

Return on Investment Calculation

The range and calculation for the City's return on investment calculation are provided below.

Rate Base - The value of property in the enterprise funds that the rate of return will be applied to in order to determine the ROI. The rate base for the City's enterprise funds will be the fund's net position as reported in the most recent Comprehensive Annual Financial Report (CAFR). This is the same rate base that has historically been used.

Range – A reasonable rate of return will be applied to the rate base in order to calculate a ROI to the General Fund. The range for the rate of return will be established every three years with a minimum rate based on the United States Treasury 30-year bond and a maximum rate based on the average rate of return allowed by the Florida Public Service Commission for the four largest investor owned electric utilities.

Tying the transfer to rate base is expected to result in a fairly predictable and stable transfer that should increase over time as new capital investments are made in the utility. If the utility is not making investments in its infrastructure, the rate base can depreciate resulting in a lower ROI.

Minimum Rate - The rate of return for a United States Treasury 30-Year Bond as of the first business day of the calendar year shall be used as the lower bound of the reasonable rate of return. As of January 2, 2019, this rate would be **2.97 percent**. The 30-year Treasury bond was selected as the lower bound to represent the lowest level of return the City would want to accept for a safe investment.

Maximum Rate - The average return on equity (ROE) allowed by the Florida Public Service Commission for the four largest investor-owned electric utilities shall be the basis for the upper bound. As of January 3, 2017 this rate would be calculated to be **10.39 percent**. This average rate shall be adjusted to account for the differences between an investor owned business and a municipally owned enterprise. The rate shall be reduced to account for the fact that the City is a tax-exempt entity and does not pay taxes on its collected return (30%) and reduced further due to the lower level of risk a City owned enterprise faces, as compared to an investor owned business (15%). Once the average rate is adjusted for risk, the maximum rate would be **6.18 percent**. The details of this calculation for January 3, 2017 are included on the following page:

Electric Utility	Public Service Commission Allowable Return on Equity (ROE)
Florida Power & Light (FPL)	10.55%
Duke Energy Florida*	10.50%
Florida Public Utilities Company	10.25%
Tampa Electric (TECO)	10.25%
<i>Average</i>	<i>10.39%</i>
<i>Tax Exempt Adjustment</i>	<i>(30%)</i>
<i>Risk Adjustment</i>	<i>(15%)</i>
<i>Recommended Maximum ROI</i>	<i>6.18%</i>

**Formerly Progress Energy Florida*