

RATING ACTION COMMENTARY

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

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Fitch Ratings - New York - 09 May 2025: 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 \$1.74 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

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The 'A+' bond ratings and 'a+' 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 relatively affordable rates.

The system's strong operating risk profile reflects a stable and low operating cost burden generated by a diverse, mainly owned resource base and a capital spending pattern that is commensurate with the moderate lifecycle investment 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 exceeded 10x in four of the past five years and peaked at 11.9x in FY 23. In FY 24, leverage declined to 8.8x following a significant reduction of the utility's general fund transfer payment, accelerated debt amortization, and a lower pension liability.

Based on Fitch's scenario analysis through FY 29, leverage is expected to remain below 9.3x in the base case and below 10x in the stress case, which is the rating case. Leverage in the rating case improves throughout the forward look and trends closer to 9x by 2028. The current ratings and Stable Outlook remain tied to expectations of leverage remaining below 10x, which is contingent on GRU's ability to execute its current financial plan, including maintenance of strong operating income levels and the utility's lower general fund transfers approved last year.

The rating continues to incorporate Fitch's expectation that the utility's governance transition from city commission oversight to a five-member independent board will not impede the repayment of existing debt and contractual obligations, materially alter the utility's operational practices, or hinder the execution of its previously established financial plan. Although the transition has faced legal challenges, some of which remain unresolved, the board has been functioning effectively since its

appointment on May 16, 2024. Fitch remains attentive to the outcomes of these legal proceedings and their potential impact on the utility's governance and operational stability.

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 customer base, a strong local economy anchored by the University of Florida (UF; AA+/Stable) and the 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 39% 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, while anchored by UF, is well diversified among the healthcare, higher education, and light industrial and commercial sectors. The university does not receive electric service from GRU.

Residential electric rates remain well above the state average, but electric charges are affordable especially when compared to the broader service territory's somewhat higher median household 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 burden, which was 10.4 cents/KWh in FY 2024. After averaging 13.2 cents/kWh between 2020 and 2023, GRU's operating cost burden decreased in FY 24 primarily due to a 23% year-over-year decline in fuel expense. GRU's diverse power supply portfolio includes owned resources of natural gas, diesel, coal, and biomass plants.

The utility is actively reducing carbon 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.

GRU's estimates capital needs of \$613 million through 2029, marking a \$130 million increase compared to the previous five years. Fitch believes the utility's spending needs are manageable and will be funded with a combination of grants, excess cash flows, and \$191 million in planned debt issuances. Major capital projects include upgrades to GRU's wastewater treatment plant and improvements and additions to the electric and water businesses.

Financial Profile - 'a'

Strong Financial Profile; Leverage to Remain Supportive of the Rating

GRU's financial profile is assessed as strong despite historically elevated leverage and incorporates Fitch's view that combined utility systems have additional leverage headroom relative to electric-only service providers. Furthermore, the utility's leverage ratio improved to 8.8x at YE 2024, and is expected to remain near these levels going forward based on GRU's financial forecast. Coverage of full obligations (COFO) and liquidity remain neutral to the assessment. COFO has averaged 1.65x over the past five years and totaled 1.69x in 2024. Unrestricted cash and investments totaled 221 days cash on hand in 2024. When factoring GRU's \$200 million in undrawn lines of credit, the liquidity cushion rises to 513 days.

Fitch anticipates leverage will remain below 10x in both its base and rating case scenarios based on continued stable financial performance and manageable future debt issuances. The improvement in performance in FY 24 was driven by a reduced general fund transfer payment (\$15.3 million) which, along with higher operating income for the years, led to an increased in

FADS and accelerated amortization of debt — key strategic initiatives outlined in the utility's financial plan. Fitch expects the utility will continue to follow its financial plan.

Asymmetric Additional Risk Considerations

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 sustain leverage near or below 10.0x on in Fitch's rating case scenario;
- Failure to implement or maintain planned rate increases, reductions in the general fund transfer, and/or significant deviation from GRU's existing financial plan or policies that weakens financial performance;
- Sustained increase in the operating cost burden to above 17 cents/kWh that leads to a higher 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;
- Sustained decrease in GRU's operating cost burden leading to an improved operating risk profile assessment.

PROFILE

GRU provides retail electric, gas, water, wastewater and telecommunications services to approximately 288,000 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 appointed on May 16, 2024 and assumed the previous responsibilities of the commission including approving rates for GRU, collaborating on the budgeting process.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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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APPLICABLE CRITERIA

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 10 Jan 2025\) \(including rating assumption sensitivity\)](#)

[U.S. Public Power Rating Criteria \(pub. 24 Feb 2025\) \(including rating assumption sensitivity\)](#)

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, v3.1.0 ([1](#))

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Gainesville (FL)

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