Gainesville Regional Utilities

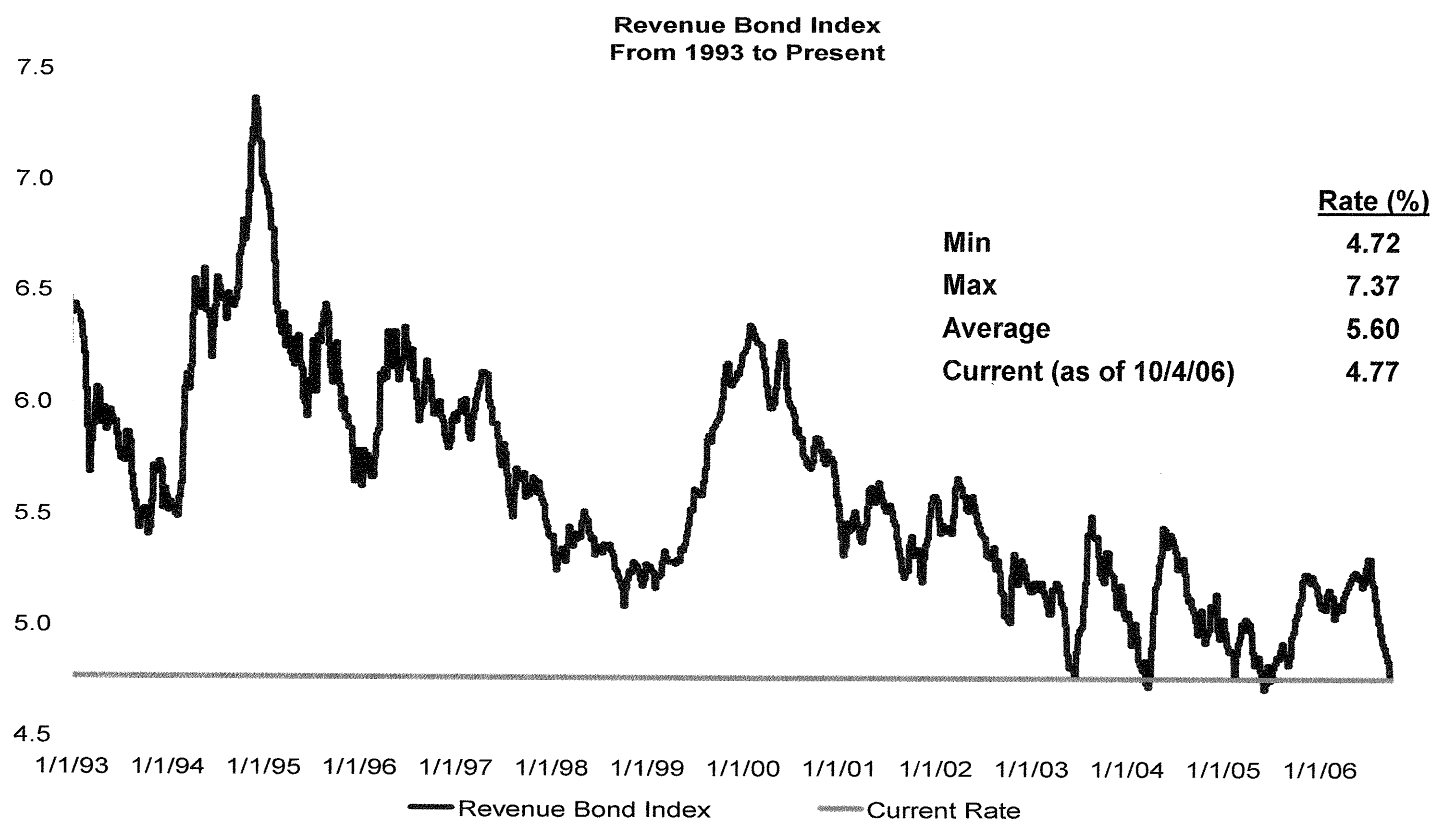
Hedging Anticipated Bond Issuances

October 9, 2006

Agenda Item #060573.

Market Overview

- Current market borrowing rates are at historically low levels

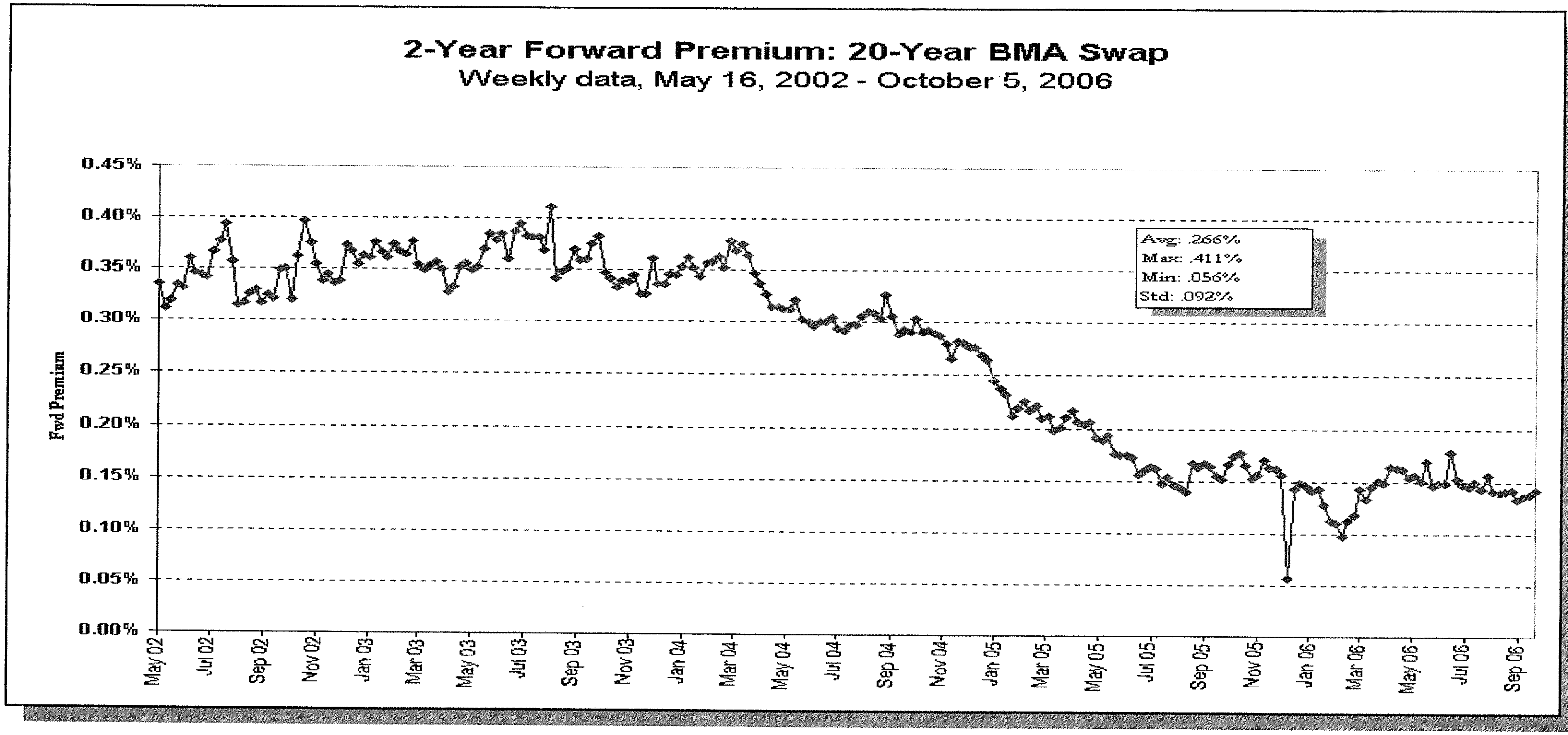


Future Bond Issuance

- The Utility expects to issue roughly $150 million new money on a tax-exempt fixed rate basis in late 2007
- Cost certainty, and potentially significant savings could be generated by financing future bond needs at current market rates
- This can be accomplished by entering into an interest rate swap to hedge future bond rates ("lock-in future rates"):
- What is a Swap?
  - A contract where typically one party agrees to make payments to the other based up on a certain rate of interest in exchange for payments based upon another certain rate of interest
  - Interest rate swap contracts typically are used as hedges against interest rate risk
- What is a Floating-to-Fixed Swap?
  - An agreement where an issuer synthetically converts variable rate debt to fixed rate debt through an interest rate swap

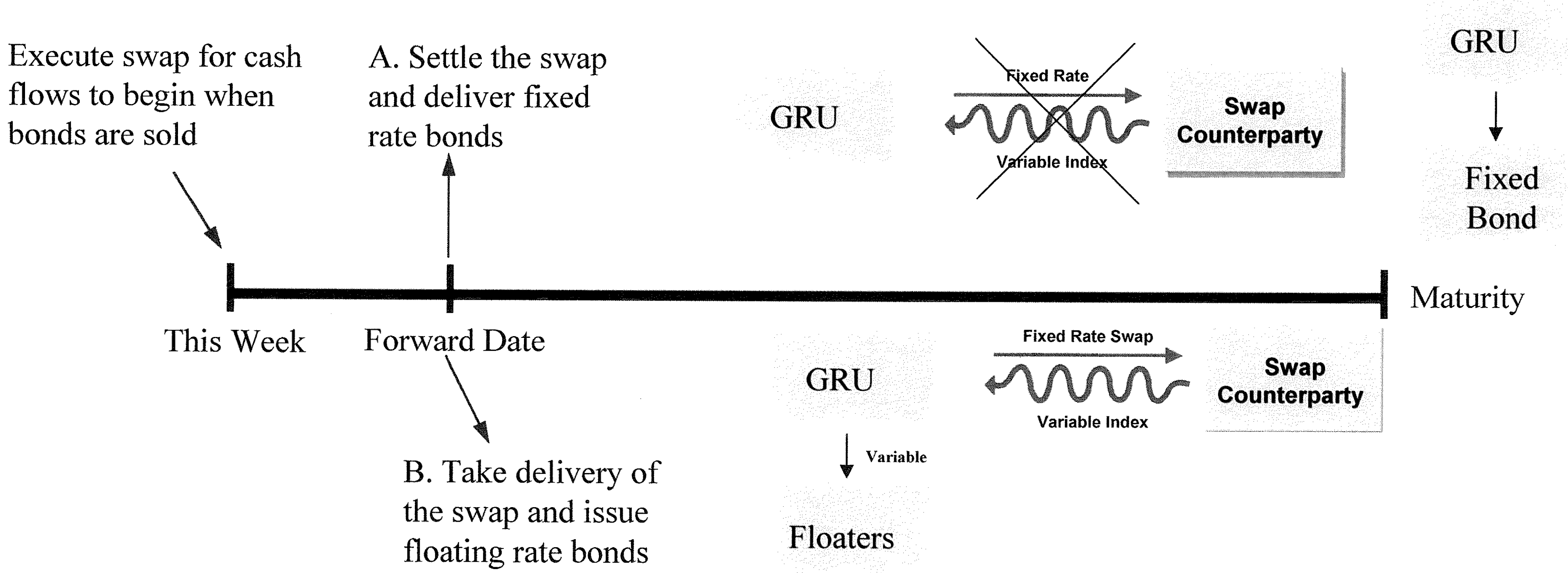
Forward Premiums are Low

- The cost to lock-in future rates comes in the form of a “forward premium”.
- The forward premium is the difference between current market rates and the available rates for a future financing that can be locked-in today.
- Forward premiums are as low as they have been for decades



Forward Starting Swap

- The optimal solution will depend on market conditions and debt structure existing both at the time of the execution of the Swap and at the time of the subsequent issuance of debt.
- Staff and our Financial Advisor will monitor the market to select the best alternative.
- Forward Starting swap-to-fixed mechanics



Staff Recommendation

- Authorize the execution of one or more "floating-to fixed" interest rate swap transactions
  - Possibility of two due to a taxable and tax-exempt bond issue
- Authorize the Utility and the Financial Advisor to utilize a competitive process that will select one or more counterparties
  - Three potential counterparties are recommended who have brought significant value to the Utility, and for which we have agreements.

Authorize the Interim GM to:

- Determine
  - The notional (principal) amount of the swap
    - Can not exceed $150 million
  - The term of the Swap and the amortization schedule
    - Can not be later than 10/01/42
    - Greatest annual amount of debt service can not be greater than 150% of the smallest annual debt service
  - The indices upon which both payments to and from GRU will be based; and
    - The fixed rate shall not exceed 4.5%
    - The floating rate shall be either:
      - The Bond Market Association (BMA) Municipal Swap Index
      - A percentage of London Interbank Offered Rate (LIBOR) not less than 65% or greater than 80%
  - The optimal process for selecting the Swap counterparty or counterparties
- Enter into all swap related documents