



Annual Operating and Capital Budget

Budget Year 2019

Executive Summary

Gainesville Regional Utilities' (GRU) proposed fiscal year 2019 capital and operating budget presents a framework for providing safe, reliable, competitively priced utility services in an environmentally responsible manner that contributes to the quality of life in our community.

During last year's budget process, GRU was negotiating the purchase of Gainesville Renewable Energy Center (GREC) and elected not to speculate on potential savings. In November 2017, GRU purchased GREC – now the Deerhaven Renewable Generating Station (DHR) – and terminated the 30-year Power Purchase Agreement (PPA), profoundly improving fiscal year 2018 budget projections and further diversifying the utility's energy portfolio.

As a result of the purchase, GRU significantly lowered electric bills in February 2018 for residential and non-residential customers, continuing a downward trend started in fiscal year 2015. These savings notwithstanding, GRU continues to face pressures such as increasing operations and maintenance costs combined with flat revenue growth.

For fiscal year 2019, GRU staff has presented a budget that supports the utility's vision of continuous improvement and optimizing all aspects of the organization for the benefit of its customers and the community at large. Two critical components of this vision are GRU's Enterprise Resource Plan (ERP), which will help modernize the utility and improve the customer experience and the Total Rewards Study, which will help GRU retain qualified staff critical to maintaining reliability across all systems.

To achieve these goals, GRU staff recommends a 3.1 percent increased revenue requirement for the electric system in the proposed fiscal year 2019 budget. (The impact to a monthly residential electric bill will be determined when the City Commission votes on a tier structure this July. The chart below assumes an 850 kWh break.) Staff also recommends a 2.4 percent increased revenue requirement for the wastewater system. A monthly wastewater bill, based on the standard industry comparison of 7,000 gallons (7 kgal) per month, will increase from \$53.20 to \$54.50.

Staff recommends no revenue requirement increases for the water and natural gas systems.

As always, GRU's chief priorities are maintaining financial strength, sustaining and enhancing system reliability and improving both customer service and employee engagement.

Challenges

As with most utilities, GRU will continue to be challenged by ongoing regulatory pressure in all systems. These pressures include additional costs in the electric system associated with increased compliance for North American Electric Reliability Corporation (NERC) standards and U.S. Environmental Protection Agency (EPA) rules regulating the disposal of coal combustion residuals.

GRU's biggest challenge will be its transformation into a modern utility determined to adopt a private-industry model of efficiency. While GRU already provides a value-added service, the organization must reach beyond the meter to provide additional benefits such as real-time pricing, alternative energy choices and smoother customer interactions.

The proposed fiscal year 2019 budget reflects staffs' best efforts to balance the direction of the City Commission and the challenges confronting the utility across all systems.

Systems

Total electric energy sales through May 2018 are in line with projections. Staff is recommending a 3.1 percent increase in the revenue requirement and is proposing a rate increase for the electric system in fiscal year 2019. This increase is due largely to costs associated with overall increased operating costs and continued efforts to implement customer-focused advances under the Enterprise Resource Planning (ERP) umbrella.

In FY19, biomass is expected to satisfy 18 percent of total system load, coal is estimated to satisfy approximately 29 percent and natural gas 45.4 percent, as detailed in the following section. The remainder will be satisfied by a variety of sources, including alternative fuels such as solar and landfill gas.

The electric system's proposed FY19 budget includes approximately \$51.5 million for capital improvement projects related to the overall maintenance and reliability of our system, in addition to technological upgrades related to ERP. Approximately 14.5 million is set aside for the ERP, which will ultimately bring more control to our customers through advances such as smart meters.

Energy Supply proposes a \$9.4 million increase in non-labor expenditures due primarily to costs associated with the purchase of DHR (\$8.8 million) (these expenditures were previously part of a larger fuel budget).

For Energy Delivery, the Deerhaven Generating Station receives the bulk of an \$8.2 million proposed capital budget request, the largest portion of which (\$3.7 million) is dedicated to improvements on Unit 2. The J.R. Kelly Generating Station receives \$2.1 million for parts needed to ensure continued reliability. Any capital investments in the SEC, including a

potential \$4 million backup generator expansion, are recouped through an agreement with UF Health.

Natural Gas

GRU is recommending no natural gas rate increases for fiscal year 2019. Natural gas generation is estimated to satisfy 43 percent of total system load in FY19 and 45.4 percent in FY20.

After a mild winter in FY17, natural gas sales have been more in line with budget projections in FY18 and are forecast to continue increasing at an annual rate of .45 percent through FY27. The number of retail gas customers is forecast to increase at an annual rate of .92 percent over the next 10 years.

Additionally, the gas system will continue to improve the efficiency and reliability of its arterial system through projects focused on satisfying increased demand and meeting the needs of customers in new and existing developments. To meet these needs, the gas department has requested approximately \$1.7 million in its Capital Projects budget for main line extensions and improvement projects. The department also has requested approximately \$1.3 million in its Capital Projects budget for ERP-related expenses.

Water/Wastewater

Staff is recommending no base rate revenue requirement increase for the water system in FY19. The number of total water customers is forecast to increase at an average annual rate of .094 percent over the next 10 years, and water sales to retail customers are forecast to increase at an average annual rate of .71 percent through FY27.

Staff recommends a 2.4 percent increased revenue requirement for the wastewater system to maintain its long-term reliability and improve customer-focused technologies. As a result of this increased revenue requirement, a monthly wastewater bill will increase from \$53.20 to \$54.50 based on a standard industry comparison of 7,000 gallons (7 kgal) per month.

To accomplish the projects necessary to maintain or improve systems, the Wastewater Department is requesting \$20.4 million for capital projects. Approximately \$5 million of the requested funds are dedicated to maintenance and infrastructure improvements at water reclamation facilities and approximately \$5.9 million is requested for infrastructure rehabilitation projects that restore the life of deteriorating pipes and reduce inflow and infiltration.

GRUCom

GRUCom's continued expansion is a key factor to achieving GRU's strategic initiatives, specifically the integration of Enterprise Resource Planning for all systems. Maintaining and expanding GRUCom with a model of right-sizing and right-placing external resources to maximize value to GRU operations – simultaneously maximizing value to all GRU customers – will effectively transform GRU into one of the most innovative and financially stable utilities in the country. GRUCom's principal value to GRU, and therefore all GRU customers, is as the information technology backbone of both GRU and the City of Gainesville.

Summary

The chart below illustrates the residential price changes recommended by staff and described previously. These changes use the standard industry compares for a residential customer for fiscal year 2018 and fiscal year 2019. About 70 percent of customers receive three services (electric, water and wastewater) and about 30 percent receive all four services.

System	Usage	July 2018 Bill	Base Rate Change	Fuel Change	Change to Bill	Proposed FY19 Bill
Electric	1,000 kWh	\$121.00	\$3.26	-	\$3.26	\$124.26
Gas	25 therms	\$ 32.64	No change	-	-	\$ 32.64
Water	7 kgal	\$ 30.50	No change	na	-	\$ 30.50
Wastewater	7 kgal	\$ 53.20	\$1.30	na	\$1.30	\$ 54.50
Total		\$237.34	\$4.56	-	\$4.56	\$241.90
Residential electric 850 kWh break with proposed rate increase/residential wastewater proposed 24 % increase/electric fuel adjustment = \$0.035/kWh/natural gas purchased gas adjustment = \$0.23/therm						

Rate relief, especially for electric customers, remains GRU's key budget driver. GRU is most valuable to customers when financial strength is maximized to increase competitiveness by reducing system revenue requirements, lowering rates and debt levels and increasing organizational resources.

GRU's strategic initiatives are focused on improving workflow processes, eliminating barriers to efficiencies and increasing competitiveness through projects such as our Enterprise Resource Plan and Total Rewards Study and through diversifying our generating fleet.

GRU's peer utilities across Florida and the nation are reporting similar trends with slower sales and growth, increasing fixed costs and the resulting pressure on base rates. Despite these challenges, GRU maintains high ratings and stable outlooks from Fitch, Moody's and Standard & Poor's.

This can be attributed in part to the deliberation and care put into the budgeting and ratemaking process. GRU will continue striving to become the best regional utility in Florida by providing safe, reliable, competitively priced services in an environmentally responsible manner, while adhering to community values.

Annual Operating Budget

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Section A – Budget Overview

System Overview

Electric System

The Electric System has two major departments: Energy Supply and Energy Delivery. The Energy Supply department operates and maintains the J.R. Kelly Generating Station with a net summer generation capability of 108 Megawatts (MW), the Deerhaven Generating Station (DH1, DH2 and DHR) with a total net summer generation capability of 511.5 MW and the South Energy Center (SEC) with a net summer capability of 3.5 MW. In addition, the System also has a Power Purchase Agreement (PPA) for the entire output generated from landfill gas derived from the baseline landfill in Marion County, which has a net summer capability of 3.7 MW. The total combined generating and PPA resources for GRU are 626.7 MW.

The Energy Delivery department operates 120 miles of 138 Kilovolt (KV) and 230 KV transmission lines, 562 miles of 12 KV overhead distribution lines, 857 miles of 12 KV underground distribution lines and 10 substations. The department is also responsible for the construction and maintenance of all GRU-owned substations as well as all transmission and distribution infrastructure including: conductors, cables and wires, poles, protection devices, isolating and interrupting devices, voltage regulators, meters, control systems and lighting systems.

Water System

The Water System operates and maintains the Murphree Water Treatment Plant, which has a treatment capacity of 54 million gallons of water per day (MGD). The plant is responsible for providing safe, reliable, high-quality drinking water to customers at acceptable pressures and volumes. The System is also responsible for construction, operation and maintenance in excess of 1,145 miles of water transmission and distribution mains, as well as the installation and maintenance of water meters, fire hydrants and backflow prevention devices.

Wastewater System

The Wastewater System operates and maintains the 14.9 MGD treatment facility at Kanapaha Water Reclamation Facility, the 7.5 MGD treatment facility at Main Street Water Reclamation Facility, 168 lift stations, 634 miles of gravity main, 141 miles of associated force main and 28 miles of reclaimed water mains. Responsibilities include pumping, treating and discharging high-quality treated effluent that meets federal and state drinking water standards, and providing high-quality reclaimed water to residential and business customers primarily for irrigation. The System also administers the Utility's industrial pretreatment, biosolids, grease and backflow prevention programs.

Gas System

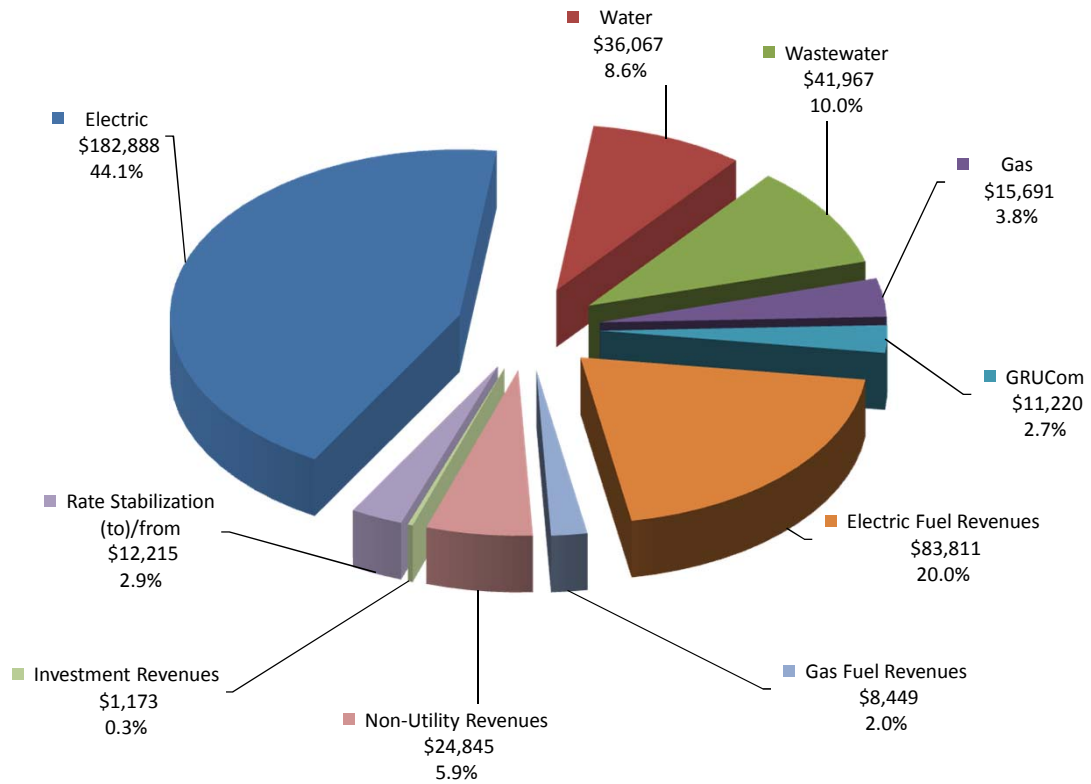
The Gas System covers approximately 115 square miles and provides service to 30 percent of Alachua County's population. The System is responsible for the construction, operation and maintenance of 6 natural gas gate stations, as well as all transmission and distribution system infrastructure, including 774 miles of pipelines in various sizes and materials, valves, pressure regulators, protection devices, odorant injection systems, meters and control systems. The System also includes a number of propane gas distribution systems operated in developments where natural gas is not yet available.

GRUCom System

The Telecommunications System (GRUCom) provides communications services utilizing a 526 mile fiber-optic network. GRUCom's three basic product lines include telecommunication and data services, public safety radio and tower leasing services. GRUCom is divided into several operating units, including business management, engineering, construction, electronics, network operations and public safety radio system. The GRUCom fiber-optic network continues to expand, providing customers with unmatched service and reliability.

Fiscal Year 2019 Revenues

Dollars in Thousands

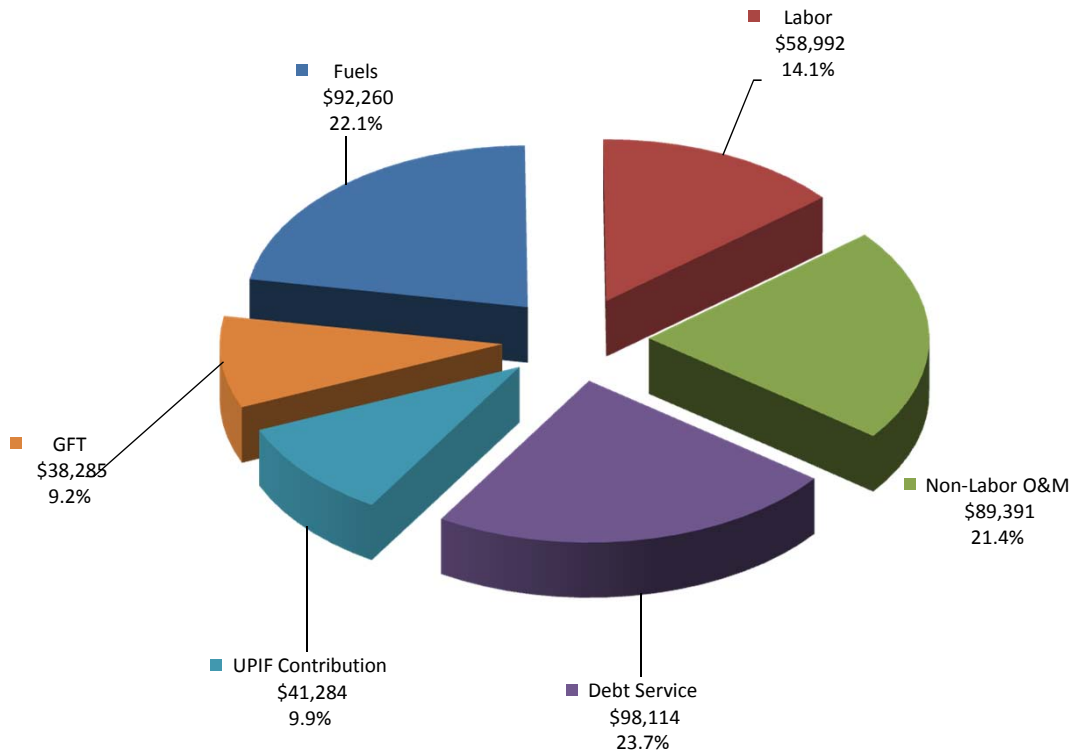


Budget 2019

Revenues:	
Electric	\$ 182,888
Water	36,067
Wastewater	41,967
Gas	15,691
GRUCom	11,220
Electric Fuel Revenues	83,811
Gas Fuel Revenues	8,449
Non-Utility Revenues	24,845
Investment Revenues	1,173
Rate Stabilization (to)/from	12,215
Total Revenues	\$ 418,326

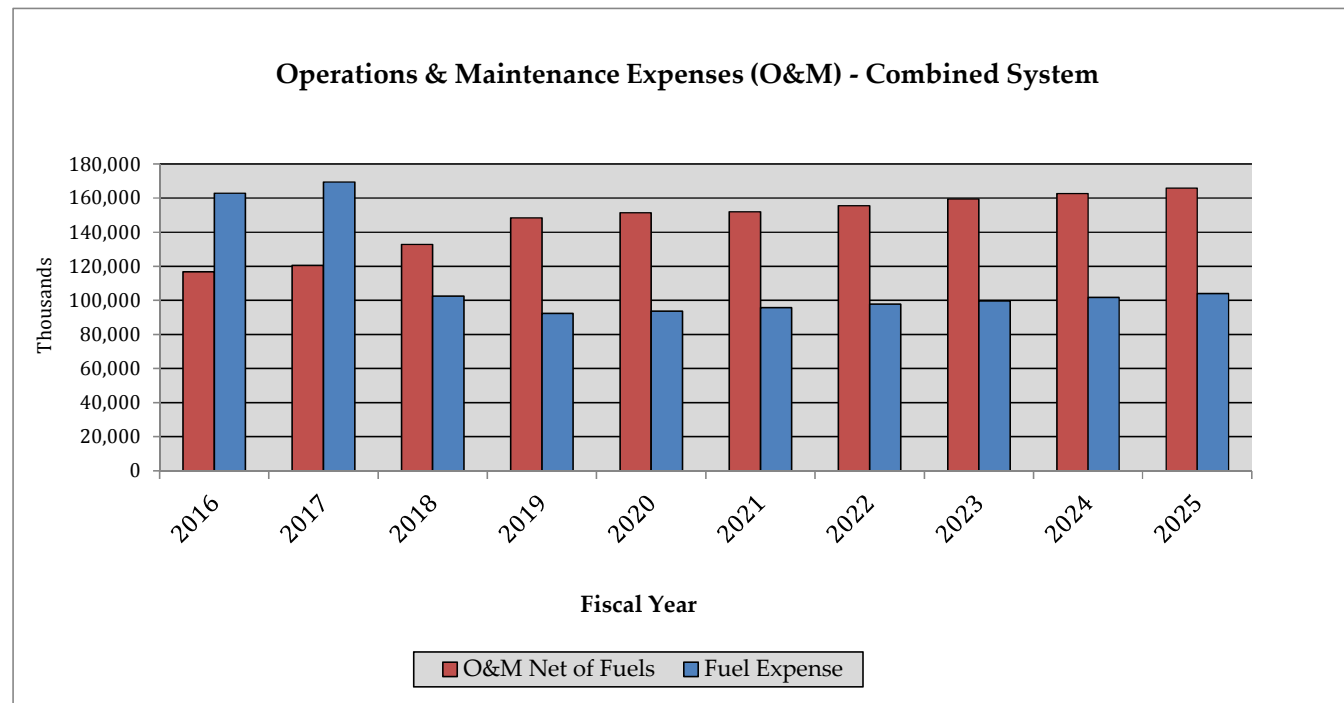
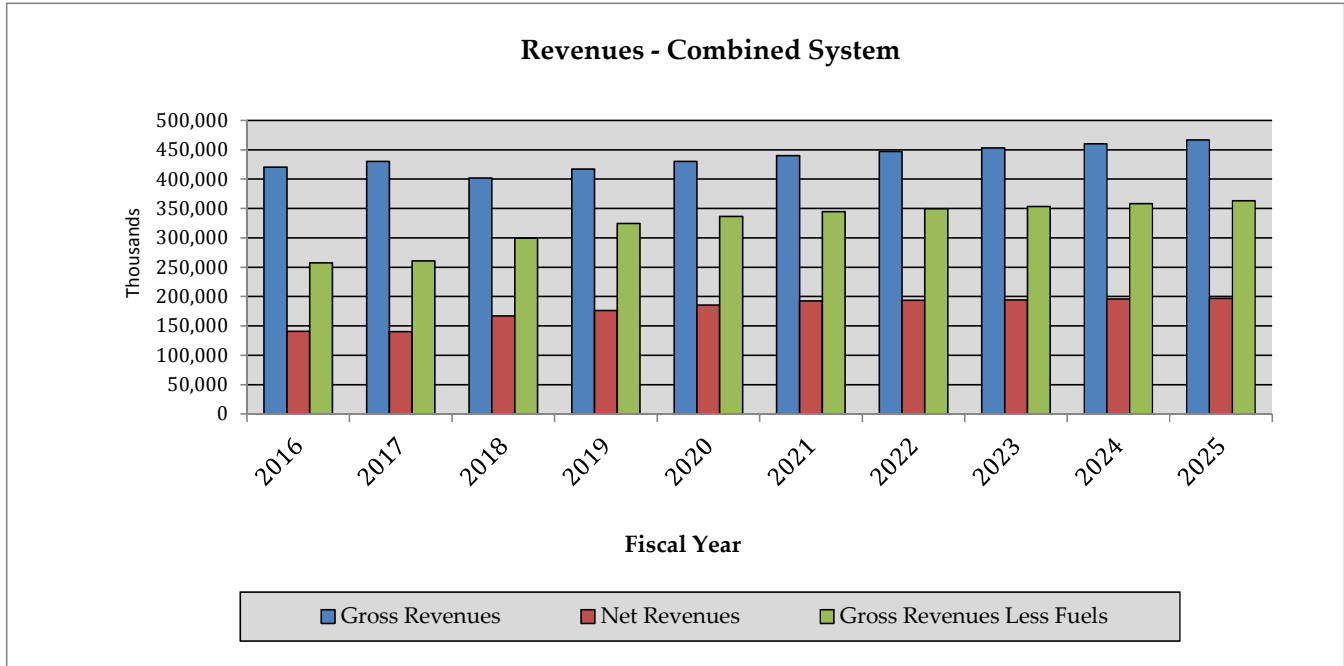
Fiscal Year 2019 Expenses and Uses of Net Revenues

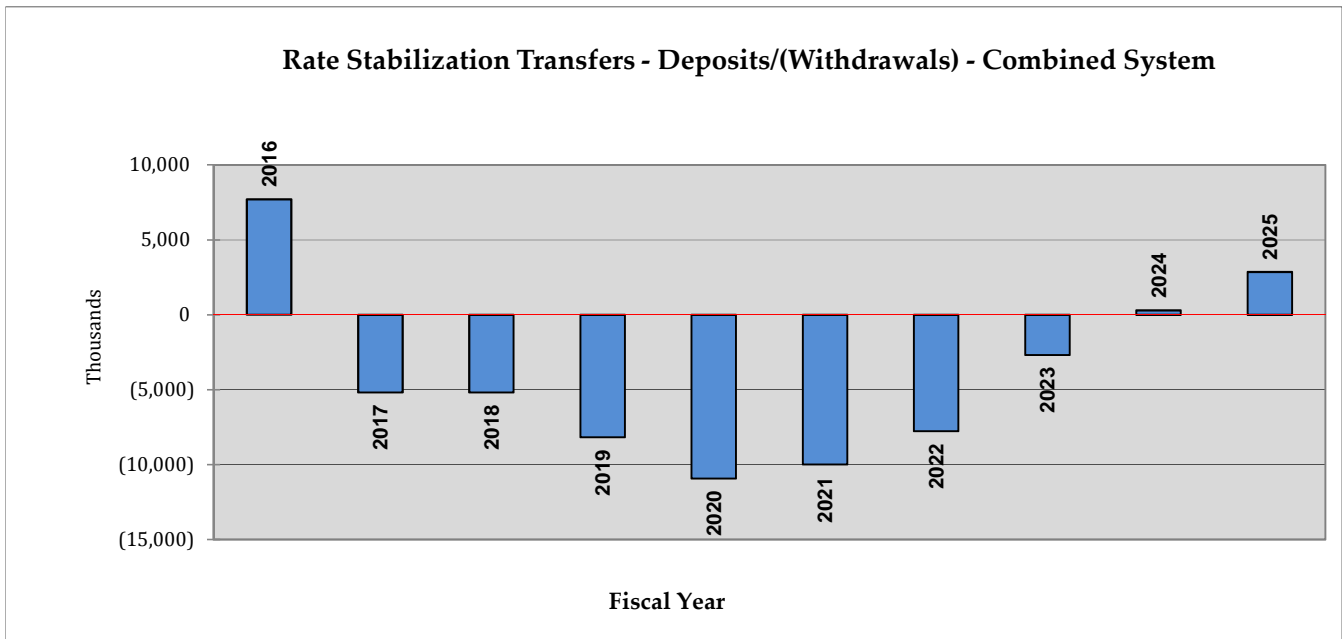
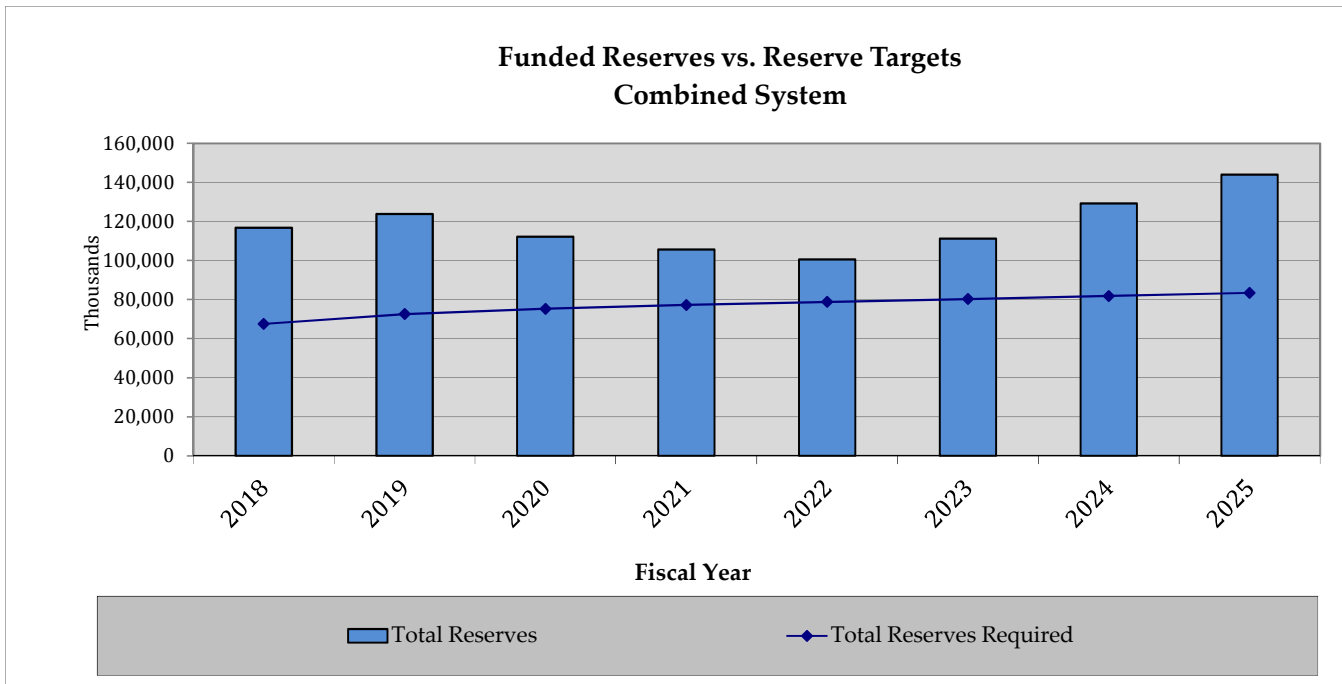
Dollars in Thousands



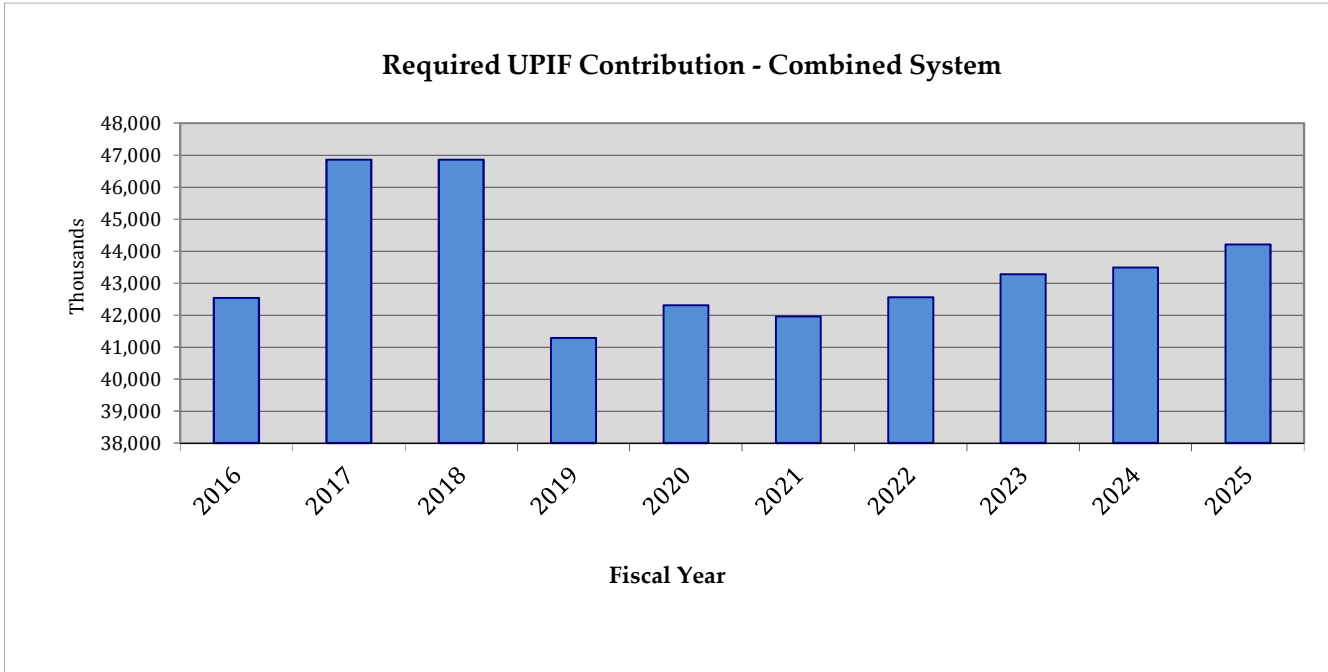
	Budget 2019
Expenses and Use of Net Revenues:	
Fuels	\$ 92,260
Labor	58,992
Non-Labor O&M	89,391
Debt Service	98,114
UPIF Contribution	41,284
GFT	38,285
Total Expenses and Use of Net Revenues	\$ 418,326

Key Financial Metrics

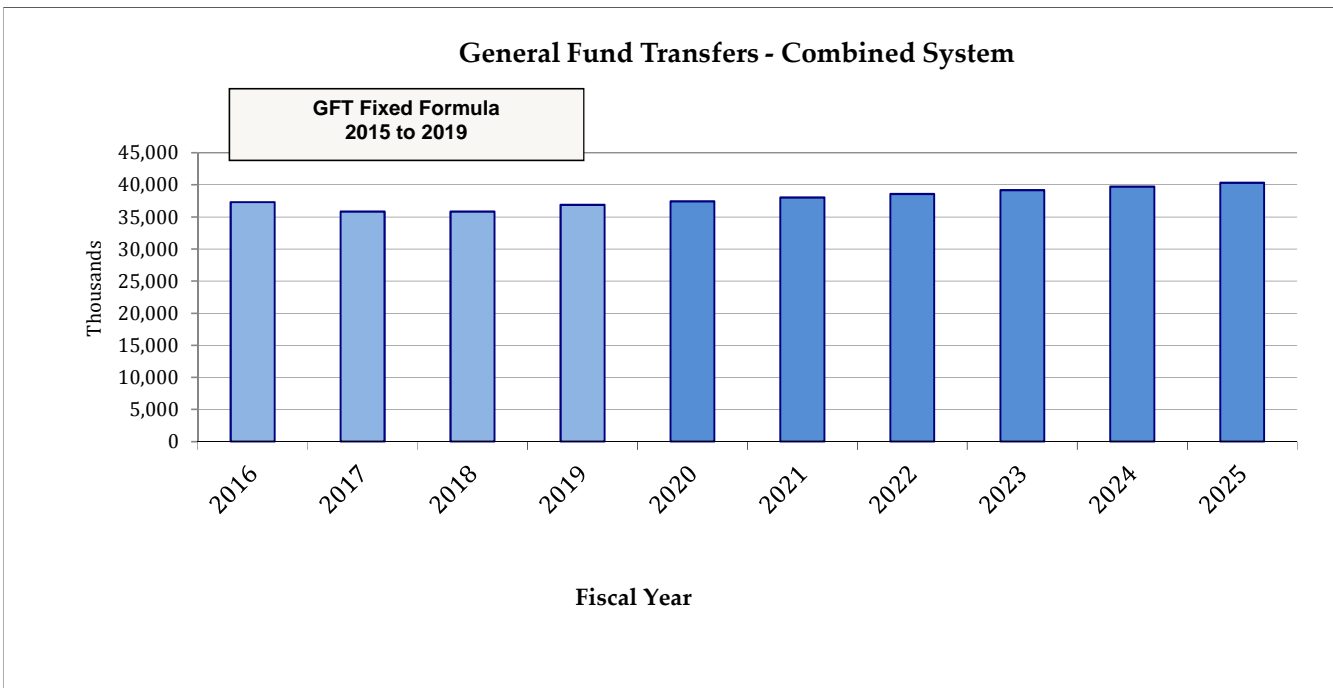




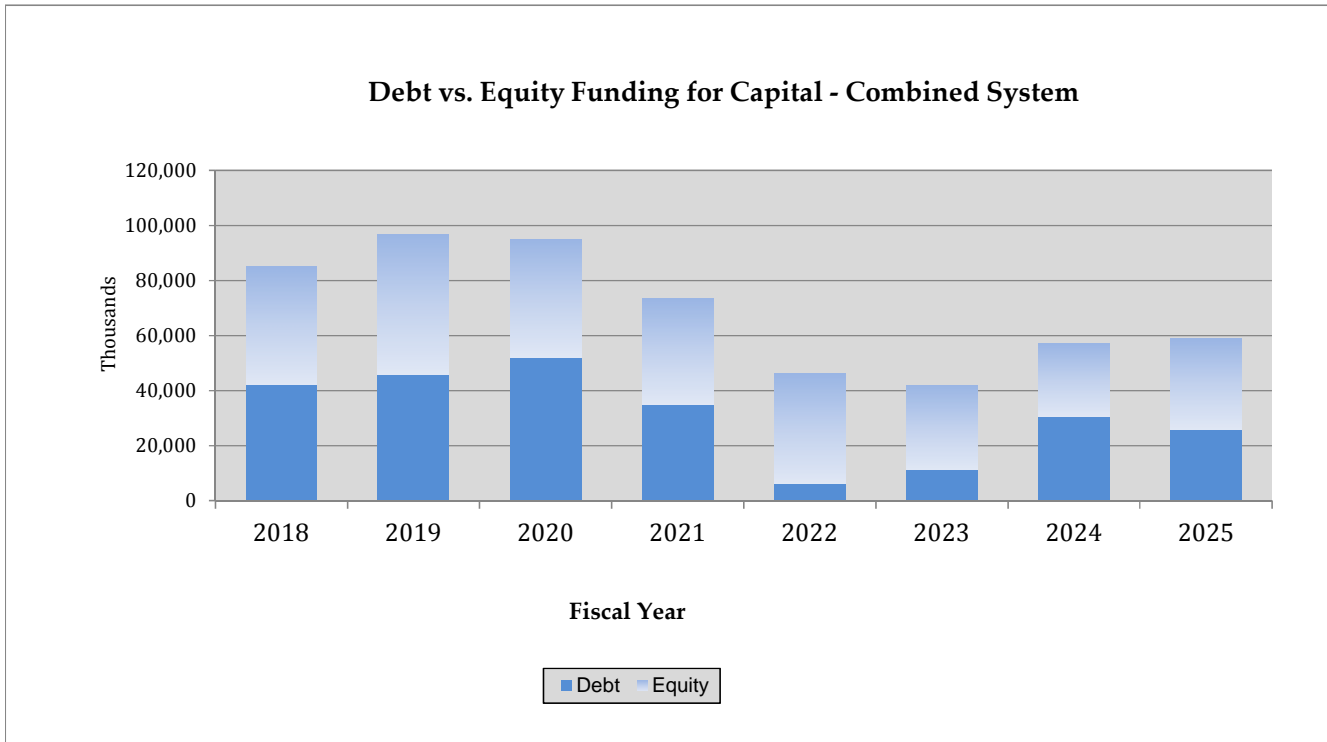
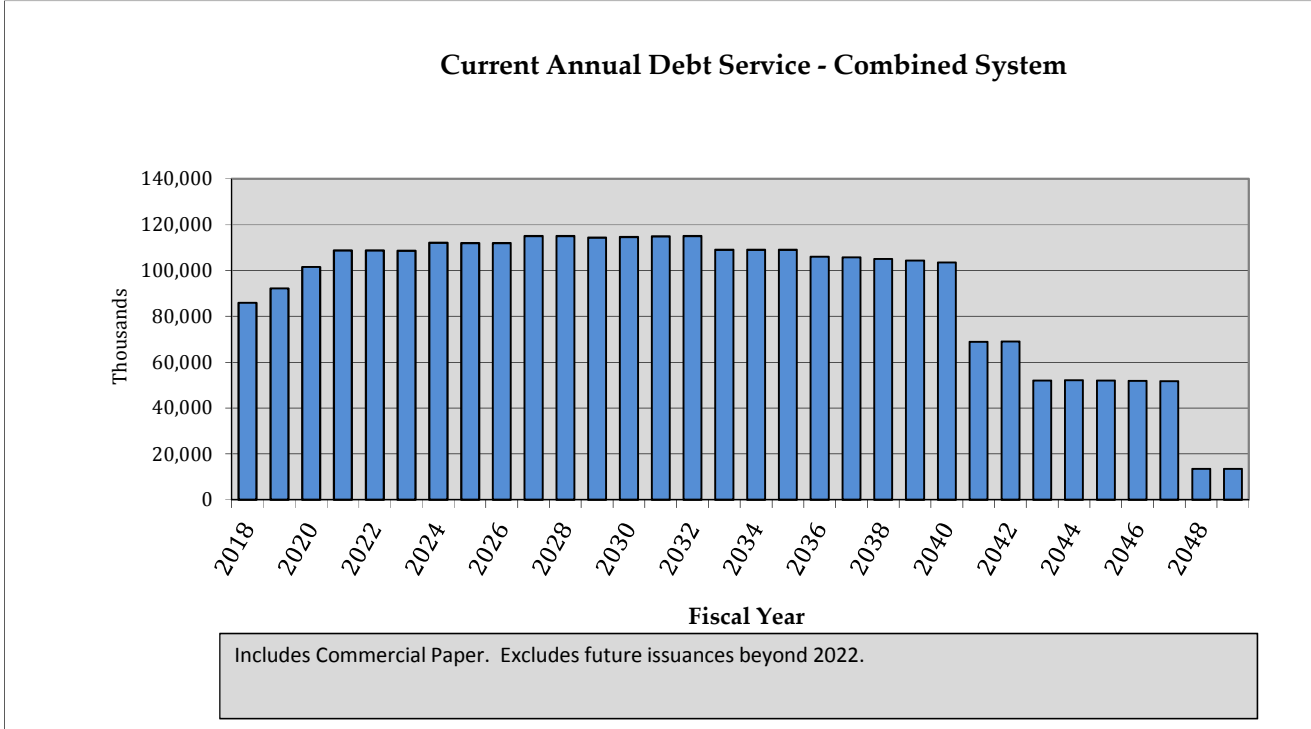
Positive numbers reflect a deposit into the Rate Stabilization Fund (RSF). This indicates that Utility revenues were greater than expenses, including General Fund Transfer, Debt Service and UPIF contributions. Negative numbers reflect a withdrawal from the Rate Stabilization Fund. This indicates that Utility revenues were less than expenses, including General Fund Transfers, Debt Service and UPIF contributions. RSF activity is projected over the planning horizon to manage rates and mitigate significant pricing variances to customers.



The Utility Plant Improvement Fund (UPIF) Contribution is required by the Utilities System Revenue Bond Resolution, as amended.

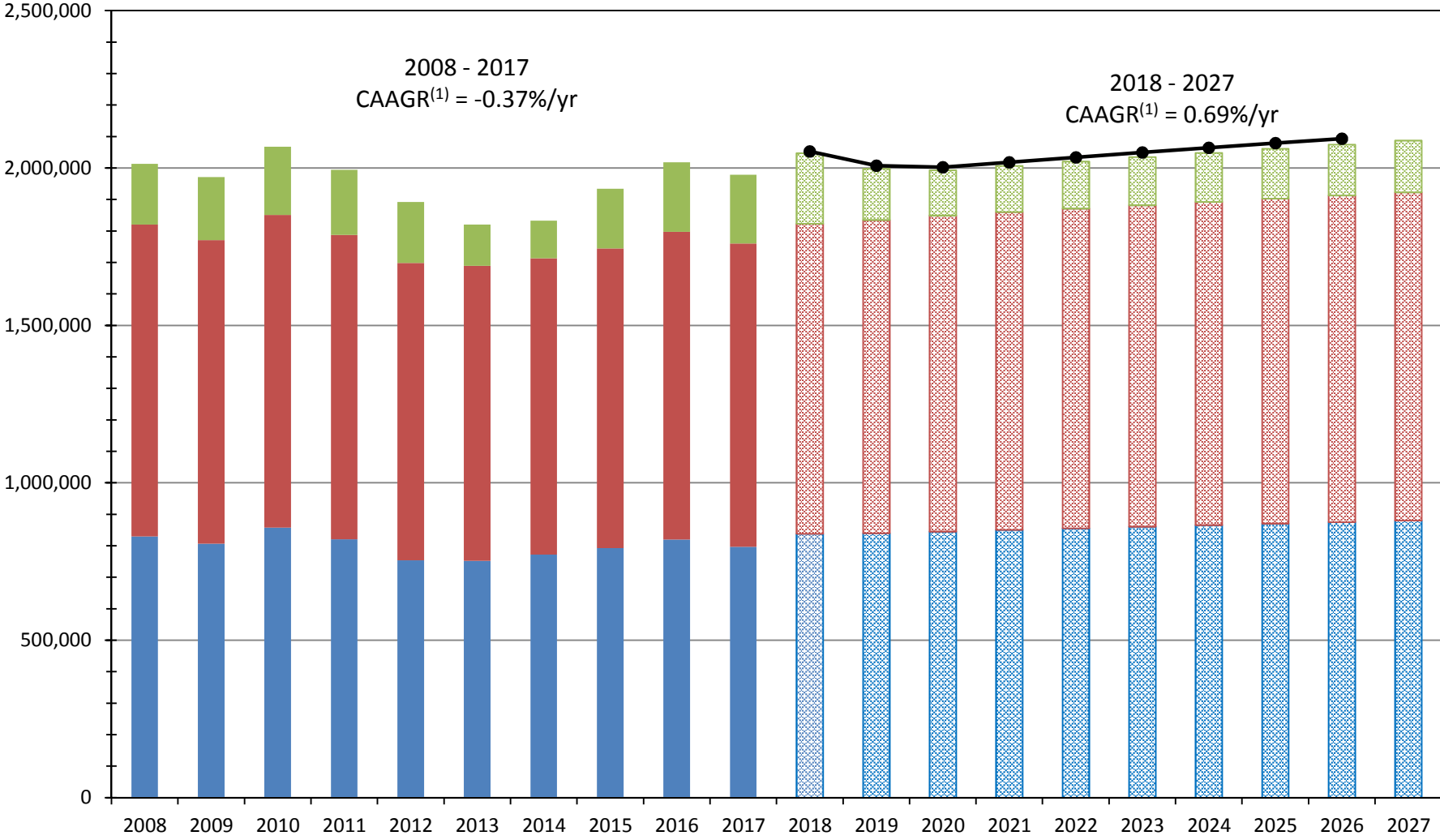


The General Fund Transfer (GFT) represents transfers to the City of Gainesville’s General Fund, in total, for all systems. The GFT is projected at an 1.5% increase after fiscal year 2019.



Electric Energy Sales MegaWatt-hours

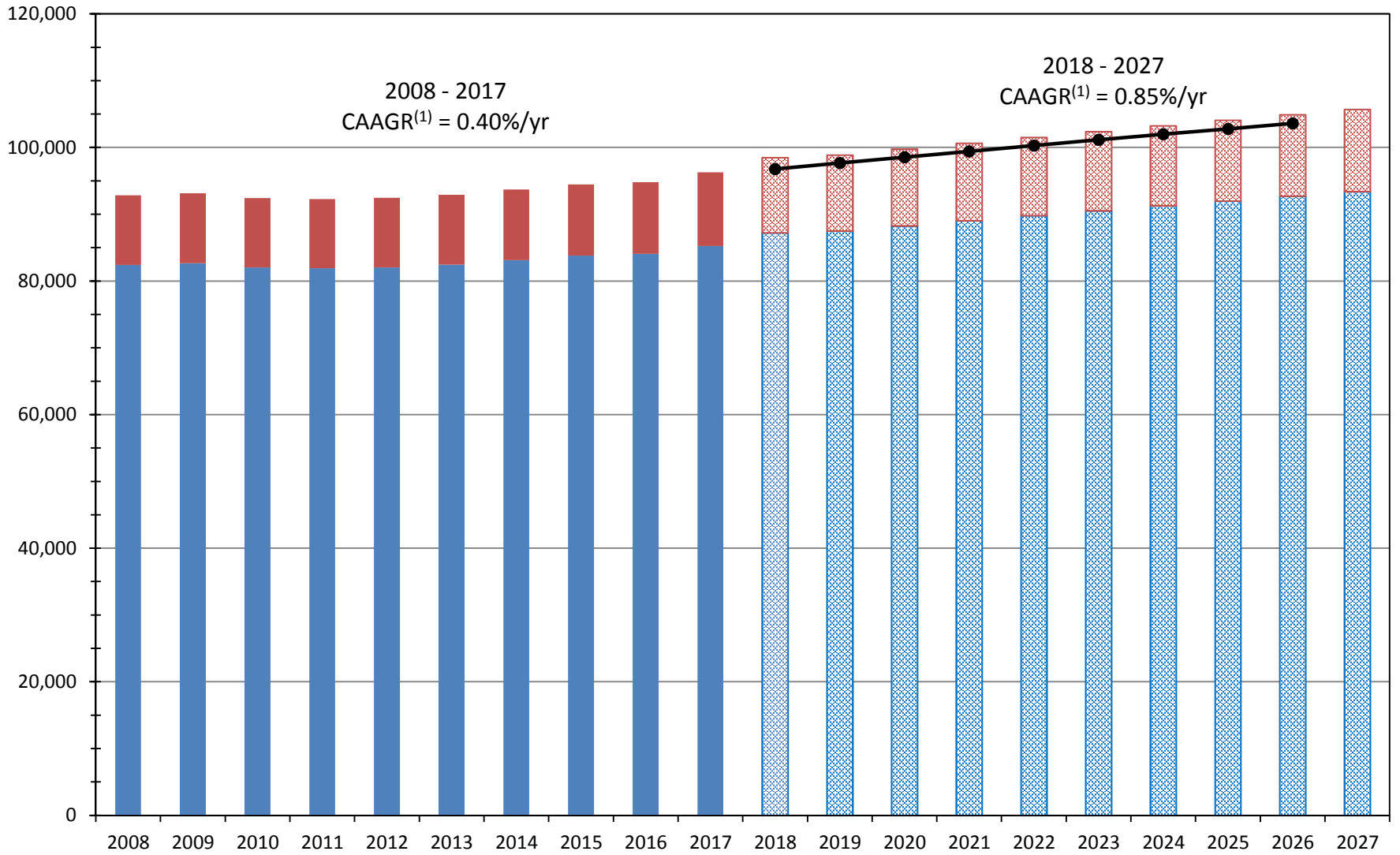
■ Residential
 ■ Non-Residential
 ■ Sales for Resale
 ●— 2018 Forecast



(1) Retail Sales - Compound Average Annual Growth Rate

Electric Customers

Residential Non-Residential 2018 Forecast

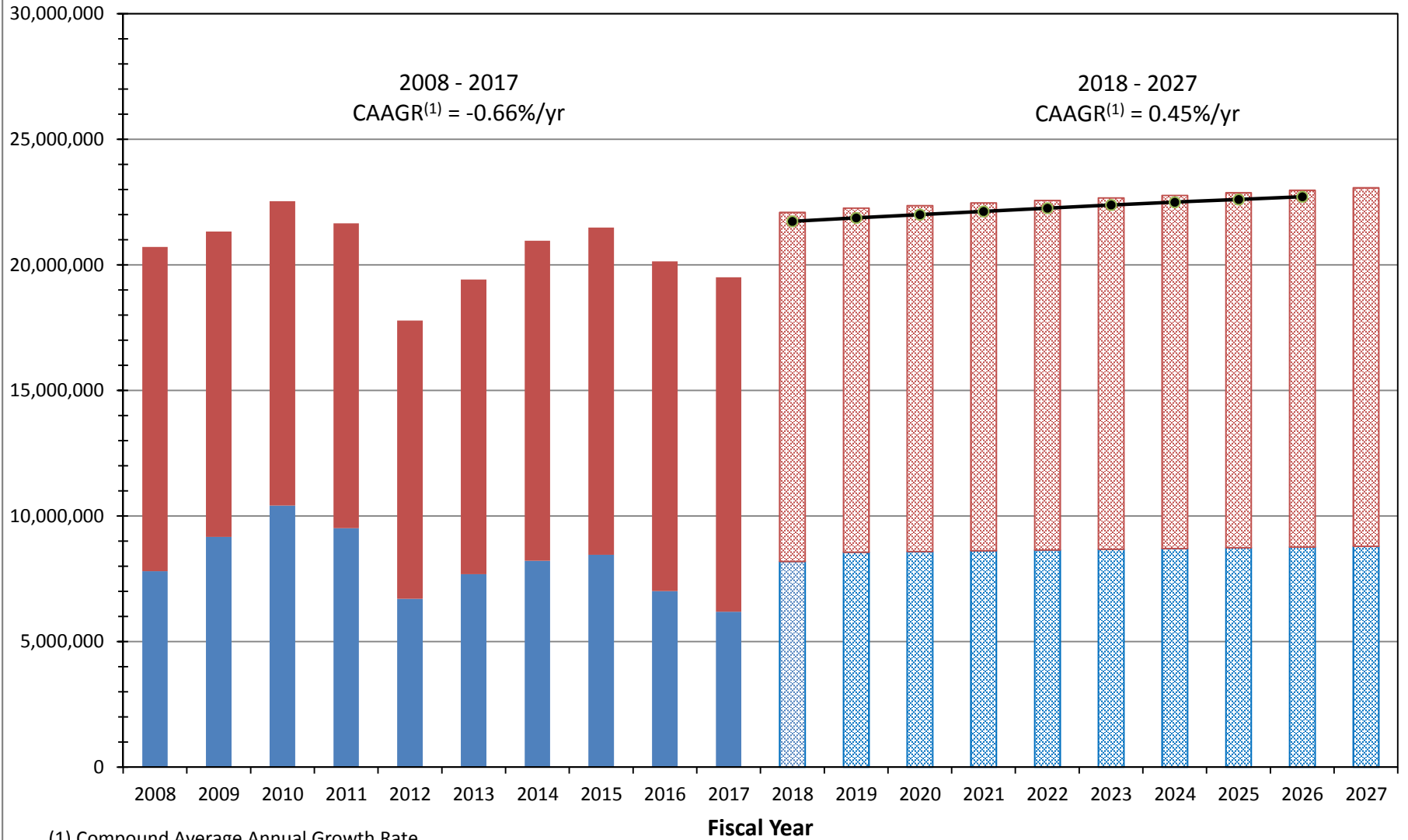


(1) Compound Average Annual Growth Rate

Fiscal Year

Natural Gas Energy Sales Therms

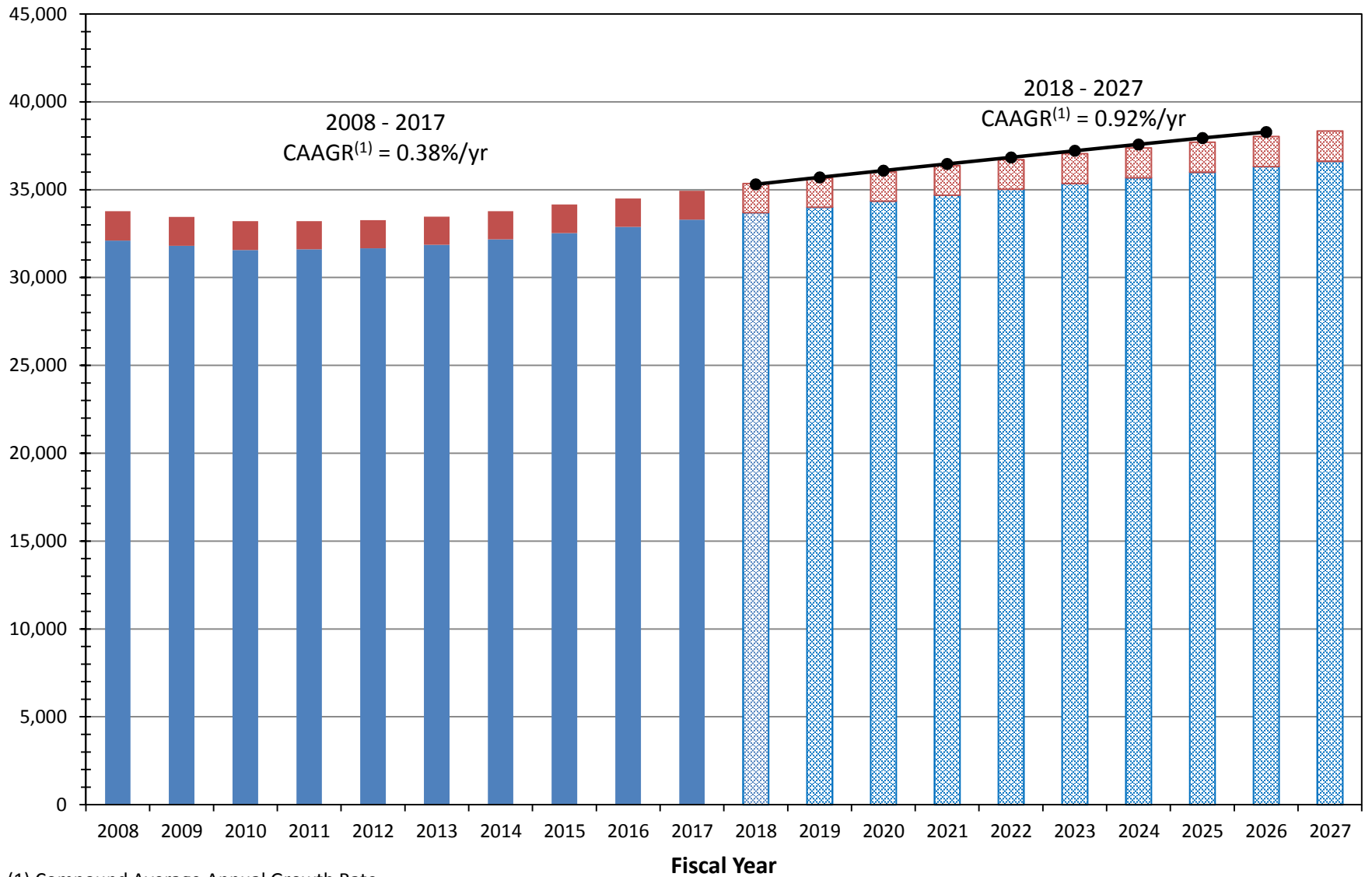
■ Residential
 ■ Non-Residential
 —●— 2018 Forecast



(1) Compound Average Annual Growth Rate

Natural Gas Customers

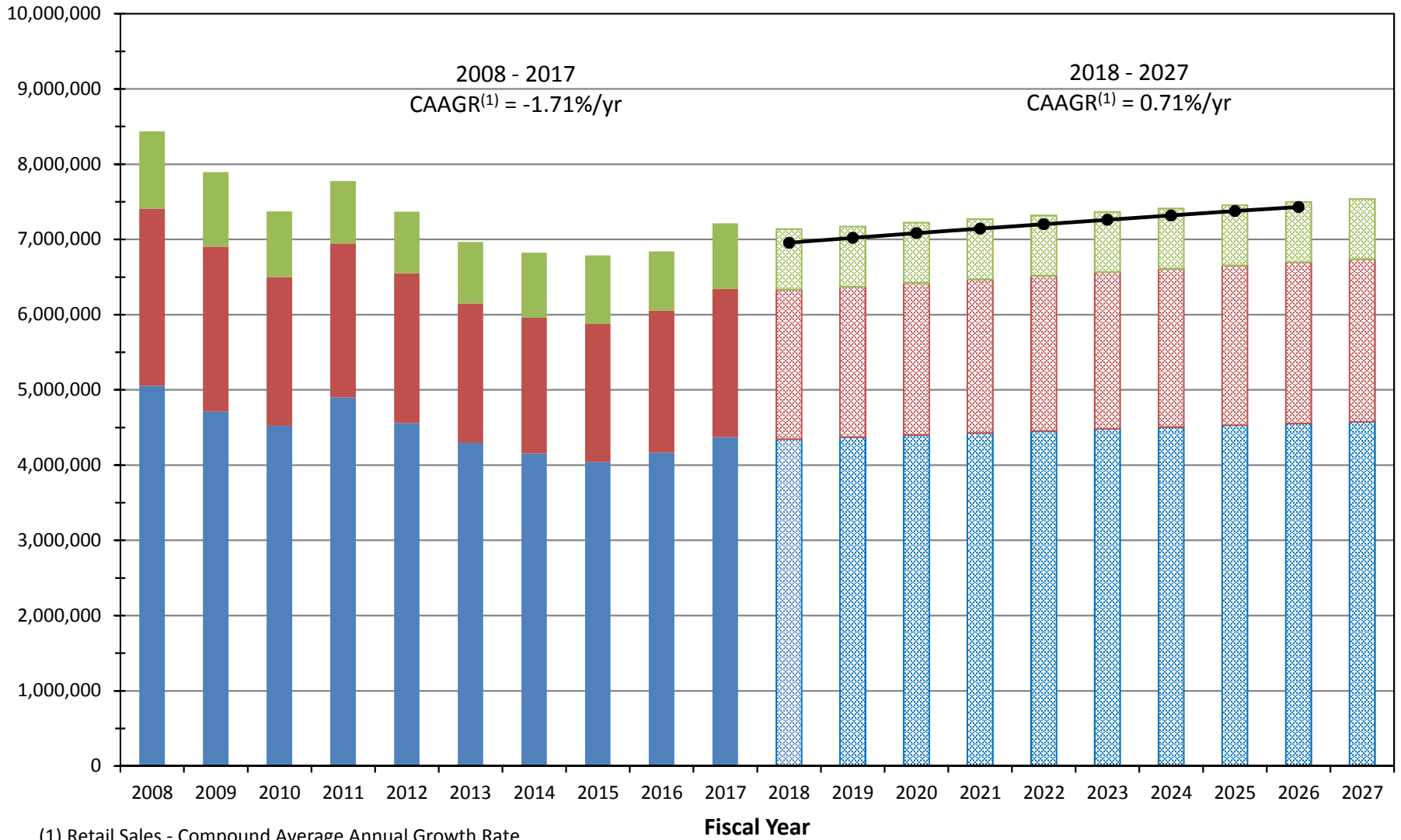
■ Residential
 ■ Non-Residential
 ● 2018 Forecast



(1) Compound Average Annual Growth Rate

Water Sales Thousand Gallons (kgal)

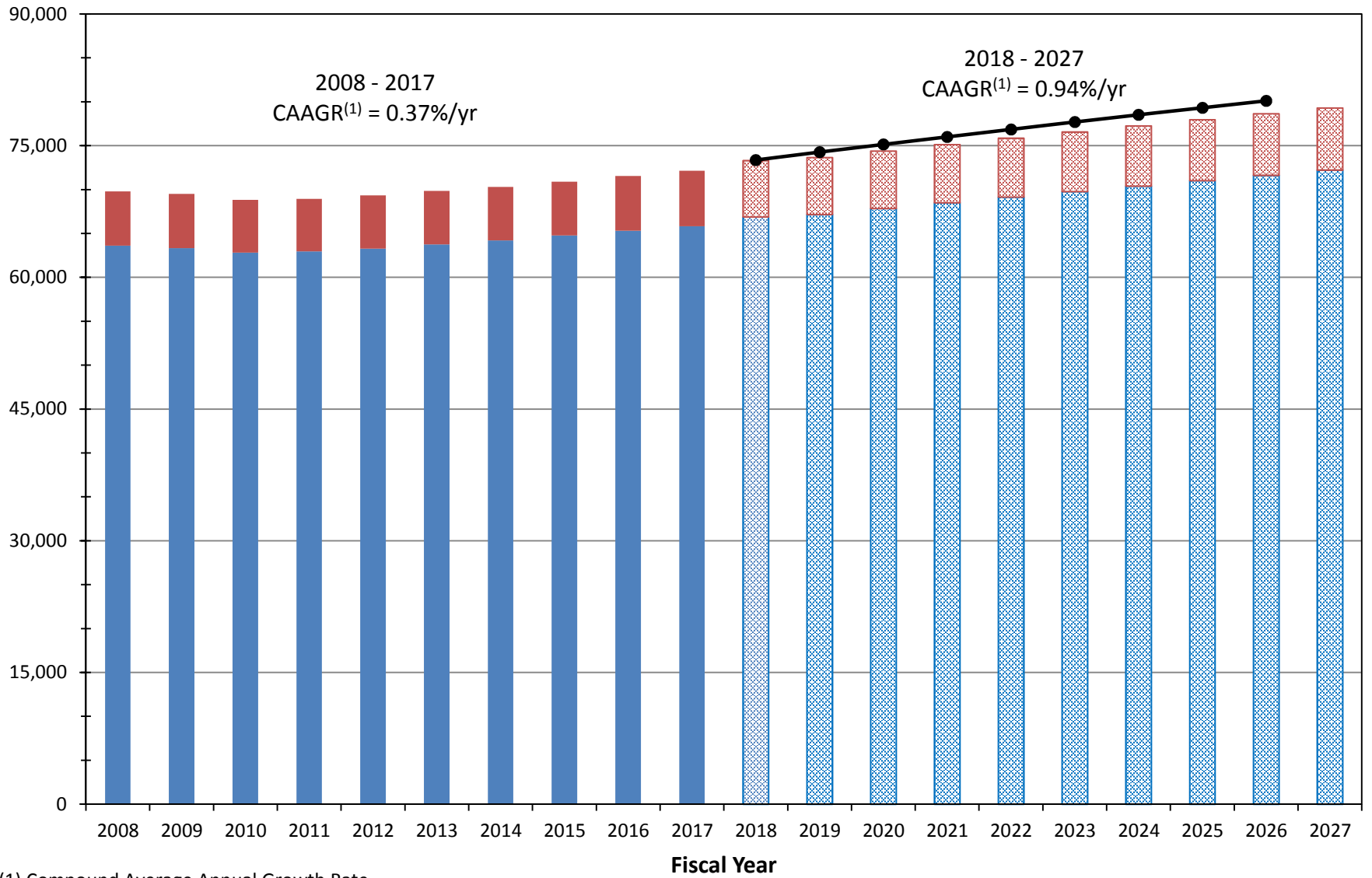
■ Residential
 ■ Non-Residential
 ■ University of Florida
 ●— 2018 Forecast



(1) Retail Sales - Compound Average Annual Growth Rate

Water Customers

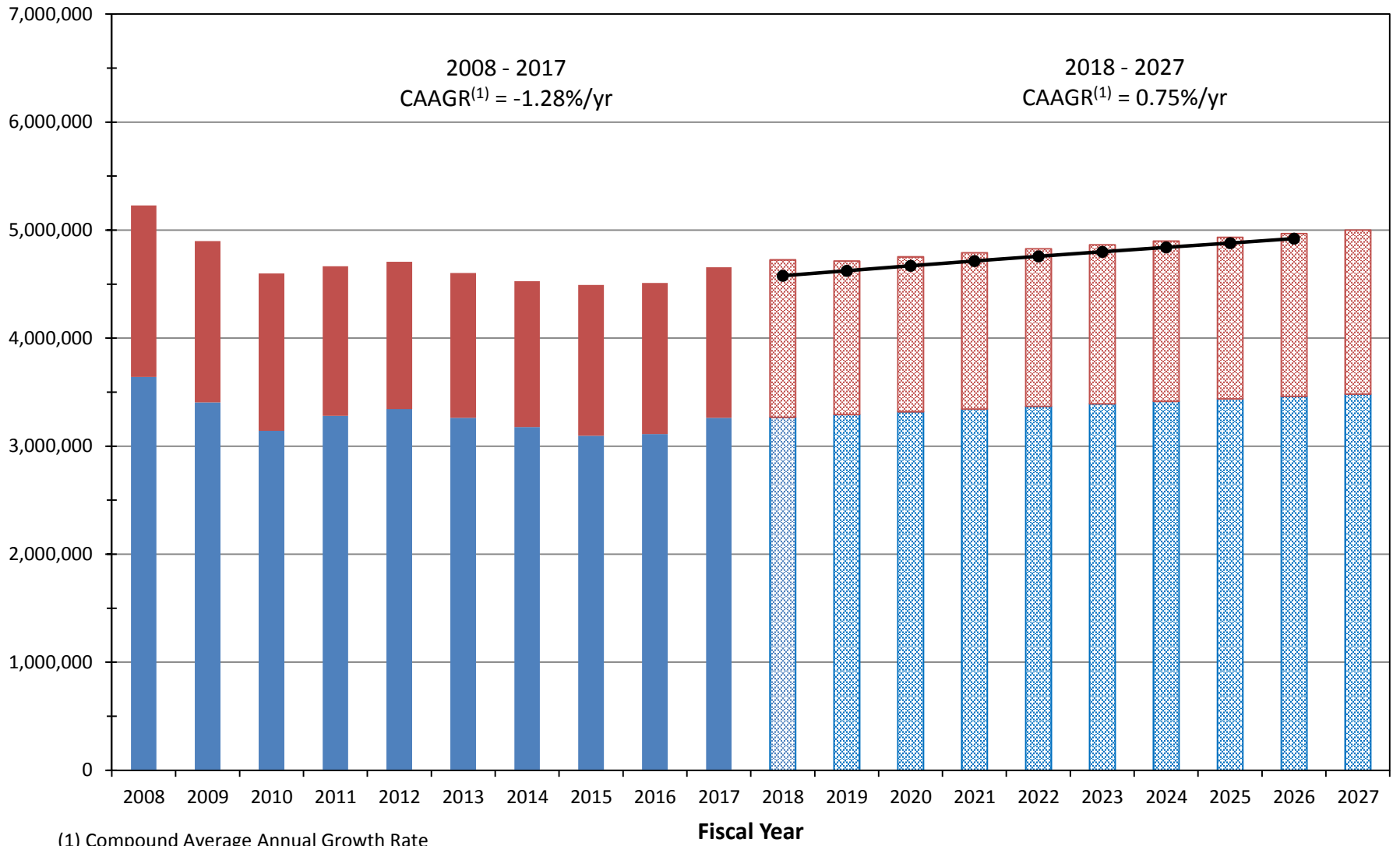
Residential Non-Residential 2018 Forecast



(1) Compound Average Annual Growth Rate

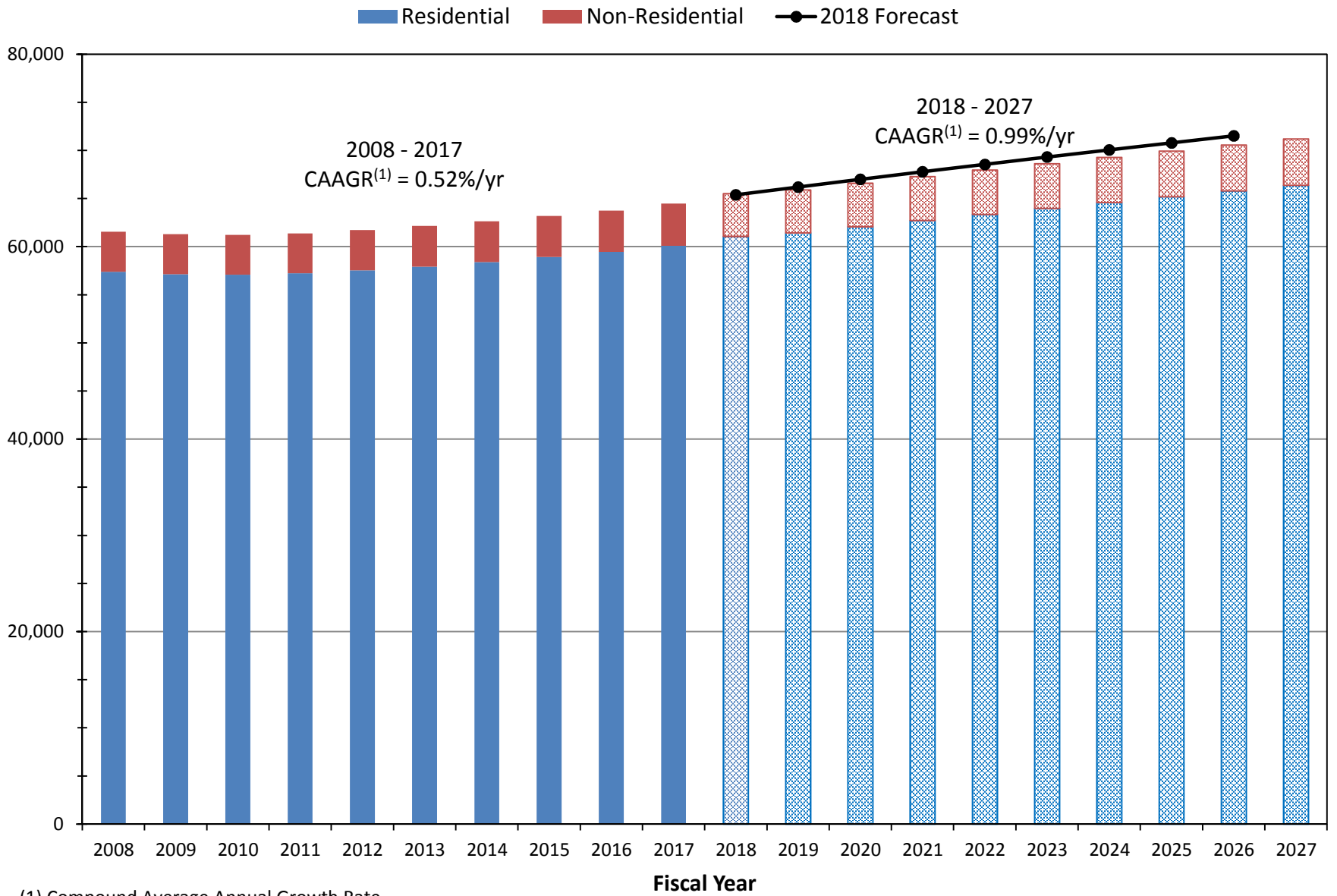
Wastewater Billings Thousand Gallons (kgal)

■ Residential
 ■ Non-Residential
 ●— 2018 Forecast



(1) Compound Average Annual Growth Rate

Wastewater Customers



(1) Compound Average Annual Growth Rate

Section B – Flow of Funds

Annual Operating Budget

Flow of Funds

Combined System

Budget 2019

Revenues:	
Sales Revenue	\$ 274,779,367
Fuel Adjustment Revenue	83,811,322
PGA Revenue	8,449,129
Surcharge Revenue	10,378,790
Connection Revenue	2,675,000
Other Revenue	24,845,342
Interest Income	1,172,546
Rate Stabilization (to)/from	12,214,829
Total Revenues	418,326,326
O&M Expenses:	
Native Load Fuel Cost	83,811,322
Purchased Gas	8,449,129
Other O&M	148,382,583
Total Expenses	240,643,034
Net Revenues:	
General	177,683,292
Total Net Revenues	177,683,292
Uses of Net Revenues:	
Debt Service	98,113,882
UPIF	41,284,409
General Fund Transfer	38,285,000
Total Use of Net Revenues	177,683,291
Net Impact to Rate Stabilization	\$ -

Annual Operating Budget

Flow of Funds

Electric System

	Budget 2019
Revenues:	
Residential Revenue	\$ 71,308,514
Residential Rate Change Revenue	1,454,694
Non-Residential Revenue	84,001,229
Non-Residential Rate Change Revenue	1,713,625
Other Electric Sales	2,906,940
South Energy Center Revenue	16,927,140
Innovation Square Revenue	314,000
Fuel Adjustment Revenue	83,811,322
Surcharge Revenue	4,262,049
Other Revenue	16,393,243
Interest Income	547,303
Rate Stabilization (to)/from	3,135,837
Total Revenues	286,775,896
O&M Expenses:	
Native Load Fuel Cost	83,811,322
Other O&M	90,769,953
Total Expenses	174,581,275
Net Revenues:	
General	112,194,621
Total Net Revenues	112,194,621
Uses of Net Revenues:	
Debt Service	73,408,090
UPIF	22,870,663
General Fund Transfer	15,915,868
Total Use of Net Revenues	112,194,621
Net Impact to Rate Stabilization	\$ -

Annual Operating Budget

Flow of Funds

Water System

	Budget 2019
Revenues:	
Sales of Water	\$ 30,619,726
UF Revenue	1,843,669
Surcharge Revenue	2,538,375
Connection Revenue	984,000
Other Revenue	2,617,229
Surcharge on Connections	81,000
Interest Income	305,063
Rate Stabilization (to)/from	152,124
Total Revenues	39,141,188
O&M Expenses:	
Other O&M	19,642,018
Total Expenses	19,642,018
Total Net Revenues	19,499,170
Uses of Net Revenues:	
Debt Service	7,348,207
UPIF	6,794,891
General Fund Transfer	5,356,072
Total Use of Net Revenues	19,499,170
Net Impact to Rate Stabilization	\$ -

Annual Operating Budget

Flow of Funds

Wastewater System

	Budget 2019
Revenues:	
Wastewater Charges	\$ 37,181,416
Rate Change Revenue	-
South Energy Center Revenue	91,764
Biosolids Revenue	300,000
Surcharge Revenue	2,862,969
Connection Revenue	1,691,000
Other Revenue	2,999,800
Surcharge on Connections	140,000
Interest Income	220,625
Rate Stabilization (to)/from	1,588,082
Total Revenues	47,075,656
O&M Expenses:	
Other O&M	23,429,635
Total Expenses	23,429,635
Total Net Revenues	23,646,021
Uses of Net Revenues:	
Debt Service	8,986,332
UPIF	8,799,016
General Fund Transfer	5,860,672
Total Use of Net Revenues	23,646,020
Net Impact to Rate Stabilization	\$ 1

Annual Operating Budget

Flow of Funds

Gas System

	Budget 2019
Revenues:	
Residential Revenue	\$ 8,777,770
Non-Residential Revenue	5,180,805
MGPCRF Revenue	1,237,872
Purchased Gas Adjustment Revenue	8,449,129
Surcharge Revenue	494,397
Other Revenue	2,355,725
Interest Income	119,792
Rate Stabilization (to)/from	5,112,157
Total Revenues	31,727,647
O&M Expenses:	
Purchased Gas	8,449,129
Other O&M	6,889,896
Total Expenses	15,339,025
Total Net Revenues	16,388,622
Uses of Net Revenues:	
Debt Service	4,062,275
UPIF	2,360,793
General Fund Transfer	9,965,554
Total Use of Net Revenues	16,388,622
Net Impact to Rate Stabilization	\$ -

Annual Operating Budget

Flow of Funds

GRUCom

Budget 2019

Revenues:	
Telecommunications Revenue	\$ 7,733,558
Public Safety Radio Revenue	1,718,952
Tower Lease Rental Revenue	1,767,692
Other Income	179,345
Interest Income	(20,237)
Rate Stabilization (to)/from	2,226,629
Total Revenues	13,605,939
O&M Expenses:	
Other O&M	7,651,081
Total	7,651,081
Total Net Revenues	5,954,858
Uses of Net Revenues:	
Debt Service	4,308,978
UPIF	459,046
General Fund Transfer	1,186,835
Total Use of Net Revenues	5,954,859
Net Impact to Rate Stabilization	\$ (1)

Section C – Revenues

Annual Operating Budget

Revenues

Combined System

	Budget 2019
Revenues:	
Electric System	\$ 286,775,896
Water System	39,141,188
Wastewater System	47,075,656
Gas System	31,727,647
GRUCom System	13,605,939
Total Revenues	\$ 418,326,326

Please see individual system page for description and highlights.

Annual Operating Budget

Revenues

Electric System

	Budget 2019
Revenues:	
Residential Revenue	\$ 71,308,514
Residential Rate Change Revenue	1,454,694
Non-Residential Revenue	84,001,229
Non-Residential Rate Change Revenue	1,713,625
Other Electric Sales	2,906,940
South Energy Center Revenue	16,927,140
Innovation Square Revenue	314,000
Fuel Adjustment Revenue	83,811,322
Surcharge Revenue	4,262,049
Other Revenue	16,393,243
Interest Income	547,303
Rate Stabilization (to)/from	3,135,837
Total Revenues	\$ 286,775,896

Description

- Forecasts were developed from econometric models that project number of customers and usage per customer for each major billing class. External inputs used in these models were sourced from the Bureau of Economic and Business Research (demographics), IHS Markit (economics) and the National Oceanic and Atmospheric Administration (climate). Revenue projections are the product of number of customers, billed sales and GRU's prevailing prices.
- Cumulative increases in retail revenues from proposed rate changes are shown as residential and non-residential rate change revenue.
- The South Energy Center (SEC) is a combined heat and power plant providing electricity, chilled water, steam, and the storage and delivery of medical gases to the UF Health Cancer Center. The SEC has contributed significant revenues to the Electric System since May 2009. Phase II of SEC is now completed in conjunction with the completion of the new UF Health Heart & Vascular and Neuromedicine hospitals.
- Innovation Square is a research and business development effort of the University of Florida and is served by the Electric System.
- Fuel adjustment revenues offset the fuel and purchased power costs for retail and sales for resale electricity sales.
- Surcharge revenues are a 10 percent charge applied to the non-fuel portion of retail rates for customers outside the incorporated portion of the City of Gainesville.
- Other revenue includes late fees and other miscellaneous service charges.
- Interest income is generated from the investment earnings for the Operating Fund, Rate Stabilization Fund and Utility Plant Improvement Fund for each system.
- Rate Stabilization revenues are withdrawals from (if positive) or deposits to (if negative) rate stabilization which functions as a revenue stabilizer when deemed necessary.

Budget Highlights

- The number of retail electric customers is forecast to increase at an average annual rate of 0.85% per year over the next 10 years.
- Retail electric energy sales are forecast to increase at an average annual rate of 0.69% per year through fiscal 2027.
- Revenues from retail electric energy sales are projected to increase at an average annual rate of 0.69% per year over the next 10 years, under current rates.

Annual Operating Budget

Revenues

Water System

	Budget 2019
Revenues:	
Sales of Water	\$ 30,619,728
Rate Change Revenue	-
UF Revenue	1,843,669
South Energy Center Revenue	-
Surcharge Revenue	2,538,375
Connection Revenue	984,000
Other Revenue	2,617,229
Surcharge on Connections	81,000
Interest Income	305,063
Rate Stabilization (to)/from	152,124
Total Revenues	\$ 39,141,188

Description

- Forecasts were developed from econometric models that project number of customers and usage per customer for each major billing class. External inputs used in these models were sourced from the Bureau of Economic and Business Research (demographics), IHS Markit (economics), and the National Oceanic and Atmospheric Administration (climate). Revenue projections are the product of number of customers, billed sales and GRU's prevailing prices.
- Revenues are obtained from retail sales to residential and non-residential customers served by the potable water system and include monthly customer charges and usage charges (Kgal) based on metered water sales.
- UF Revenues represent wholesale water sales to the UF campus, which maintains its own distribution system, as well as off-campus UF facilities.
- Cumulative increases in retail revenues from proposed rate changes are shown as rate change revenue.
- The SEC, as described in the electric system, is a generation facility that became operational in 2009 and is served by the Water System.
- A surcharge of 25 percent is collected outside the incorporated portion of the City of Gainesville.
- Connection fees are collected to recover the costs of meter installations, transmission and distribution, and water treatment and supply required for each new customer. There is a 25 percent surcharge on connection fees for customers outside the incorporated portion of the City.
- Interest income is generated from the investment earnings for the Operating Fund, Rate Stabilization Fund and Utility Plant Improvement Fund for each system.
- Rate Stabilization revenues are withdrawals from (if positive) or deposits to (if negative) rate stabilization which functions as a revenue stabilizer when deemed necessary.

Budget Highlights

- The number of total water customers is forecast to increase at an average annual rate of 0.94% per year over the next 10 years.
- Sales of water to retail customers are forecast to increase at an average annual rate of 0.71% per year through fiscal year 2027.
- Revenues from water sales, including sales related to UF and surcharge revenues, are projected to increase at an average annual rate of 0.62% per year over the next 10 years. This projection does not include any changes to rates for water service.

Annual Operating Budget

Revenues

Wastewater System

	Budget 2019
Revenues:	
Wastewater Charges	\$ 37,181,416
Rate Change Revenue	-
South Energy Center Revenue	91,764
Biosolids Revenue	300,000
Surcharge Revenue	2,862,969
Connection Revenue	1,691,000
Other Revenue	2,999,800
Surcharge on Connections	140,000
Interest Income	220,625
Rate Stabilization (to)/from	1,588,082
Total Revenues	\$ 47,075,656

Description

- Forecasts were developed from econometric models that project number of customers and usage per customer for each major billing class. External inputs used in these models were sourced from the Bureau of Economic and Business Research (demographics), IHS Markit (economics), and the National Oceanic and Atmospheric Administration (climate). Revenue projections are the product of number of customers, billed quantities and GRU's prevailing prices.
- Revenues are obtained from wastewater charges to residential and non-residential customers served by our wastewater collection, treatment, re-use and disposal systems.
- Cumulative increases in retail revenues from proposed rate changes are shown as rate change revenue.
- Wastewater is not metered. Charges for most residential customers are based on winter water consumption to avoid billing customers for irrigation and other outdoor uses that do not discharge to the Wastewater system.
- Non-residential customers are billed based on 95 percent of water consumption each month. Customers are given the option of installing irrigation water meters, which are not included in wastewater bill calculations, as a way to manage wastewater costs.
- The SEC is a generation facility that became operational in 2009 and is served by the Wastewater System.
- Biosolids revenue is generated for the receipt, treatment and beneficial reuse of waste residuals of other municipalities and septage haulers.
- A surcharge of 25 percent is collected from customers outside the incorporated portion of the City of Gainesville.
- Connection charges are collected to recover the capital costs of wastewater collection and treatment required for each new customer. There is a 25 percent surcharge on connection fees for customers outside the incorporated portion of the City.
- Interest Income is generated from the investment earnings for the Operating Fund, Rate Stabilization Fund and Utility Plant Improvement Fund for each System.
- Rate Stabilization revenues are withdrawals from (if positive) or deposits to (if negative) rate stabilization which functions as a revenue stabilizer when deemed necessary.

Budget Highlights

- The number of total wastewater customers is forecast to increase at an average annual rate of 0.99% per year over the next 10 years.
- The quantity of wastewater billed to all customers is forecast to increase at an average annual rate of 0.75% per year through fiscal year 2027.
- Revenues from wastewater system monthly billings are projected to increase at an average annual rate of 0.62% per year over the next 10 years. This projection does not include any changes to wastewater rates.

Annual Operating Budget

Revenues

Gas System

	Budget 2019
Revenues:	
Residential Revenue	\$ 8,777,770
Residential Rate Change Revenue	-
Non-Residential Revenue	5,180,805
Non-Residential Rate Change Revenue	-
MGPCRF Revenue	1,237,872
Purchased Gas Adjustment Revenue	8,449,129
Surcharge Revenue	494,397
Other Revenue	2,355,725
Interest Income	119,792
Rate Stabilization (to)/from	5,112,157
Total Revenues	\$ 31,727,647

Description

- Forecasts were developed from econometric models that project number of customers and usage per customer for each major billing class. External inputs used in these models were sourced from the Bureau of Economic and Business Research (demographics), IHS Markit (economics), and the National Oceanic and Atmospheric Administration (climate). Revenue projections are the product of number of customers, billed sales, and GRU's prevailing prices.
- Cumulative increases in retail revenues from proposed rate changes are shown as rate change revenue.
- The Manufactured Gas Plant Cost Recovery Factor (MGPCRF) is a component of revenue based on therm sales. It recovers the cost of environmental clean-up at the Depot Park Manufactured Gas Plant. This cost is partially offset with insurance proceeds, with the project expected to total nearly \$29 million when complete.
- Purchased Gas Adjustment (PGA) revenue is collected for the natural gas fuel distributed to customers.
- Surcharge revenues are a 10 percent charge applied to the non-fuel portion of retail rates for customers outside the incorporated portion of the City of Gainesville.
- Other revenue includes transportation sales to UF's cogeneration facility, late fees, service charges, and sales to liquid propane distribution system customers.
- Interest income is generated from the investment earnings for the Operating Fund, Rate Stabilization Fund, and Utility Plant Improvement Fund for each System.
- Rate Stabilization revenues are withdrawals from (if positive) or deposits to (if negative) rate stabilization which functions as a revenue stabilizer when deemed necessary.

Budget Highlights

- The number of retail natural gas system customers is forecast to increase at an average annual rate of 0.92% per year over the next 10 years.
- Total retail natural gas system energy sales are forecast to increase at an average annual rate of 0.45% per year through fiscal year 2027.
- Non-fuel revenues from sales to retail natural gas customers are projected to increase at an average rate of 0.68% per year over the next 10 years. This projection does not include any changes to natural gas rates.

Annual Operating Budget

Revenues

GRUCom

	Budget 2019
Revenues:	
Telecommunications Revenue	\$ 7,733,558
Public Safety Radio Revenue	1,718,952
Tower Lease Rental Revenue	1,767,692
Other Income	179,345
Interest Income	(20,237)
Rate Stabilization (to)/from	2,226,629
Total Revenues	\$ 13,605,939

Description

- GRUCom Telecommunication revenues are based on historical sales trends, anticipated customer growth/churn and competitive market conditions. Projections reflect an expectation for continued growth in business services and a continued erosion in carrier services.
- Public Safety Radio revenue projections are based on the historical trends of number of radios deployed pursuant to the billing rates established under the existing inter-local agreement due to expire in 2020. GRUCom is currently in negotiations with subscribers to update and expand coverage of the system, and the potential changes to revenues are not reflected in projections.
- Tower Lease Rental services are primarily tower space leases with Personal Wireless Communications Services (PCS) providers. Revenues from new leases executed in recent months are included in the forecast. Tower space leases contain provisions for automatic annual rent increases, included in the projections.
- Interest Income is generated from the investment earnings for the Operating Fund, Rate Stabilization Fund and Utility Plant Improvement Fund for each system.
- Rate Stabilization revenues are withdrawals from (if positive) or deposits to (if negative) rate stabilization which functions as a revenue stabilizer when deemed necessary. GRUCom has a current deficit in fiscal year 2018 and the deficit is projected to increase in fiscal year 2019. Management may issue commercial paper to cover the shortfall in Rate Stabilization Fund for the GRUCom system.

Budget Highlights

- GRUCom data and Internet services continue to be in high demand by local businesses.
- GRUCom is now offering "Gator Net Wi-Fi" Internet service to residential MDU and student housing communities. It is expected that demand for this Wi-Fi service offering will continue to increase as housing consumers seek the benefits of wireless Internet access backed by fiber-to-the-home (FTTH) technology and ultra-fast broadband services. GRUCom continues to receive requests from existing and newly developed apartment complexes for GATOR NET services (both wired and wireless). Revenues from these new contracts are included in projections.
- GRUCom plans a new voice services product line in fiscal year 2019. Revenue projections for this service are included in the FY19 forecast.

Section D – Non-Labor

Annual Operating Budget

Non-Labor

Combined System

	Budget 2019
Expenditures:	
Fuel	\$ 92,260,451
Energy Supply	20,351,764
District Energy	5,149,074
Energy Delivery	7,585,120
Water	6,220,749
Wastewater	7,705,077
GRUCom	2,870,890
Administration	1,762,701
Customer Support Services	5,955,725
Information Technology	13,388,140
Budget, Finance and Accounting	18,447,552
Chief Operating Officer	509,111
Debt Service	98,113,881
Utility Plant Improvement Fund	41,284,410
General Fund Transfer	38,285,000
Total Expenditures	\$ 359,889,645

Please see individual department page for description and highlights.

Section E – Labor

Annual Operating Budget

Labor

Combined System

Budget 2019

	Operation and Maintenance	Capital	Total
Electric	34,857,665	12,838,244	47,695,909
Water	7,775,862	3,232,702	11,008,564
Wastewater	9,313,302	4,033,084	13,346,386
Gas	3,449,685	2,863,256	6,312,941
GRUCom	3,040,166	1,302,717	4,342,883
Total 2019 Combined System	\$ 58,436,680	\$ 24,270,003	\$ 82,706,683

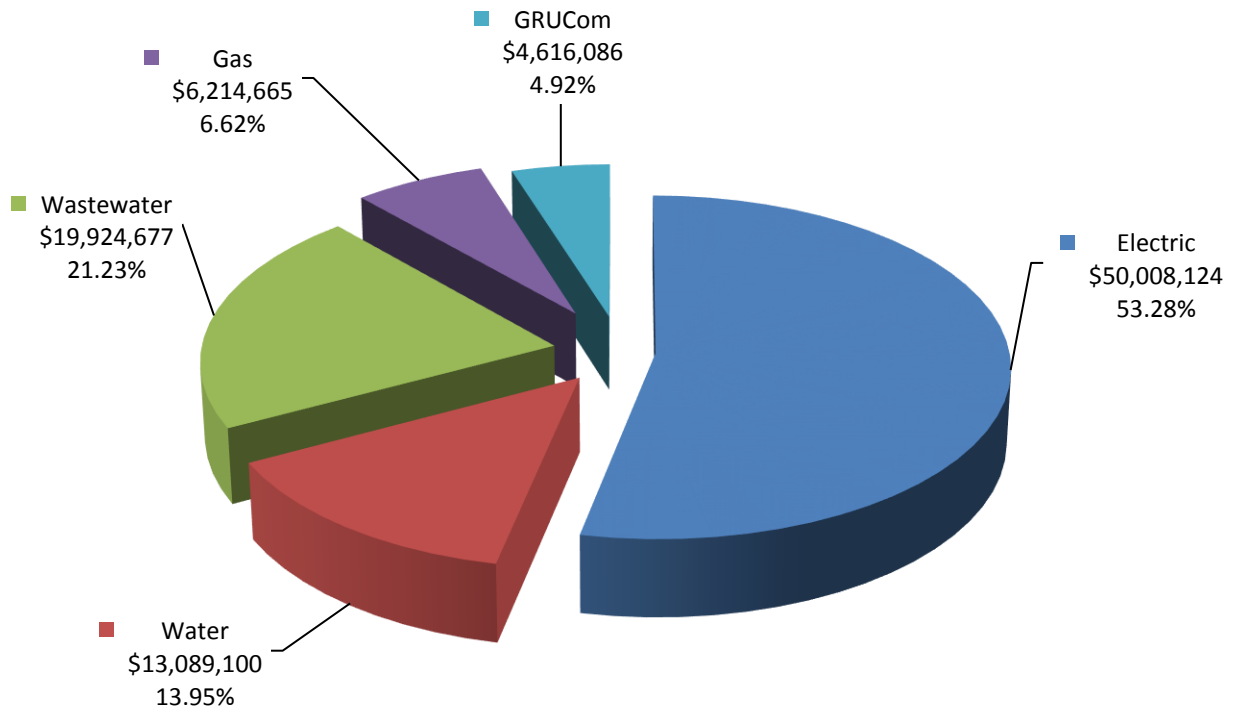
Full Time Equivalent (FTE)

Budget 2019

MAP	286.00
CWA	606.25
Total FTEs Authorized	892.25
Overfills	25.00
Total FTEs including Overfills	917.25

Section F – Capital Projects

Combined Systems
Fiscal Year 2019 Budget



Combined Systems

Electric	\$ 50,008,124
Water	13,089,100
Wastewater	19,924,677
Gas	6,214,665
GRUCom	4,616,086
Total Projects	\$ 93,852,652

Section G – Financial Ratios

Annual Operating Budget

Financial Reserves and Ratios

Reserve Requirements

	Budget 2019
Reserve Requirements:	
Electric	\$ 41,982,410
Water	10,214,893
Wastewater	11,977,677
Gas	5,267,052
GRUCom	3,318,272
Total Reserve Requirements	72,760,303
Reserve Funded:	
Rate Stabilization Fund	45,036,142
Operating Cash (60 days)	9,248,028
Line of Credit	25,000,000
Unissued CP	17,000,000
Utility Plant Improvement Fund	24,560,581
Total Reserve Funded	120,844,751
Amount Over/(Under Funded)	\$ 48,084,447

Description

Risk is the quantifiable likelihood of loss or less-than-expected returns. Risk management is the process of analyzing exposure to risk and determining how best to handle such exposure. Staff has identified the utility's financial risk and risk mitigators and established a framework for setting reserve fund levels where other mitigators aren't present.

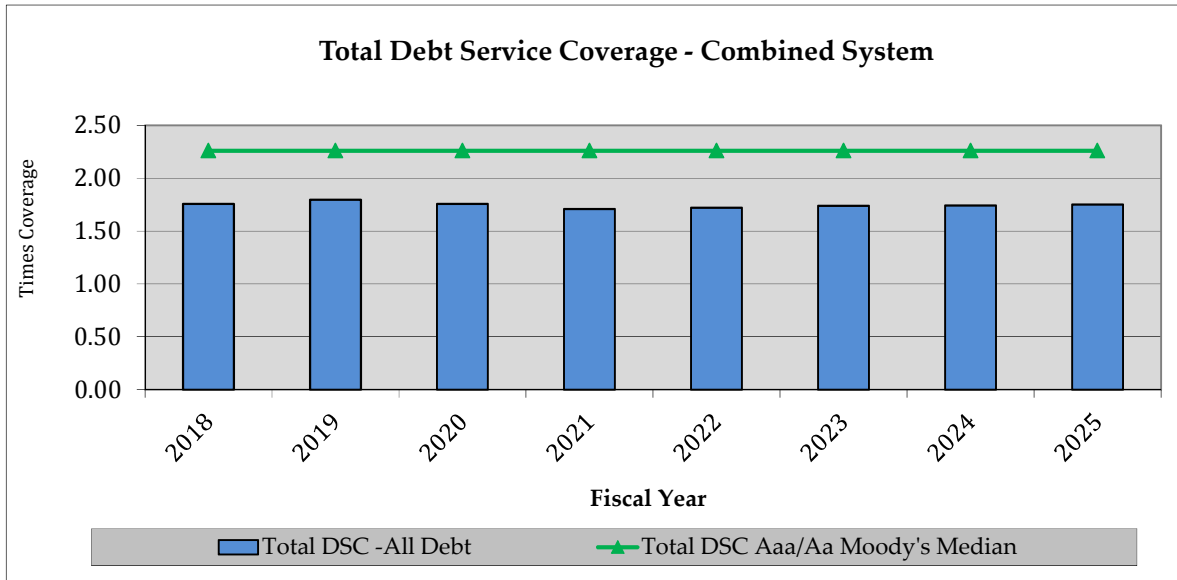
The utility is exposed to two major categories of risk: operating cash flow and catastrophic event exposure that can result in both uninsured property loss and the need for operating cash to recover from the event when billing and revenue collection may not be possible for a period of time. A reserve fund level that is formula-driven by the primary indicators of risk is necessary as the levels of risk can vary markedly through time. There are two funds established within the Bond Resolution that can be used to provide financial reserves: the Rate Stabilization Fund and the Utility Plant Improvement Fund.

These reserve funds can provide financial insurance to allow the utility to reliably meet its financial obligations under adverse circumstances and can also serve as a means by which to mitigate required rate changes (particularly rate increases). Maintaining minimum financial reserves contributes to financial strength.

Budget Highlights

The methodology for establishing reserves funded was modified for the fiscal year 2018 budget. Prior to the fiscal year 2018 budget process, funded reserves were limited to the Rate Stabilization Fund and UPIF dollars equal to 75 percent of uninsured property exposure.

Beginning with the fiscal year 2018 budget, the following resources are included in the definition of resources available to fund reserves: Rate Stabilization Fund, Unrestricted UPIF funds (UPIF balances net

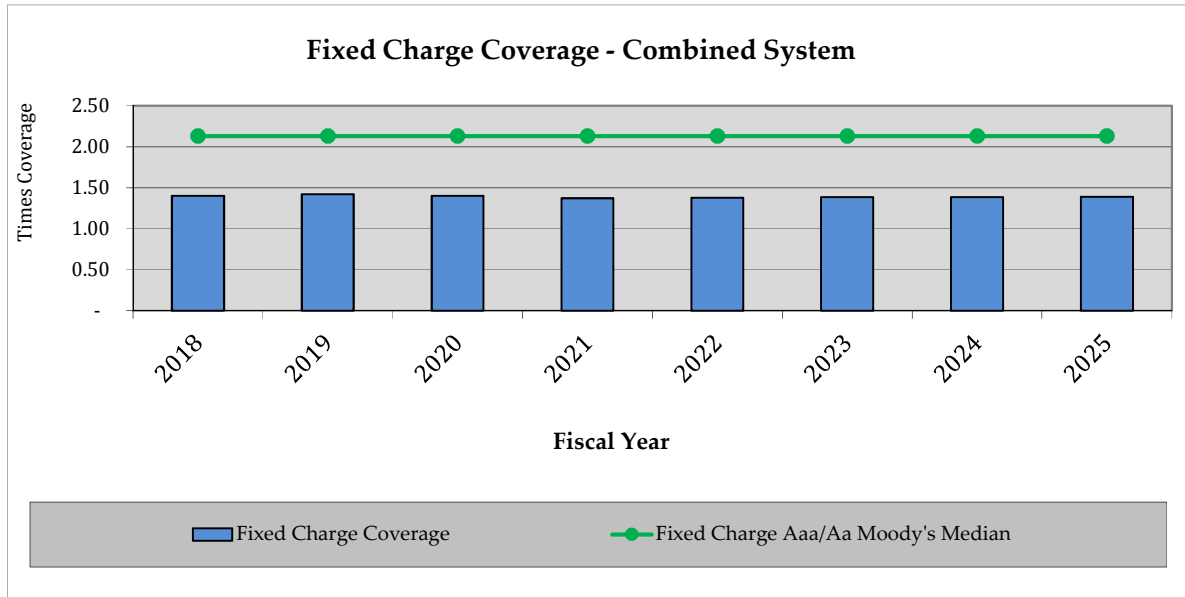


Total Debt Service Coverage: Number of times total debt service payments are covered by net revenues

Calculation: Net revenues divided by principal and interest of all debts (senior lien and subordinated)

This ratio indicates the amount of cash flow available to meet payments due for all debt. The rating agencies refer to this ratio as an indication of financial strength and a measure of a company's ability to weather unexpected events. A ratio of less than 1 indicates that there are insufficient cash flows to cover the debt. The coverage ratio can be improved through increased revenues or a decrease in debt payments.

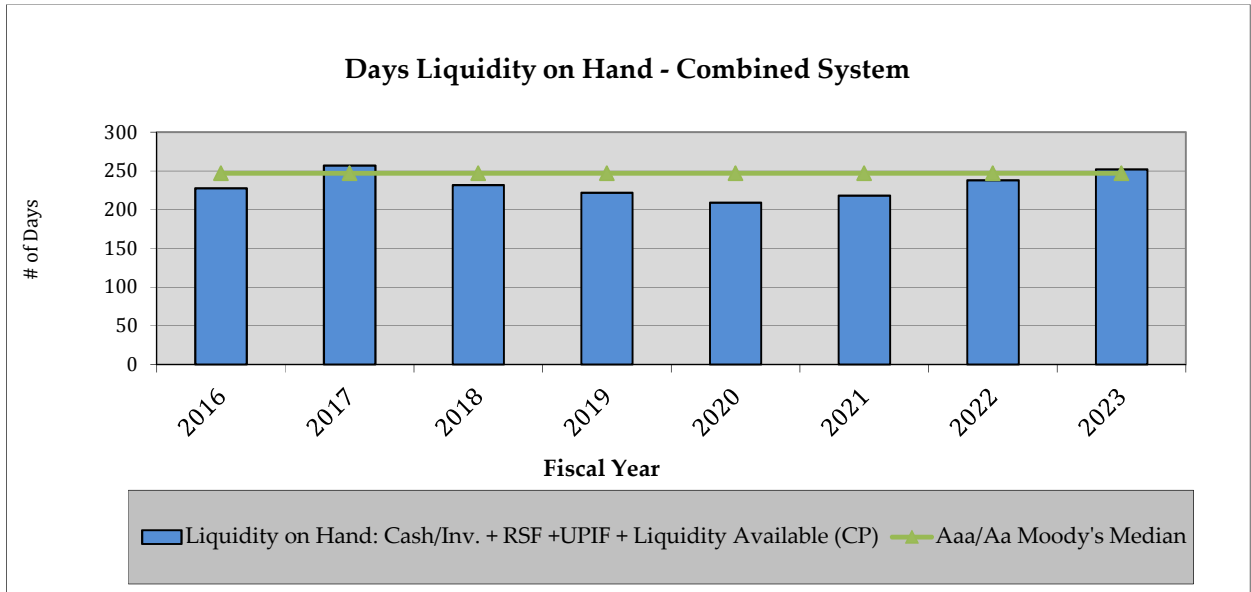
The Utility's Bond Resolution states "as such Net Revenues are estimated by the City in accordance with Section 205 hereof, shall be at least equal to 1.25 times the Aggregate Debt Service for each such fiscal year, as estimated by the City in accordance with Section 205 hereof."



Fixed Charge Coverage: Number of times total fixed charges are covered by net revenues

Calculation: Net revenues less General Fund Transfer (GFT) divided by principal and interest of all debts including senior lien and subordinated.

This traditional ratio indicates the amount of cash flow available to meet payments due for all debt after the GFT payment. Fixed charge indicates a payment other than operating expenses that is required and static. The rating agencies refer to this ratio as an indication of a company's financial strength and general ability to weather unexpected events. A ratio of less than 1 indicates that there are insufficient cash flows to cover operating expenses, debt service and the GFT payment. This coverage ratio can be improved by increasing net revenues or decreasing fixed charges.



Days Liquidity on Hand: Number of operating days liquidity on hand

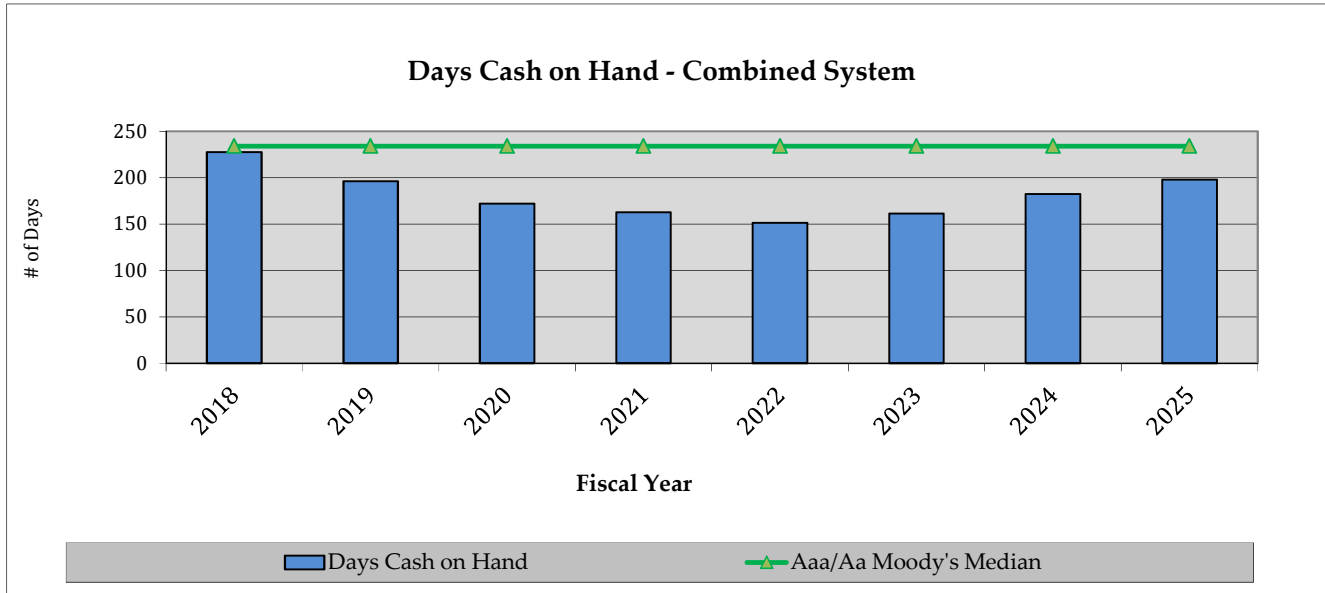
Calculation: Short term liquid assets divided by average daily operating expenses

This ratio is used as an indication of a company's liquidity. It shows how many days of operations can be funded from existing cash, investments, authorized but unissued commercial paper and available lines-of-credit. This ratio gives an indication of a company's flexibility and ability to respond to unexpected events. This is sometimes referred to as a company's agility.

In recent years, this metric has been at or above 200 days, which is consistent with GRU's peer ratings. Days Liquidity on Hand is projected to remain above 200 days over the planning horizon if additional commercial paper capacity is acquired.

Annual Operating Budget

Financial Reserves and Ratios



Days Cash on Hand: Number of operating days cash on hand

Calculation: Cash and cash equivalent assets divided by average daily operating expenses

This ratio is used as an indication of a company's ability to meet current liabilities with available cash measured at fiscal year-end. It shows how many days of operations can be funded from existing cash. This ratio gives an indication of a company's flexibility and ability to respond to unexpected events. This is sometimes referred to as a company's agility.

In recent years, this metric has been near 200 days. Over the forecast horizon, this ratio is projected to decline through 2022, then begin to rise and is projected to approach the 200 day level by 2025.