



**Proposed  
Annual Operating  
and Capital Budget**

**Budget Years 2015-16**

## **Executive Summary**

Attached is GRU's proposed annual Fiscal Year 2015 (FY15) capital and operating budget. Staff's goal was to submit a budget that delivered on our mission "to provide safe, reliable, competitively priced utility services in an environmentally responsible manner to enhance the quality of life in our community."

Because of the many challenges facing the utility in all systems, this required a great deal of deliberation and a careful, measured approach to balance financial strength and efficiency of operations with customer demand for reliability and excellent service.

### **The Challenges**

Slow to no growth in sales, along with increasing expenses across all systems continued to drive upward rate pressure. However, recognizing that trend, staff identified and implemented expense reductions and sought additional revenue opportunities for FY15 with the goal of mitigating rate increases developed during the FY14 budget.

## **System Summaries**

### **Electric**

Electric sales have declined significantly since 2006, in fact, sales in 2013 were nearly the same as they were in FY 2000 and remain flat. These flat sales are due to a number of factors such as economic conditions, mild weather, slow customer growth, efficiency improvements, and customer response to previous pricing signals. The decline in sales coupled with the addition and expense of new generation, in the form of the GREC Purchase Power Agreement (PPA), resulted in a 2014 projected increase of \$9.85 in FY15, or \$151 bill for a customer using 1,000 kWh. Because GRU's rates are already among the highest in the state, in November 2013, staff began immediate steps to mitigate this upward rate pressure. These efforts included working with the City Manager to reduce the general fund transfer, making budget reductions across all systems, lowering fuel expenses, eliminating raises, un-funding or not filling 59 budgeted positions, and increasing revenue through wholesale electric sales and the sale of un-used system assets such as the system control center at NW 43<sup>rd</sup> Street and NW 53<sup>rd</sup> Avenue.

As a result of these efforts, staff is recommending a lower price increase for FY15 of \$2.25 for a customer using 1,000 kWh, compared to the \$9.85 increase anticipated as a result of the FY14 budget process. Rates for business customers are also proposed to increase substantially less than originally projected. The proposed business customer increases vary from 1.2 percent to 2.9 percent depending on the usage level and rate category.

### **Natural Gas**

Natural gas sales are forecast to be lower in FY15 than previously forecast. Reasons for the lower forecast are anticipated slower customer growth and a declining average use across the customer base. At the same time, expenses to maintain and deliver natural gas have increased. The gas commodity

prices have also increased and the recommended purchased gas adjustment (PGA) reflects this increase. With these circumstances contributing to upward rate pressure, adjustments were made to the FY15 budget to cut expenses. However, overall, gas expenses are still increasing. The natural gas system also took steps to boost future revenue by signing franchise agreements with the City of Williston and the City of Archer.

In FY15, under the proposed budget, residential customers would see a \$2.36 increase at the standard industry compare of 25 therms. Natural gas business customers will also see an increase ranging from 6.8 percent at 50 therms to 9.9 percent at 30,000 therms. Even with these adjustments, GRU's natural gas prices should remain among the lowest in Florida.

### **Water and Wastewater**

The theme of declining sales continues with the water and wastewater systems as customers use less water in response to price signals, watering regulations, weather impacts and conservation messaging. Regulatory requirements are also pushing costs higher. Some of those regulatory obligations are driven by the Consumptive Use Permit (CUP) application and future compliance with the Minimum Flows and Levels (MFLs), biosolids dewatering, and roadway utility relocations which can carry significant costs.

In response to these challenges, the water and wastewater systems reduced discretionary operating and labor expenses to help mitigate rate increases. Also, as a result of the Baker Tilly cost-of-service study and their firm's recommendation to more equitably charge customers that use water, staff is proposing a Multi-Family rate (MF). This rate would help equalize the revenue across customer classifications to better recover the cost of providing services to multi-unit dwellings. Staff is recommending implementing the rate in a two-year, stepped approach so that multi-unit customers can incrementally begin passing those costs along to tenants.

Based on the recommendation of this new rate category, staff is providing two options for City Commission consideration: one that includes an adjustment for the MF rate and one that does not include this rate. Under these two scenarios, residential customers using 7,000 gallons of water per month would see an increase of \$0.50 with the MF rate included or \$1.00 without the MF rate. Business customers using 30,000 gallons per month will see an increase of 1.38 percent with the MF rate or 2.72 percent without MF.

With similar influences on the wastewater system, but mainly driven by regulatory issues, residential wastewater customers will see an increase of \$1.95 for 7,000 gallons under the proposed budget, while business customers will see an increase of 3.57 percent for 30,000 gallons.

### **GRUCom**

Pursuing new business opportunities from non-traditional revenue sources can help improve GRU's financial strength, hold down costs to all customers, and must be part of our long-term strategy in order to remain competitive.

GRUCom is the Gainesville area's only all-fiber-optic network and has announced plans to provide one gigabit service to existing GATOR.Net locations as plans are developed to expand the service in the community during the next year. However, the telecommunications market is highly competitive and profits have flattened over time as prices have become more competitive throughout the industry. Fortunately, the services provided by GRUCom, are targeted and have been well received by customers. Fiber transport and data services continue to be in high demand by personal communication service providers, other carriers and local businesses. Wireless carriers are continuing to increase their data services as customer demand dictates. The network upgrades and additions to the wireless towers in Alachua County have GRUCom well positioned to meet bandwidth needs as customer demand increases.

**South Energy Center Expansion**

The South Energy Center (SEC) currently serves the UF Health Cancer Center and, as required in the contract with UF Health, GRU is exploring options to serve a new \$420 million neurosurgery and cardiovascular tower expansion projected to open in 2017. The SEC will serve the new tower with electricity, emergency power, chilled water, hot water and medical gas infrastructure through a contractual relationship that benefits both UF Health and GRU. Several options are being evaluated to serve the new tower with capital costs estimates in the range of \$17 million to \$25 million. Funds for expansion are included in the proposed capital budgets.

**Summary**

The chart below illustrates the residential price changes being recommended by staff and described above. These changes use the traditional industry compares for a residential customer for fiscal years 2014 (FY14) and FY 15.

System	Usage Level	July 2014 Bill	Base Rate Change	Fuel Change	Proposed FY15 Bill
Electric	1,000 kWh	\$139.15	(\$6.75)	\$ 9.00	\$141.40
Water*	7,000 gallons	\$ 26.55	\$ 0.50		\$ 27.05
Water	7,000 gallons	\$ 26.55	\$ 1.00		\$ 27.55
Wastewater	7,000 gallons	\$ 48.80	\$ 1.95		\$ 50.75
Gas	25 therms	\$ 32.83	\$ 0.86	\$ 1.50	\$ 35.19
*Assumes Multi-family Water Rate adopted July 2014 Electric and Gas Bills are based on FA of \$0.069/kWh and PGA of \$0.40/therm October 1, 2014 Electric and Gas Bills are based on FA of \$0.078/kWh and PGA of \$0.46/therm					

Although the economy is improving, a dramatic upswing in sales is not expected in the near term. 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. It will continue to be a challenge to maintain the utility's excellent financial strength ("Aa2" stable rating from Moody's, "AA" with a stable outlook from Standard and Poor's, and an "AA-" stable rating from Fitch) with the need to provide reliable and competitively priced utility services. It is critical during these challenging times that staff remain focused on the priorities set through the strategic planning process and continue to monitor expenses and improve efficiencies while providing excellent service delivery. Maintaining this balance will be critical to GRU's long term success.