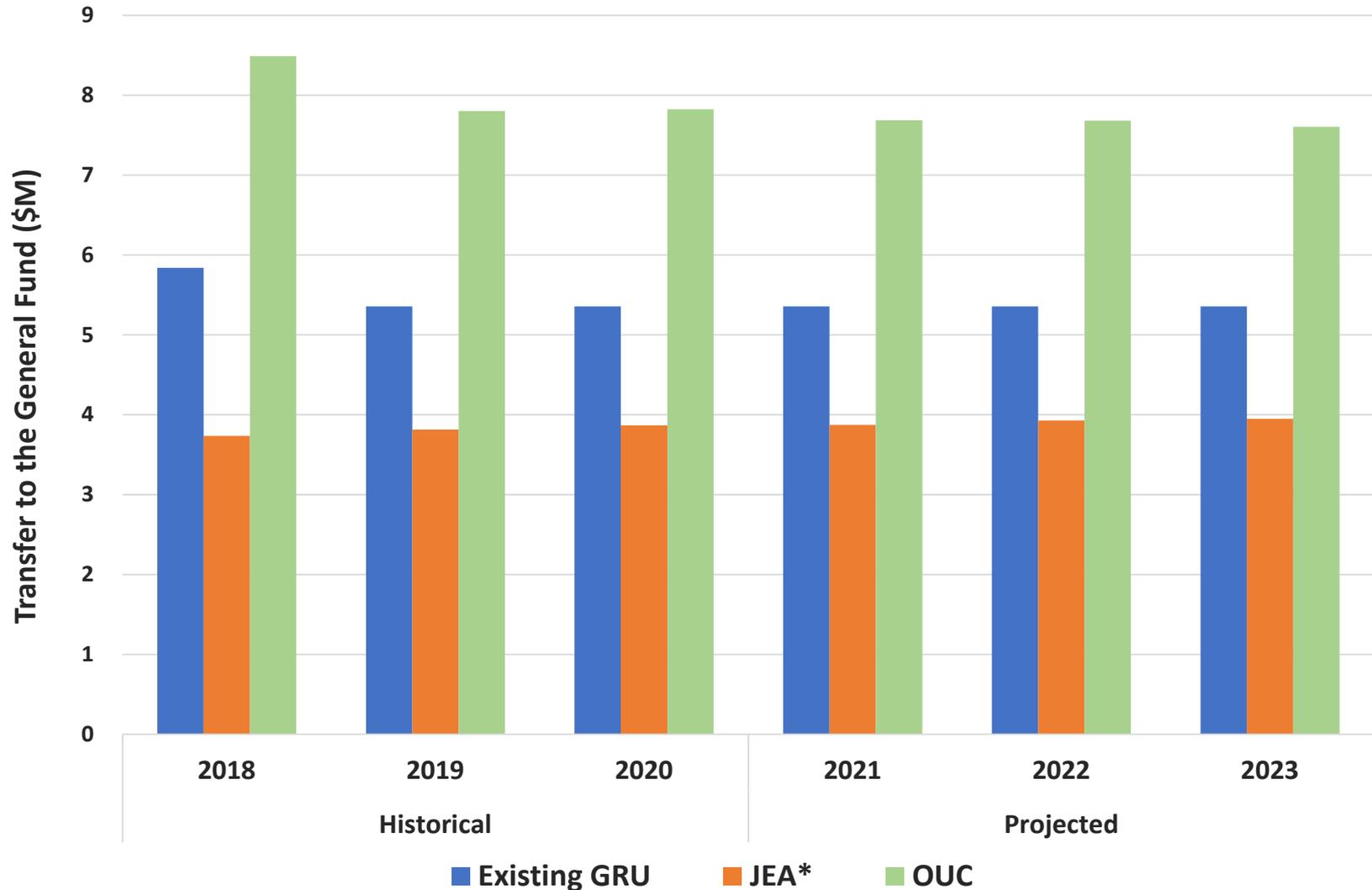
\* While OUC does not have all of these utilities, its GFT formula has been applied to GRU's financial data for each utility.

# Applying Other FL Muni Transfer Mechanisms - Electric System



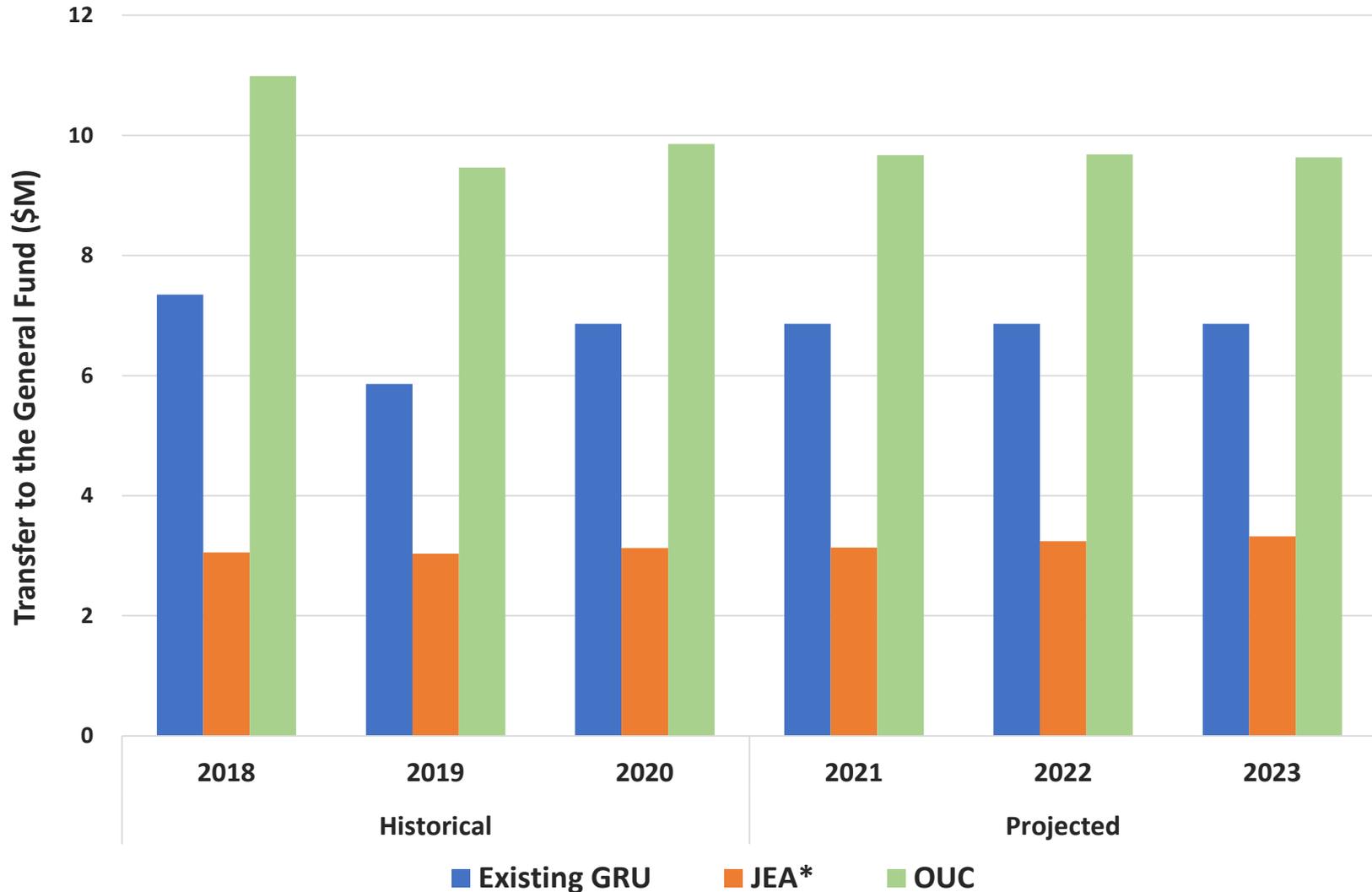
\* For JEA, excludes add'l GFT amounts in 2019-23

# Applying Other FL Muni Transfer Mechanisms - Water System



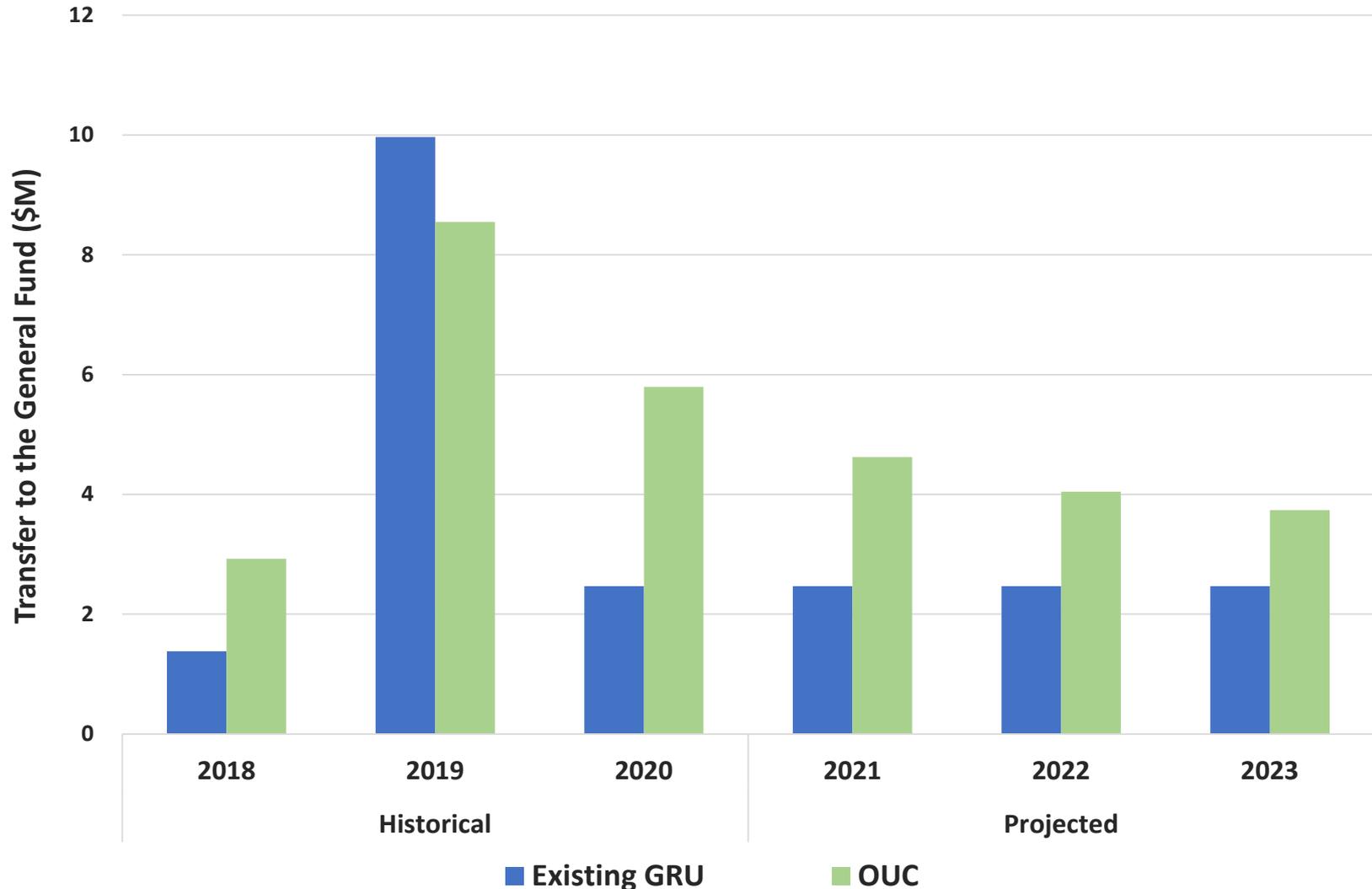
\* For JEA, excludes add'l GFT amounts in 2019-23

# Applying Other FL Muni Transfer Mechanisms - Wastewater System

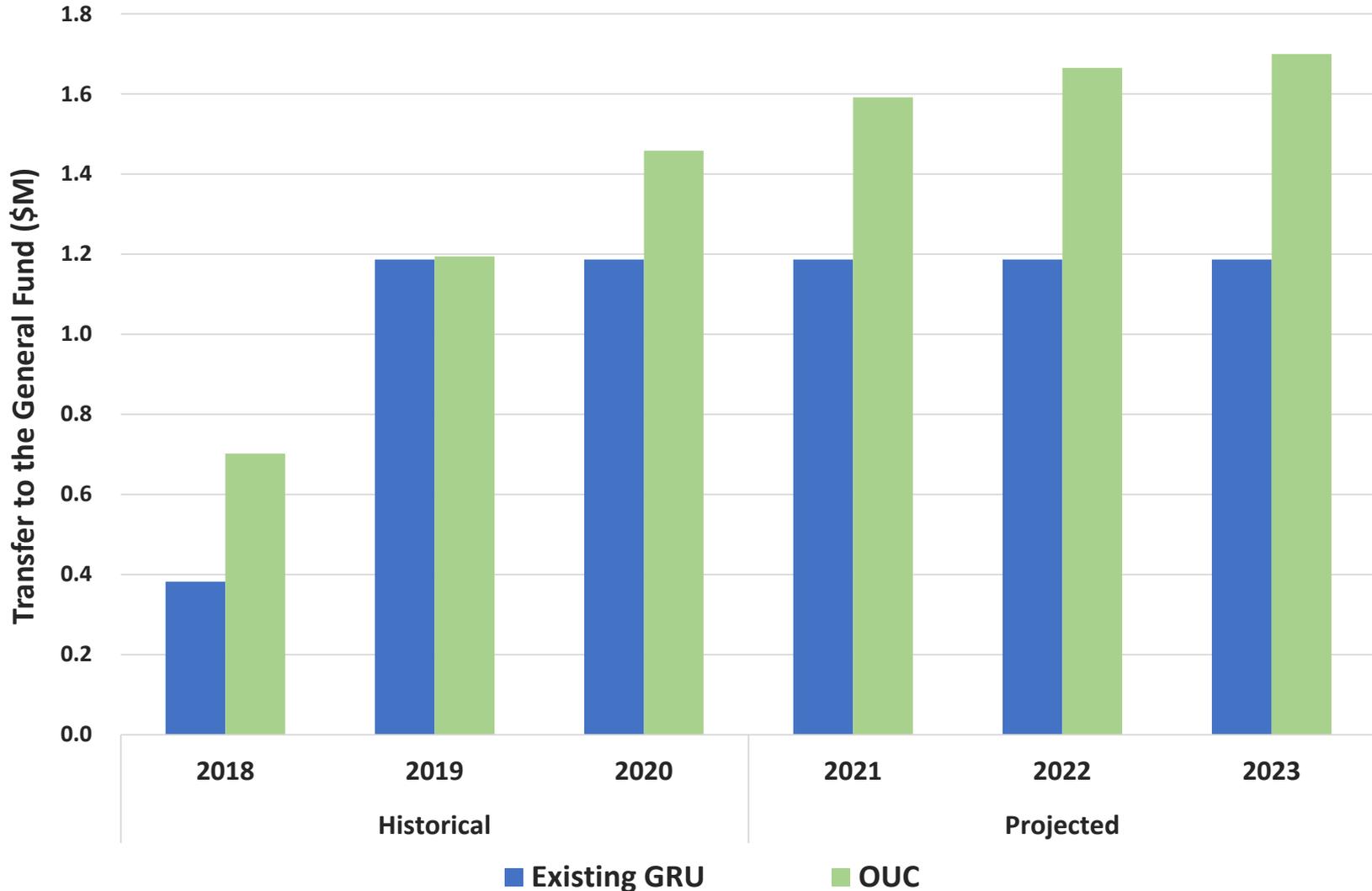


\* For JEA, excludes add'l GFT amounts in 2019-23

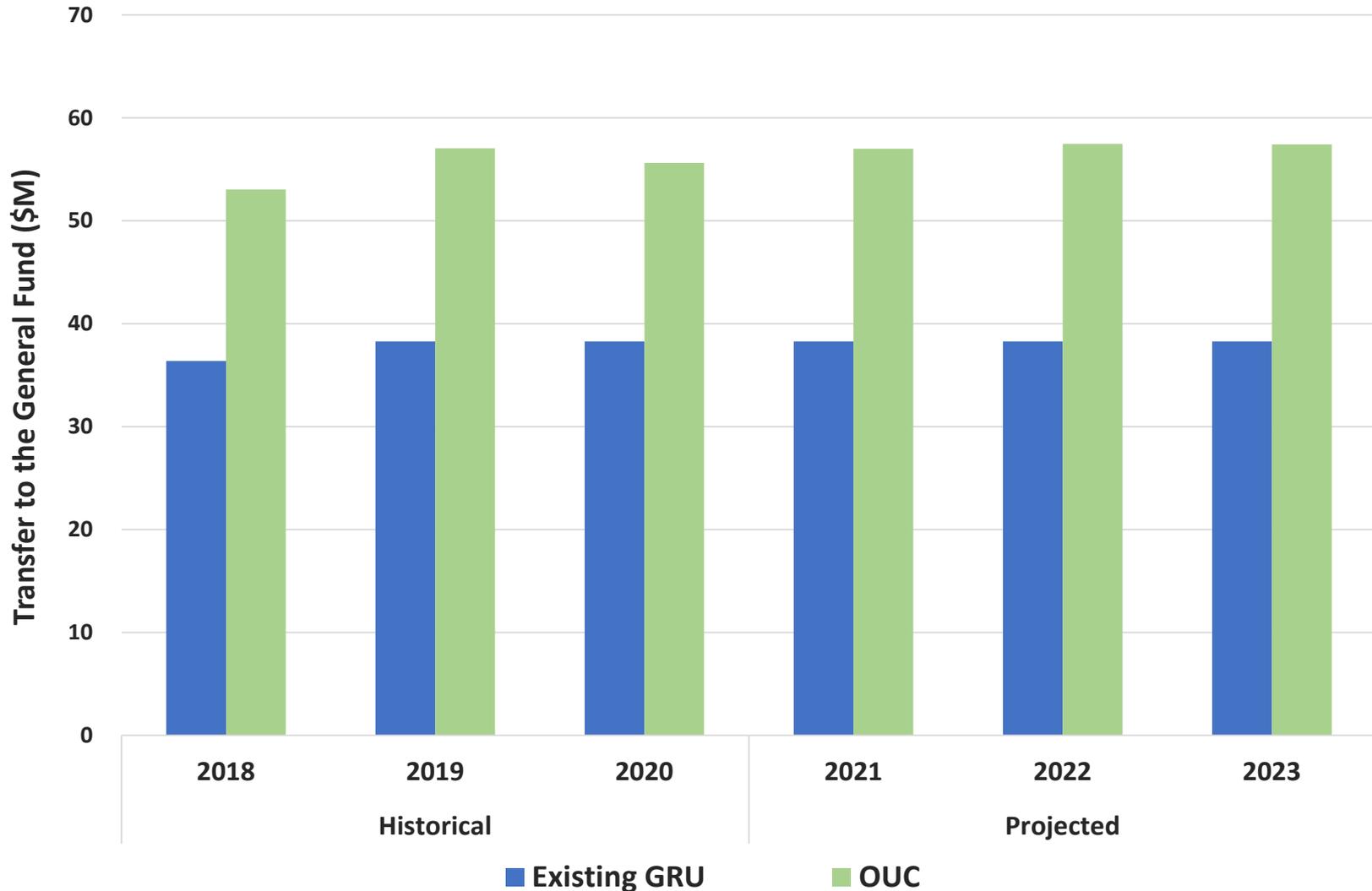
# Applying Other FL Muni Transfer Mechanisms - Gas System



# Applying Other FL Muni Transfer Mechanisms - Telecom System



# Applying Other FL Muni Transfer Mechanisms - Total GRU System



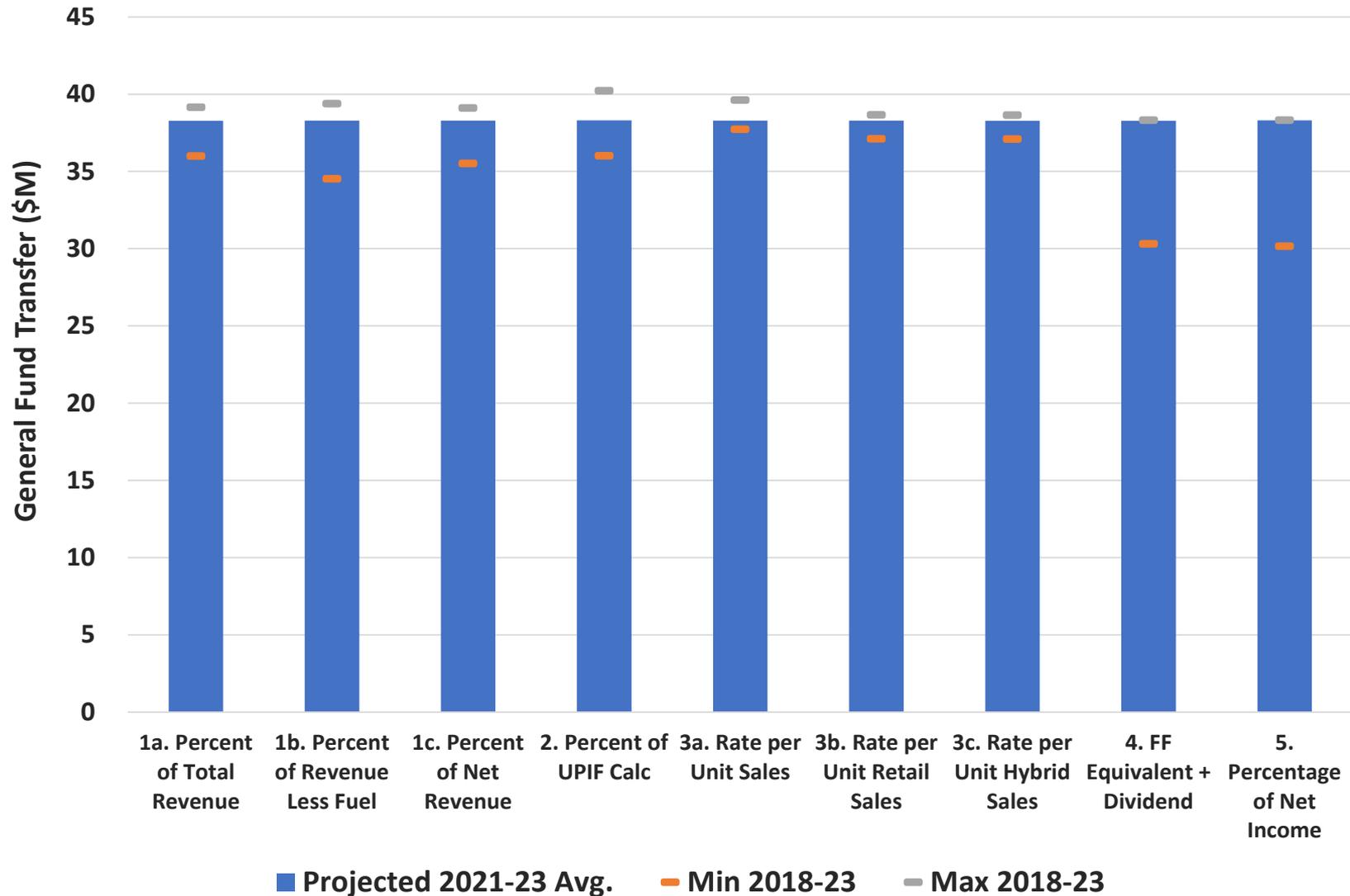
# Alternative General Fund Transfer Mechanisms Considered

1. Percentage of Revenues
  - a. Total Revenues
  - b. Revenues less fuel
  - c. Net Revenues (total revenue less total O&M expenses)
2. Percentage of UPIF Calculation
3. Rate per-unit sales, % of revenues for GRUcom
  - a. Retail and resale sales
  - b. Retail sales
  - c. Total sales for water and retail sales for electric, gas and wastewater
4. Franchise Fee Equivalent (FFE) and a Percentage of Available Funds
5. Percentage of Available Funds Only (no franchise fee equivalent)

# Estimated General Fund Transfer Under Alternative Mechanisms

- Study Period
  - Historical: FY2018-20
  - Projected: FY2021-23
- Developed parameters for each option to result in the targeted GFT on average (\$38.3 million) under the Base Case projections over projected period
- Computed GFT over the entire Study Period (i.e., historical and projected periods)
- Base Case projections were provided by GRU and reflect rate increases in FY2022 and 2023 (3% for electric & 5% for wastewater in both years)

# Estimated General Fund Transfer Under Alternative Mechanisms



# Determining Final Three Alternative General Fund Transfer Mechanisms

Option	Key Considerations (Under Base Case)	Conclusion
<b>1 (Percent of Revenues)</b>	<ul style="list-style-type: none"> <li>• Provides Certainty of Funding (1A &amp; 1B only)</li> <li>• Fuel is a pass-through, is highly volatile, and has lower correlation with GG costs</li> </ul>	Option 1B (Net of Fuel) <b><u>to be Examined Further</u></b> Option 1A & 1C not considered further
<b>2 (Percent of UPIF Calculation)</b>	<ul style="list-style-type: none"> <li>• Does not provide Certainty of Funding</li> <li>• Relatively small decrease in GFT in 2023</li> <li>• Considers net revenue less debt service</li> </ul>	<b><u>To be Examined Further</u></b>
<b>3 (Rate per Unit Sales)</b>	<ul style="list-style-type: none"> <li>• Provides Certainty of Funding</li> <li>• May need to be revisited periodically as this option does not consider inflation</li> </ul>	Option 3C (Incl'd resale for water) <b><u>to be Examined Further</u></b> Option 3A & 3B not considered further
<b>4 (FFE &amp; Percent of Available Funds)</b>	<ul style="list-style-type: none"> <li>• Does not provide Certainty of Funding</li> <li>• Considerable decrease in GFT in 2023</li> </ul>	Not considered further
<b>5 (Percent of Available Funds)</b>	<ul style="list-style-type: none"> <li>• Does not provide Certainty of Funding</li> <li>• Considerable decrease in GFT in 2023</li> </ul>	Not considered further