MOODY'S
RATINGS

CREDIT OPINION
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Gainesville (City of) FL Combined Util. Ent.

Update to credit analysis

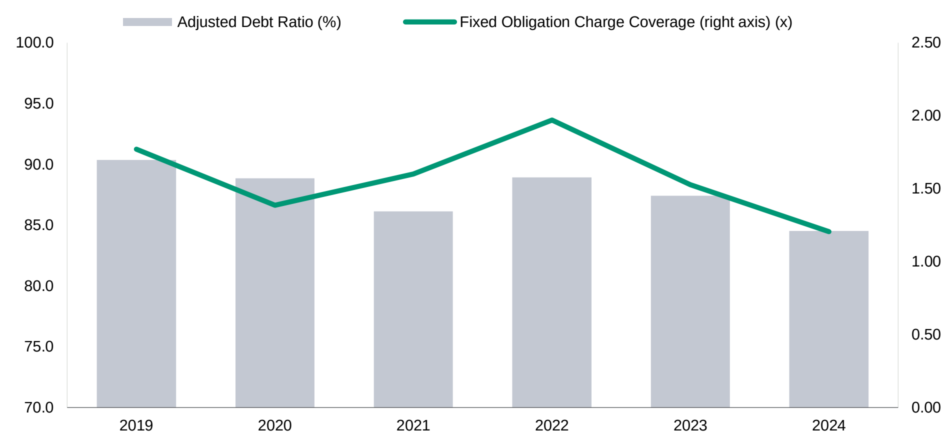
Summary

The City of Gainesville (FL) Combined Utility Enterprise's (GRU) credit profile (utility system revenue bonds, Aa3 stable) benefits from a resilient service territory, diversified operations and track record of raising rates as necessary. The credit quality considers the utility's high leverage levels and elevated rates compared to the state average.

The credit quality also reflects ongoing legal challenges related to the transition to a new state-appointed board. Governance changes in 2023 transferred control to this board, which has prioritized debt reduction, a credit positive consideration, while striving to keep rates — already considered high — affordable. As a result, annual transfers to the city's general fund were materially reduced to $8.5 million in fiscal 2025 from an average of $37.1 million (2019–2023). The utility has also implemented cost-cutting measures and is currently reassessing investments in renewable generation that were previously planned to achieve the city's self-imposed net zero emission target by 2045.

Financial performance remains adequate for the rating category. From fiscal 2022–2024, fixed obligation charge coverage (FOCC) averaged 1.6x. In fiscal 2024 (ending September 30, 2024), GRU reduced debt by $75 million owing partly to early redemptions which caused FOCC to decline to 1.2x. The adjusted debt ratio improved to 85% in 2024 from 90% in 2019, indicating progress on the utility's debt reduction program. Approximately 84% of GRU's energy is from natural gas. The minimal coal exposure is positive for GRU's carbon risk profile, although future risks linger because of ongoing natural gas reliance.

Exhibit 1
GRU's historical coverage and leverage levels



Source: Moody's Ratings

Credit strengths

» Resilient service territory and diversified operations as a combined utility enterprise

» Track record of raising rates when necessary

» Good liquidity profile

Credit challenges

» High leverage levels

» Affordability concerns because of high electricity rates compared to the state average

» Ongoing legal challenges transitioning to the new State-appointed board

» No debt service reserve fund (DSRF) requirement

Rating outlook

The stable rating outlook reflects our expectation that GRU will maintain FOCC ratios in the 1.4-1.5x range, while maintaining strong liquidity, and leverage levels will continue to gradually decline. The stable outlook also reflects our expectation that the transition to the state-appointed board to progress without adversely affect GRU's credit profile.

Factors that could lead to an upgrade

» FOCC ratios maintained at or around 1.6x on a sustained basis

» Maintaining adjusted days cash on hand (DCOH) above 250 days

» Material and sustained reduction in leverage

Factors that could lead to a downgrade

» Declines in FOCC ratios to below 1.4x on a sustained basis

» Declines in DCOH to below 175 days

» Inability to reduce leverage

» More aggressive demands for transfers to the city's general fund

» Short-term: The VMIG1 ratings could be downgraded if Moody's were to downgrade the short-term rating of the banks providing standby purchase agreements (SBPAs) to the variable rate debt

Key indicators

Exhibit 2
Gainesville (City of) FL Combined Utility Enterprise

	2020	2021	2022	2023	2024
Total Sales (mWh)	1,800,531	1,796,199	1,821,420	1,773,021	1,825,341
Debt Outstanding ($'000)	1,664,970	1,733,640	1,731,945	1,849,115	1,773,860
Adjusted Debt Ratio (%)	88.9	86.1	88.9	87.4	84.5
Total Days Cash on Hand (days)	178	171	123	158	195
Adjusted Days Liquidity on Hand (incl. Bank Lines)(days)	429	413	306	372	408
Debt Service Coverage (x) (Bond Ordinance Basis - All Debt)	1.85	1.96	1.97	1.7	1.35
Fixed Obligation Charge Coverage (if applicable)(x)	1.39	1.60	1.97	1.53	1.21

Fiscal year ends September 30. All ratios are as defined and as adjusted by Moody's Ratings. Adjusted debt outstanding and adjusted debt ratio includes Moody's adjusted net pension liability (ANPL) for GRU.
Source: Moody's Ratings

Profile

Gainesville Regional Utilities (GRU) is a municipally-owned utility system in Gainesville, FL (issuer rating Aa3). Gainesville Regional Utilities Authority (GRUA) is the governing body, a 2023 governance change from the Gainesville City Commission to the Authority. GRU provides electric generation and transmission, natural gas, water, wastewater and telecommunication services. In fiscal 2024, GRU reported operating revenue of $434 million and had 104,678 electric customers. The water and wastewater systems served an average of 75,844 and 67,790 customers, respectively, in fiscal 2024. The gas system served an average of 37,440 customers in fiscal 2024. GRU.Com provided an average of 446 internet access customer connections in fiscal 2024.

Detailed credit considerations

Revenue Generating Base

Resilient service territory and diversified operations

The electric facilities of the system currently serves 73% of the population of Alachua county, including the entire city. The service territory excludes the University of Florida campus.

The economic base of Gainesville consists primarily of light industrial, commercial, healthcare and educational activities. Gainesville's economy is anchored by the University of Florida (UF) and Shands Teaching Hospital and Clinics, Inc. (A3 stable). The city's top employers which are dominated by government and healthcare institutions include University of Florida and University of Florida Health (27,590 employees total), the Veterans Affairs Medical Center (3,438 employees), the Alachua County School Board (4,634 employees), and the city itself including the utility system (2,265 employees). The city's unemployment rate as of April 2025 was 4.3%, above the 3.5% for the state. Gainesville has below average median household income of just 61%, a figure which reflects the large student population.

GRU has a diverse business mix, with 30% and 33% of its operating revenue and net revenue, respectively, coming from other utility services such as water, gas, wastewater and telecommunication services. We view this degree of diversity as positive to the credit profile as it can provide more stability to the overall revenue stream, offsetting weather-related and seasonal volume fluctuations.

Ongoing legal challenges transitioning to the new State-appointed board

GRU has undergone significant governance changes recently. In July 2023, Florida Governor Ron DeSantis signed Florida House Bill 1645, transferring control of GRU from the Gainesville City Commission to a newly created Gainesville Regional Utilities Authority (GRUA) led by a five-member board appointed by the governor. This shift sparked legal challenges from local groups and the City of Gainesville, which led to a city referendum in November 2024. About 73% of referendum voters approved an amendment to the City of Gainesville Charter deleting Article VII, which had established GRUA in its entirety. In April 2025, a judicial ruling upheld the authority of the GRUA, nullifying the referendum because of the unclear ballot language. Although GRUA remains in control of the utility for now, legal disputes remain active as the ruling leaves the door open for a new worded referendum.

Under the new leadership, the board has focused on reducing the utility's elevated debt levels while maintaining stable rates. As part of this initiative, the utility intends to substantially reduce annual transfers to the city's general fund, which is expected to strengthen its financial position. From fiscal 2019 through 2023, annual transfers from the utility to the city had been elevated, averaging $37 million (nearly 9% of GRU's annual operating revenue). In fiscal 2024, transfers stepped down to $15 million (3.5% of GRU's operating revenue). The reduction in transfers reflected a city-approved new formula for general fund transfers (GFT). For fiscal 2025 budget, the new board decided to not implement the previously approved formula, but instead, it approved an additional reduction to $8.5 million annually, a level that is expected to remain stable over the next ten years.

To support the deleveraging plan, the new board is also focused on generating O&M savings and on managing commodity risks. GRU executed two natural gas prepayment transactions, equal to 50% of the utility's average daily projected natural gas load. Fuel cost savings for the three transactions are projected at $4.6 million per year over the next five years.

The board is revisiting the utility's Integrated Resource Planning (IRP), which was previously focused on significant investments in renewable generation to meet the city's self-imposed net zero emission targets by 2045. However, affordability and energy security concerns will lead to a more modest addition of renewable generation in GRU's energy supply mix going forward. During fiscal 2024, GRU decided to terminate the 50 MW solar power purchase agreement (PPA) with Origis Energy because of recent surge in construction-related costs. The termination of the PPA had no financial impact to GRU.

Reduced coal exposure has lowered carbon transition risk, but risks remain because of reliance on natural gas

Reduced coal exposure has improved GRU's carbon transition risk profile, though future risks linger because of ongoing natural gas reliance. In fiscal 2024, coal only represented 0.1% of the total energy mix, versus 14% in 2021. In 2022, GRU completed the conversion of the 232 MW Deerhaven coal-fired plant (DH 2) to dual fuel operations so that it can run on natural gas. As such, GRU's energy supply system comes predominantly from natural gas-fired generation, which accounted for 83.7% of GRU's total energy mix in fiscal 2024, followed by biomass (15.3%), solar (0.8%), coal (0.1%) and landfill gas (0.1%).

GRU owns four generating facilities: J.R. Kelly Station (112 MW net summer capability), Deerhaven Renewable (biomass) plant (105 MW net summer capability), Deerhaven Generating Station (DGS, 414 MW net capability coal/natural gas) and South Energy Center (11.2 MW). In total, GRU has access to around 642 MW (net summer capacity) of owned resources, versus its peak demand of around 405 MW in fiscal 2024.

Although GRU currently has a long position on power supply, it will need to carefully manage the expected retirement of most of the DGS units in the next ten years. Units 1 and 2 (both steam turbines that jointly account for 308 MW of net summer capability) are being evaluated for refurbishment, so their expected retirement dates (2031 and 2027, respectively) may be deferred.

Financial Operations and Position

Reduced general fund transfers help alleviate cost pressures and the need for major rate increases in the near term

GRU's residential and commercial electricity rates exceed state averages because of its high fixed cost base, transfers to the city's general fund and high volatility in natural gas prices. According to EIA data, in 2023 residential rates were 11.7% above the state average and total rates across all sectors (including commercial and industrial) were 28.1% above the state average. However, the EIA figures reflect average electricity rates, while GRU rates include multiple utility services: electricity, water, wastewater, gas and telecommunication services. GRU's rate competitiveness is more favorable when looking at the average customer bill for all services including water, wastewater, gas and telecommunication services.

Under the prior governance structure, GRU demonstrated a willingness to adjust rates as necessary, which we expect will continue under current GRUA governance. The last rate increase occurred in fiscal 2023 when electric and wastewater rates increased by 3% and 5%, respectively. There were no base rate increases in fiscal 2024 and none are planned for fiscal 2025. A significant reduction in the GFTs, as well as reductions in the O&M and capex budgets, contributed to GRUA's decision to keep rates flat in fiscals 2024 and 2025. For fiscal 2026, however, GRUA approved rate increases of 1.75% and 1%, respectively, for water and wastewater. The rate increase will support increased capital spending.

Modest fixed charge coverage ratios support debt reduction program

GRU has maintained solid financial performance over the past three years, a trend which we expect to continue. From fiscals 2022 through 2024, the FOCC ratio averaged 1.6x, while the adjusted debt ratio averaged 87%. Leverage, while high, is gradually declining. At fiscal year end 2024, the adjusted debt ratio stood at 85%, down from 90% at fiscal year end 2019.

High debt amortization contributed to a lower FOCC of 1.21x in fiscal 2024 relative to 1.53x in 2023. Excluding early redemptions and defeasances, FOCC would have been approximately 1.64x.

We expect GRU to continue managing cost pressures effectively and to maintain modest FOCC ratios around 1.3x in support of its debt reduction program. When considering only scheduled debt amortization, coverage is projected to remain between 1.6x and 1.7x.

Liquidity

Liquidity is robust with around $137 million of unrestricted and discretionary reserves as of fiscal year end 2024. DCOH was 195 days and adjusted days liquidity on hand was 408 days including the revolving credit facility. In addition to unrestricted cash reserves, GRU holds various internally restricted cash reserves for utility plant improvements and construction.

Debt and Other Liabilities

Debt structure

At fiscal year end 2024, GRU had around $1.7 billion of utility system revenue bonds outstanding, down from $1.8 billion at fiscal year end 2023. GRU's debt ratio remains high, with an adjusted debt ratio of 85% in fiscal 2024. We expect debt to gradually decline over time as debt amortizes. GRU also seeks to implement a debt reduction plan which targets a net debt reduction of $395 million over the next ten years. Most of GRU's capital investments are geared toward improving the electric and wastewater systems.

Structural Considerations

The utility 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 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 DSRF requirement since 2003, which is a credit weakness in GRU's bond resolution.

For the Series 2012 B bonds, the VMIG-1 rating is derived from the credit quality of the bank (Truist Bank, P-1) as provider of the SBPAs and Moody's assessment of the likelihood of an early termination or suspension of the SBPAs without a final mandatory tender. Events that would cause termination or suspension of the bank's commitment under the SBPA without a mandatory purchase funded by a draw on the SBPA are directly related to the credit quality of GRU. Accordingly, the likelihood of any such event is reflected in the Aa3 long-term rating assigned to the bonds.

The 2019 Series C bonds are supported by a letter of credit (LOC) from Bank of America, NA.

Debt-related derivatives

GRU uses interest rate swaps to hedge its variable rate exposure. Around 90% of its debt is either fixed rated debt or synthetically fixed rate debt through the use of interest rate swaps.

Most GRU's swaps do not require the posting of collateral and are with creditworthy counterparties. However, some swaps require collateral posting at certain mark-to-market levels and include rating triggers. An unexpected termination of all or some swaps could require additional liquidity sources.

Pensions and OPEB

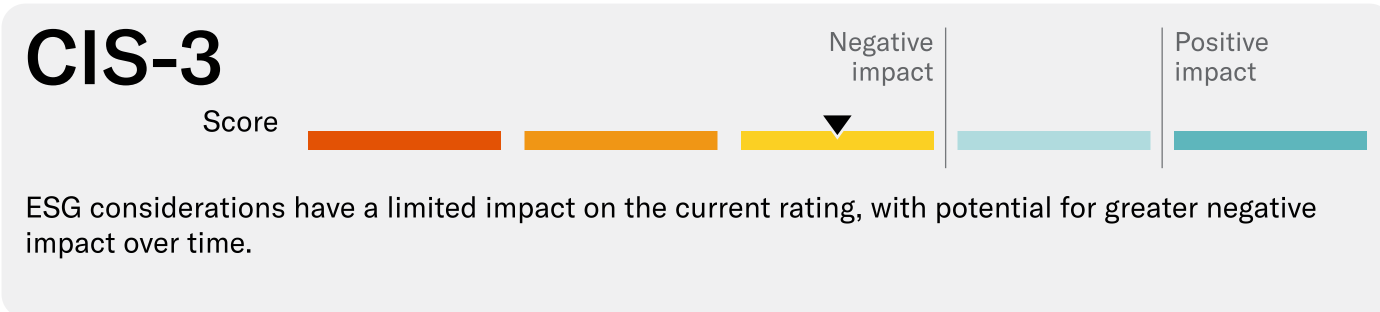
The city of Gainesville has a defined benefit pension plan which includes permanent employees of GRU. GRU's share of the reported net pension asset was $21.4 million at fiscal year end 2024. The net pension asset figure excludes the outstanding principal on $111 million of pension bonds issued in 2020. The reported net pension asset calculation was based on a discount rate of 7.75%.

Moody's adjusted net pension liability (ANPL) was around $135 million at fiscal year end 2024. The ANPL figure includes the outstanding principal on $111 million pension bonds issued in 2020. The ANPL calculation was based on a discount rate of 4.92%.

ESG considerations

Gainesville (City of) FL Combined Util. Ent.'s ESG credit impact score is CIS-3

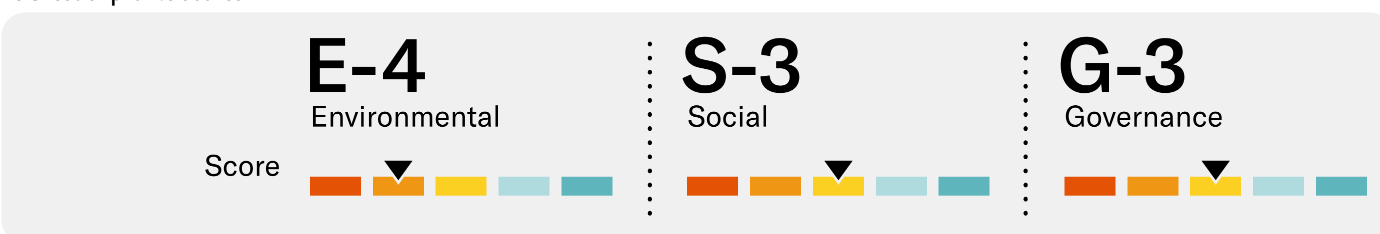
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Gainesville (City of) FL Combined Utilities Enterprise's (GRU) **CIS-3** indicates that its ESG attributes have limited impact on the current credit rating with potential for greater negative impact over time. The score reflects highly negative exposure to environmental considerations, and moderately negative exposure to social risk and governance risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

GRU's **E-4** score mostly reflects its exposure to physical climate risks resulting from hurricanes, storms and tornados across its core service territory in Florida. The environmental challenges created by such catastrophic events can create the need for GRU to incur costs to purchase replacement power, to repair assets and restore service, and to compensate third parties. The utility also has moderately negative exposure to carbon transition risk related to its carbon emitting generation capacity resources. As of fiscal 2024, natural-gas fired generation accounted for almost 84% of the total energy mix. Rounding out GRU's environmental risks are its neutral to low scores for water management, natural capital and waste and pollution risks.

Social

GRU's **S-3** reflects its residential and commercial electricity rates well above the state average. Exposure to social risks is driven by a risk fundamental to utilities that demographic and societal trends could include public pressure around reliability, affordability, utility reputation or environmental concerns.

Governance

GRU's **G-3** reflects the limited track record of the newly created state-appointed board, as well as ongoing legal disputes to transition to this new governance structure. GRU has experienced governance changes following the 2023 passage of Florida House Bill 1645, which shifted control from the Gainesville City Commission to a new state-appointed board, the Gainesville Regional Utilities Authority (GRUA). This transition triggered legal challenges and a 2024 city referendum opposing the change, but a judicial ruling in April 2025 nullified the referendum owing to unclear ballot language thereby upholding GRUA's authority. Legal disputes remain active as the ruling leaves the open the possibility of a newly worded referendum. Under the new leadership, GRUA has prioritized debt reduction and financial sustainability, both credit positive considerations, and significantly lowering annual transfers to the city's general fund, which has historically been elevated.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The principal methodology used in this rating was US Public Power Electric Utilities with Generation Ownership Exposure, published January 2023.

Credit metrics in the scorecard are based on the three year average for the period fiscal 2022-24. The scorecard-indicated outcome is A1, one notch below the assigned rating of Aa3.

The assigned Aa3 rating places more emphasis on the expectation of gradual deleveraging, which should improve financial metrics.

Exhibit 5

US Public Power Electric Utilities with Generation Ownership Exposure
Gainesville (City of) FL Combined Utility Enterprise

Factor	Subfactor	Score	Metric
1. Cost Recovery Framework Within Service Territory	Monopoly with unregulated rate setting. Service area characteristics- GO rating. Customer base stability	Aa	
2. Wllingness and Ability to Recover Costs with Sound Financial Metrics	Rate setting record. Timeliness of recovery. Political risk. Local Government Supportiveness. General fund transfer policy	Aa	
3. Generation and Power Procurement Risk Exposure	Diversity of Supply. Reliability and cost of supply & distribution	A	
4. Competitiveness	Rate Competitiveness (compared to state average)	Baa	
5. Financial Strength and Liquidity	a) Adjusted days liquidity on hand (3-year avg) (days)	Aaa	362
	b) Adjusted Debt ratio (3-year avg) (%)	Baa	87.0%
	c) Adjusted Debt Service Coverage or Fixed Obligation Charge Coverage (3-year avg) (x)	A	1.57x
Preliminary Grid Indicated Outcome from Grid factors 1-5		**A2**	
		Notch	
6. Operational Considerations	Construction risk, whether the utility is a vital service provider	0.0	
7. Debt Structure and Reserves	Debt service reserves, special borrowing arrangements and debt structure	-0.5	
8. Revenue Stability and Diversity	Exposure to wholesale power markets, customer concentration, diversity from combined utility operations	0.5	
Grid Indicated Outcome:		**A1**	

Source: Moody's Ratings

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