



Rating_Action: Moody's affirms GRU's (FL) Aa3 ratings, outlook stable

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Around \$1.7 billion of rated debt

New York, February 09, 2023 -- Moody's Investors Service has affirmed the Aa3 ratings assigned to Gainesville (City of) FL Combined Utility Enterprise's (Gainesville Regional Utilities (GRU)) Utilities System Revenue Bonds and the Variable Rate Utilities System Revenue Bonds. The outlook is stable.

RATINGS RATIONALE

The rating action was prompted by Moody's recent downgrade of Gainesville (City of) FL's issuer rating to Aa3 stable. The action on the City's rating concluded a review for possible downgrade initiated on November 3, 2022 in conjunction with release of the US Cities and Counties Methodology. Please see https://www.moodys.com/research/Moodys-downgrades-Gainesville-FLs-issuer-rating-to-Aa3-and-confirms-PR_907925270.

The affirmation of GRU's Aa3 ratings reflect its resilient service territory, diversified operations and a track record of raising rates as necessary. Financial performance in fiscal year 2022 (ending September 30, 2022) will likely be consistent with Moody's previous expectations based on unaudited preliminary results. Moody's expects that GRU will manage rate pressure and keep fixed charge coverage ratios around 1.4-1.5x (1.5x in fiscal 2021, 1.55x expected in fiscal 2022). The utility's customer base covers around 75% of the County's population including the City of Gainesville, FL.

The affirmation also takes into account the close connection between the utility and the City's finances. The City Commission ultimately approves utility rates and GRU makes sizeable annual transfers to the City's general fund each year (around \$36 million in fiscal 2022).

GRU's credit profile is constrained by a high leverage (84.3% adjusted debt ratio in fiscal 2021), lack of a debt service reserve requirement, high electric rates and the age of some of its generation assets. High annual transfers to the city's general fund have limited the utility's ability to apply material amounts of free cash flow generation toward rate reductions or investments into new generating assets.

Modest annual reductions of \$2 million in GRU's transfer to the city's general fund for fiscal years 2022-2027 and a debt defeasance plan will increase slightly financial flexibility going forward. However, cost pressures will remain, in particular in a volatile and rising natural gas price environment. In that regard, a key future challenge for GRU and the City will be to develop a plan to meet the City's self-imposed net zero emission targets by 2045 given a high reliance on natural gas.

RATING OUTLOOK

The stable rating outlook reflects Moody's expectation that GRU will maintain fixed charge coverage ratios in the 1.4-1.5x range and will maintain a good liquidity profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- A fixed charge coverage ratio maintained at or around 1.6x on a sustained basis
- Maintaining adjusted days cash on hand above 250 days
- Material and sustained reduction in leverage

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Cost pressures preventing timely future rate adjustments and fixed charge coverage ratios declining below 1.4x on a sustained basis and an inability to reduce leverage
- Deteriorating liquidity profile with adjusted days cash on hand materially below 175 days cash on hand
- More aggressive demands for transfers to the city's general fund

LEGAL SECURITY

The utilities system revenue bonds are secured by a senior lien pledge of net revenue of the combined utilities system of the City of Gainesville. The rate covenant and additional bonds test requires that net revenue equal to at least 1.25x aggregate annual debt service. The utility is required to fund monthly deposits to the debt service account, so funds are available in advance of the principal and interest dates. There has been no debt service reserve requirement since 2003, which is a credit weakness in GRU's bond resolution. For its variable rate utilities system revenue bonds, GRU has entered into separate standby bond purchase agreements with certain commercial banks to provide liquidity support in connections with tenders for purchase of the 2005 Series C, the 2006 Series A, and the 2012 Series B. The 2019 Series C are supported by a letter of credit (LOC) provided by Bank of America, N. A. (the Bank).

PROFILE

Gainesville Regional Utilities (GRU) is a municipally-owned utility system in Gainesville, FL with electric generation and transmission, natural gas, water, wastewater and telecommunication services. In fiscal 2021, GRU reported operating revenue of \$412 million and had 101,672 electric customers.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure published in January 2023 and available at <https://ratings.moodys.com/api/rmc-documents/398041>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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