

## RATING ACTION COMMENTARY

### Fitch Affirms Gainesville Regional Utilities, FL's Revs at 'A+'; Outlook Stable

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Fitch Ratings - New York - 22 May 2024: Fitch Ratings has affirmed the ratings on the following bonds issued by the city of Gainesville, FL on behalf of Gainesville Regional Utilities (GRU):

--Approximately \$1.8 billion in outstanding utility system revenue bonds at 'A+'.

Fitch has assessed the system's standalone credit profile (SCP) at 'a+'. The SCP represents the credit profile of the utility on a standalone basis, irrespective of its relationship with and the credit quality of the city of Gainesville, FL (Issuer Default Rating [IDR] 'AA/Stable').

The Rating Outlook is Stable.

## RATING ACTIONS

ENTITY / DEBT ⚡		RATING ⚡			PRIOR ⚡
Gainesville (FL) [Utilities]					
Gainesville (FL) /Utility System Revenues/1 LT		LT	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable

## VIEW ADDITIONAL RATING DETAILS

The 'A+' bonds rating and SCP reflect GRU's strong financial profile in the context of its very strong revenue defensibility and strong operating risk profile. The combined utility system's very strong revenue defensibility is supported by its monopolistic position as an essential services provider to a service area with favorable demand characteristics, coupled with autonomous rate-setting ability and

needs of system assets.

GRU's financial profile primarily reflects the utility's leverage ratio, calculated as net adjusted debt to adjusted funds available for debt service (FADS), which has historically exceeded 10x and increased to 11.9x in FY 2023, following a \$150 million debt issuance to fund capital projects through 2025.

Although leverage was elevated in FY 2023, Fitch believes the utility's financial plan, which includes base rate increases for the electric and wastewater businesses through 2027 and a significant reduction of the general fund transfer payment beginning in 2024, will result in near-term improvement in the utility's financial metrics.

Based on Fitch's scenario analysis, leverage is expected to decline below 10x in both the base case and rating case by FY 2024 and trend toward 9x thereafter. The current ratings and Stable Outlook remain tied to expectations of lower future leverage, which is contingent on GRU's ability to execute its current financial plan, including approved reductions to the utility's general fund transfer.

The rating also incorporates Fitch's expectation that the utility's transition in governance structure from city commission oversight to that of a five-member independent board should not preclude repayment of existing debt & contractual obligations, materially change the operational practices of the utility nor prevent the utility from executing its previously-established financial plan. The five-member independent board was appointed on May 16th, 2024.

## **SECURITY**

The bonds are secured by a first lien on the net revenues of GRU, which includes the combined electric, gas, water, wastewater and telecom systems (collectively, the system).

## **KEY RATING DRIVERS**

### **Revenue Defensibility - 'aa'**

#### **Very Strong Revenue Defensibility**

GRU's revenue defensibility assessment reflects the very strong revenue framework through the provision of monopolistic services to a growing service area, a strong local economy and independent ability to adjust rates. Customer growth trends have been solid and the city's unemployment rate remains below the national average.

The service territory extends into the county with roughly 40% of the customer base residing outside the city of Gainesville's limits. The customer base is well diversified and exhibits no concentration. The strong local economy is anchored by the University of Florida, but the university does not receive

income (MHI). Rates will rise over the next several years, which could pressure affordability over time. Retail rates for the other utility services are competitive.

## **Operating Risk - 'a'**

### **Low Cost Burden, Diverse Resources**

The utility's strong operating risk assessment reflects the electric system's low operating cost, which was 12.7 cents/KWh in FY 2023. Historically, GRU's operating cost burden has ranged between 12.5 cents/kWh and 13.5 cents/kWh, demonstrating relative stability of costs amid recent increases in fuel costs and natural gas prices in 2021 and 2022. GRU's diverse power supply portfolio includes owned resources of natural gas, diesel, coal, and biomass plants.

The utility continues to review its resource portfolio and will publish an integrated resource plan (IRP) later in 2024. The utility is actively reducing emissions by investing in its owned resources through modernization, gasification, and retrofits of diesel and coal units. GRU further maintains adequate water supply, and treatment capacity remains sufficient at both the water and wastewater facilities.

While the IRP will be published later this year, GRU's current estimated capital needs of \$570 million through 2028 are manageable and will be funded with a combination of remaining 2023 bond proceeds, excess cash flows, and future debt issuance.

## **Financial Profile - 'a'**

### **Strong Financial Profile; High Leverage to Decline**

GRU's financial profile is assessed as strong despite currently high leverage at 11.9x in fiscal 2023. Additionally, the strong financial profile also incorporates Fitch's view that combined utility systems have additional leverage headroom relative to electric-only service-providers. Coverage of full obligations remains in excess of 1x at 1.48x, and liquidity adequate at 193 days cash on hand. When factoring GRU's lines of credit, the liquidity cushion rises to 325 days.

Leverage increased from 9.5x in 2022 to 11.9x primarily due to \$150 million in debt issuance to fund capital needs. Despite the elevated leverage metric in 2023, Fitch anticipates that leverage will decline below 10x based on improved financial performance and limited future debt issuances. GRU's forecast includes electric & wastewater base rate increases, that are subject to board approval, through 2027.

Based on future rate increases, coupled with significantly reduced general fund transfers beginning in 2024, the utility expects to generate excess cash flow that will primarily be used to accelerate debt

There are no additional asymmetric risks affecting the rating.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- Failure to reduce leverage to near or below 10.0x on a sustained basis in Fitch's rating case scenario;
- Ineffective collaboration between GRU and the new board resulting in a failure to implement planned rate increases, and reductions in the general fund transfer, and/or deviation from existing financial plan or policies that weakens financial performance
- Sustained increase in the operating cost burden to above 16 cents / kWh that leads to a lower operating risk profile assessment.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

- Further deleveraging that leads to a leverage ratio consistently below 8.0x in Fitch's rating case scenario.

## **PROFILE**

GRU provides retail electric, gas, water, wastewater and telecommunications services to approximately 281,000 total customers across the five utility systems. GRU's vertically integrated electric utility is the largest system, accounting for over two-thirds of total system revenues. The water (8% of total revenues), wastewater (11%) and gas systems serve territories similar to (and overlapping) the electric system. Each utility is self-supporting and exhibits no customer concentration.

Fitch considers GRU to be a related entity to the city of Gainesville for rating purposes as GRU is a utility enterprise fund of the city and makes annual transfer payments to the city's general fund. The city is the issuer of GRU's bonds, but the credit quality of the city does not currently constrain GRU's ratings. However, as a result of being a related entity, GRU's ratings could become constrained by a material decline in the general credit quality of the city.

GRU was previously governed by the Gainesville City Commission, but following the passage of CS/HB 1645, a five-member independent board known as the Gainesville Regional Utilities Authority (GRUA) was established. The GRUA board was most recently appointed on May 16th 2024 and will assume the previous responsibilities of the commission including approving rates for GRU, collaborating on the budgeting process.

## **Sources of Information**

Information was obtained from the following sources: GRU's 2023 Annual Report, Fitch's 2023 Rating Report, and the Gainesville Regional Utilities Authority (GRUA) website.

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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the rating process, or provide additional information, beyond the issuer's available public disclosure.

## **APPLICABLE CRITERIA**

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

[U.S. Public Power Rating Criteria \(pub. 08 Mar 2024\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 [\(1\)](#)

## **ADDITIONAL DISCLOSURES**

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Gainesville (FL)

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