



February 4, 2021

Edward J. Bielarski
General Manager
Gainesville Regional Utilities

P.O. Box 147051 Station A110
Gainesville, FL 32614-7051

301 SE 4th Avenue
Gainesville, FL 32601

Dear Mr. Bielarski:

Subject: GRU General Fund Transfer Policy Review

Thank you for the comments and explanations you provided in your January 30 email relative to my letter of January 29. Even though we have not received the technical comments from your staff mentioned in that email, we felt it would be helpful for us to communicate further at this time regarding the General Fund Transfer (“GFT”) Policy review.

The Statement of Work (“SOW”) in GRU’s RFP, which is a part of our professional services agreement with the City and GRU (Contract No. 2020-103, hereinafter, the “Contract”), specifically provides: “Gainesville Regional Utilities (GRU) and General Government of the City of Gainesville are requesting proposals from firms to assist with the current General Transfer Fund (GFT)” so we believe the intention was for us to weigh input and direction from both the City and GRU. Moreover, the SOW elaborated on the competing considerations by stating:

1. GRU’s recent financial results and projections reflect financial constraints in adequately covering the payment without debt restructurings or reductions in reserves.
2. General Government relies on the payment to remain the same and/or increase to adequately fund the aforementioned City services.

Accordingly, nFront Consulting has approached the work with the understanding we are to independently advise both GRU and the City with respect to this matter. To us, this means we should identify a mechanism that balances the need to improve GRU’s financial standing with the City’s need to rely on a GFT payment that remains relatively stable in the most effective manner based on our analysis and experience. Accordingly, we have consistently worked to do so throughout this assignment.

In the Final Report¹ dated January 25, 2021, nFront concluded that Option 2, labeled Percent of UPIF Calculation, “most effectively balances Certainty of Funding and Ability to Fund”² considerations as

¹ nFront Consulting specifically does not provide advice with respect to municipal financial products or issuance of municipal securities to the extent such services are required to be provided by a registered municipal advisor. For services related to these types of financial products or securities, Consultant recommends that Client obtain representation from and rely on the advice of an independent registered municipal advisor. The Final Report does not provide such advice.

² Please see Slide 27.

compared to the other eight (8) alternative general transfer mechanisms evaluated and discussed with the GRU/City project team.

Under Option 2, the GFT budgeted for each year would be 41% of GRU's Net Revenues as determined under the Bond Resolution, less Senior Lien Debt Service, for the prior year, which for ease of reference I will refer to below as "Net Available Revenue." Under Option 2, setting aside the one year lag for a moment, 41% of Net Available Revenues would be transferred to the General Fund, 50% to the Utility Plant Improvement Fund ("UPIF") as required by the Bond Resolution, and the remainder would remain with GRU for the payment of subordinate lien debt and other uses, including increasing cash reserves. Another way to express Option 2 would be to state that 82% of the revenue remaining after operating expenses determined per the Bond Resolution, senior lien debt service, and UPIF deposits in the prior year would be transferred to the City's General Fund in the current year.

The following Table 1 shows projections of the GFT under Option 2 based on the Budget projections provided by GRU³. The UPIF and GFT amounts shown on Lines 4 and 5 are computed based on the prior year's Net Available Revenue. Line 7 shows the portion of current year revenue that would be projected to remain after the UPIF and GFT transfers and payment of all debt service. The positive values on Line 7 indicate that, based on current budget projections, a GFT determined using Option 2 could be made from Net Available Revenues.

Line 5 shows that the GFT would be stable but is projected to be lower beginning in 2024 because the increase in debt service for 2023 exceeds the increase in revenue reflected in GRU's current budget projections. GRU and the City could work to modify that part of the budget plan to make the GFT more stable in that period and further strengthen GRU's financial standing.

Table 1 demonstrates Option 2 does balance the competing considerations of being relatively stable for the City and setting the GFT at levels that could be funded by GRU's current year Net Revenue as defined under the Bond Resolution after also providing for debt service and for the UPIF contributions mandated by the Bond Resolution.

³ In this letter, we show results only based on the Net Revenue from budget projections provided to us by GRU. In the Final Report and earlier presentations, we provided information regarding the sensitivity of the GFT and GRU's cash balances to other assumptions. Note that projected senior lien debt service for 2022 was different between the debt service data provided in GRU's response to Data Request #3, Items 4-5 and Data Request #4, Item 6, the latter presenting the basis of UPIF contribution calculations. The projections herein utilize the latter values for senior lien debt service, leaving the remainder as subordinate.

Table 1- Option 2 GFT Mechanism

	Fiscal Year							
	2021	2022	2023	2024	2025	2026	2027	
nFront Consulting Report - Option 2								
1	Net Revenues Per Bond Resolution	176,174	179,546	183,546	181,426	195,514	194,990	200,065
2	Less: Senior Lien Debt Service	87,678	91,840	99,582	97,737	111,006	110,330	115,490
3	Net Available Revenues Per Bond Resolution	88,496	87,706	83,964	83,689	84,508	84,660	84,576
Allocation of Net Available Revenues								
4	UPIF Contribution		44,248	43,853	41,982	41,845	42,254	42,330
5	General Fund Transfer		36,283	35,959	34,425	34,313	34,648	34,711
6	Subordinate Lien Debt Service		3,347	0	0	0	0	0
7	Net Remaining		3,827	4,152	7,282	8,351	7,758	7,535
8	Net Available after UPIF		43,458	40,111	41,707	42,663	42,406	42,246
GFT as Percent of Current Year								
9	Net Available Revenues		41%	43%	41%	41%	41%	41%
10	Net Available after UPIF		83%	90%	83%	80%	82%	82%

Importantly, Option 2 aligns the interests of the City’s efforts in managing its General Fund and GRU budgets. If GRU’s debt service or revenue requirements increase but GRU’s rates do not, GFT would be reduced 41 cents on the dollar. The resulting linkage between the City and GRU’s finances would be important in aligning the perspective of the City Commission, City Management, and GRU on budget and rate matters and we believe would be viewed as a positive step as bond rating agencies consider GRU’s credit rating status.

In your January 25th email, you expressed your disagreement with the manner in which we had balanced the competing considerations mentioned above. Your January 30th email provided additional explanation of your concerns. We appreciate your feedback and your concerns very much.

In your emails, you directed nFront Consulting to make the following changes before GRU would agree nFront Consulting had fulfilled its obligations under our Contract:

1. *Remove the effects of the rate stabilization dollars from any GFT formula;*
2. *Remove the effects of the 2019 debt restructuring savings, as those funds were specifically reserved for other purposes, as directed by the City Commission; and*
3. *Consider that the GFT should be no more than GRU’s “profit” in any year (computed as discussed below).*

As you directed, we have prepared an analysis of a new Option 10 that starts with Option 2 but reflects the three changes you directed us to make.

Under Option 10, the GFT budgeted for each year would be 41% of Adjusted Net Available Revenues for the prior year, which would be computed as:

Net Available Revenues from the prior year used in the Option 2 computation:

1. Less: Prior year transfers from (to) the Rate Stabilization Account (“RSF”), and
2. Less: Prior year 2019 Debt Restructuring Savings,

But not more than an adjusted GRU “profit” for the current year computed as:

1. Net Revenues,

2. Less: Transfers from (to) Rate Stabilization,
3. Less: Total Debt Service,
4. Less: 2019 debt restructuring savings, and
5. Less: UPIF Contribution.

Table 2 below shows the computation of the GFT under Option 10.

Table 2 – Option 10 GFT Mechanism, Reflecting Changes as Directed by GRU

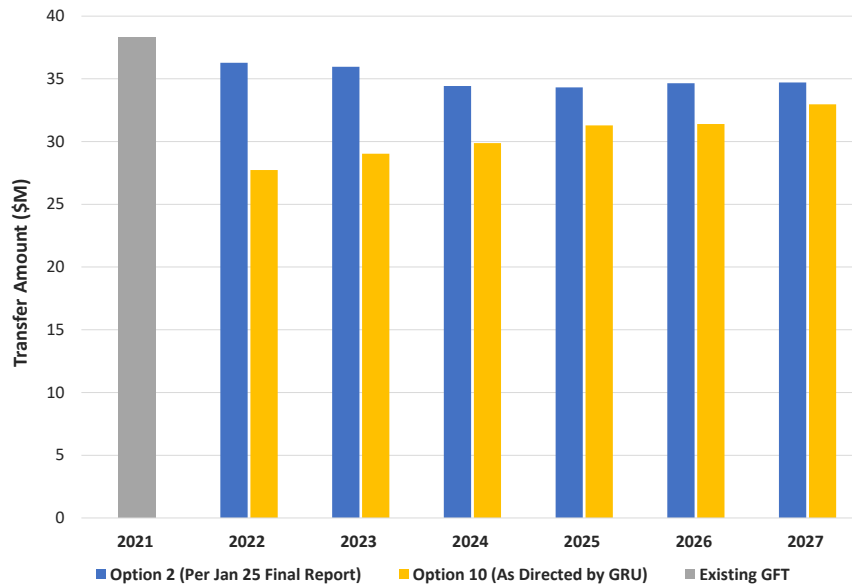
	Fiscal Year							
	2021	2022	2023	2024	2025	2026	2027	
Option 10 - Excludes Transfers from (to) RSF and 2019 Restructuring Savings, and Limits on GFT								
1	Net Revenues Per Bond Resolution	176,174	179,546	183,546	181,426	195,514	194,990	200,065
2	Less: Senior Lien Debt Service	87,678	91,840	99,582	97,737	111,006	110,330	115,490
3	Net Available Revenues Per Bond Resolution	88,496	87,706	83,964	83,689	84,508	84,660	84,576
4	Less: Transfers from (to) RSF	1,069	2,028	2,422	(2,893)	7,923	4,261	6,282
5	Less: 2019 Debt Restructuring Savings	13,015	10,357	8,657	10,259	0	0	0
6	Adjusted Net Available Revenue - GFT Computatio	74,411	75,321	72,885	76,323	76,585	80,399	78,293
7	Max GFT (Line 6 less UPIF and Subordinate D.S.)		27,726	29,032	34,341	34,740	38,145	35,963
Allocation of Net Available Revenues								
8	UPIF Contribution		44,248	43,853	41,982	41,845	42,254	42,330
9	General Fund Transfer		27,726	29,032	29,883	31,293	31,400	32,964
10	Subordinate Lien Debt Service (Sub DS)		3,347	0	0	0	0	0
11	Net Remaining		12,385	11,079	11,824	11,371	11,006	9,282
12	Net Available after UPIF		43,458	40,111	41,707	42,663	42,406	42,246
GFT as Percent of Current Year								
13	Net Available Revenues		32%	35%	36%	37%	37%	39%
14	Net Available after UPIF		64%	72%	72%	73%	74%	78%

Based on GRU’s current budget, excluding RSF effects on the Net Revenue used to compute the GFT would make the GFT somewhat less stable through 2025 and would reduce the projected GFT beginning in 2026 due to the 2025 withdrawal from RSF of approximately \$8 million currently included in the budget projections.

On balance, nFront Consulting concluded in the Final Report that “[a] reasonable variation to Option #2 would be to remove RSF activity from the calculation, which would improve Ability to Fund but reduce Certainty of Funding.” We see no reason to change that conclusion at this time. We did not evaluate in the Final Report the other changes you have directed us to make.

Figure 1 below illustrates that the GFT under Option 2 is projected to be more similar to current levels in the near term and more stable through 2027 than Option 10. However, Option 10 would reduce to a greater extent the GFT, especially, for the next several years, and allow GRU more flexibility to strengthen its financial position, assuming revenue levels and costs would be the same whether Option 2 or Option 10 were to be implemented. Under Option 10, the linkage between GRU’s revenues and costs and GFT levels is not as direct and straightforward as under Option 2, and therefore the City’s decisions regarding GRU’s rates and budgets may not be the same under the two options.

Figure 1 – Comparison of GFT Levels Under Option 2 and Option 10

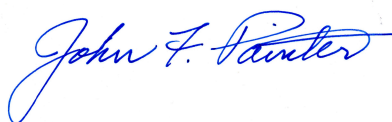


Our bottom line is that both Option 2 and Option 10 balance the competing considerations but in different ways. Stated differently, the two Options represent two perspectives on a complex question. Based on our experience with municipal utilities, we expect the City would have a harder time understanding Option 10 and adapting to the lower and less stable level of GFT under Option 10 than Option 2, but that determination should be made by the City working with GRU, not nFront Consulting.

nFront Consulting would be pleased to participate in a conference call with GRU and City representatives to discuss and answer questions regarding our Final Report, the January 29 letter, and the information above. Please let us know if you would like us to do so and we will coordinate schedules for a conference call for that purpose.

With the information presented in the above referenced documents and this letter, nFront Consulting has met its commitments under its Contract with the City and GRU. Any further assistance needed can be provided as Additional Services under the Contract.

Respectfully Submitted,



CEO and Executive Consultant
nFront Consulting LLC

Cc. Mark Benton (GRU), Fred Murry (City), Cintya Ramos (City), Claudia Rasnick (GRU), Diane Wilson (City), Chris Lover (PFM)