

Enterprise Fund Return on Investment (ROI) Policy Summary

Policy

The City provides services through the operation of publicly owned utilities and other operations referred to as enterprise funds. Enterprise funds are treated in a manner similar to that of their private counterparts and a return on investment (ROI) is provided to the General Fund on an annual basis. The ROI is intended to generate a fair and reasonable rate of return recognizing the City's investment.

Recommended Range for Return on Investment (ROI) Rates

Minimum Rate: 2.69% - Based on 30 year Treasury Bond, as of 1st day of the year
Maximum Rate: 6.18% - Based on average investor owned utility, adjusted for taxes and risk

Setting of ROI Rate Annually

The City Manager will set the rate annually as part of the proposed budget. The ranges should be reviewed every 3 years, at a minimum. Each Enterprise Fund is reviewed on an annual basis to ensure long term financial stability.

FY 2015 and FY 2016 Proposed ROI Rate Comparison

Enterprise Fund	FY 2015 Rate	FY 2016 Proposed Rate
Parking Fund	4.19%	4.20%
Water and Sewer Fund	3.81%	3.90%
Central Region Fund	3.35%	3.90%
Stormwater Fund	3.15%	1.00%

Note: Given the significant unfunded capital needs of the Stormwater program, a rate of 1%, which is lower than the minimum, is recommended for FY 2016.

Basis for ROI Range

Rate Base - The rate base for applying the ROI rate is the Enterprise fund's net position as reported in the most recent Comprehensive Annual Financial Report (CAFR). The net position includes all assets, less liabilities for each fund. The total net position for each fund is multiplied by the rate in order to determine the ROI. This is the same rate base that has been used since inception of the ROI.

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, 2015, this rate would be **2.69%**. 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 2, 2015 this rate would be calculated to be 10.38%. 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%**. The details of this calculation for January 2, 2015 are included below:

Electric Utility	Public Service Commission Allowable Return on Equity (ROE)
Florida Power & Light (FPL)	10.50%
Progress Energy Florida	10.50%
Florida Public Utilities Company	10.25%
Tampa Electric (TECO)	10.25%
Average for Electric Utilities	10.38%
Tax Exempt Adjustment	(30%)
Risk Adjustment	(15%)
Recommended Maximum ROI	6.18%