

Gainesville Regional Utilities 2008 Series A & B Financing

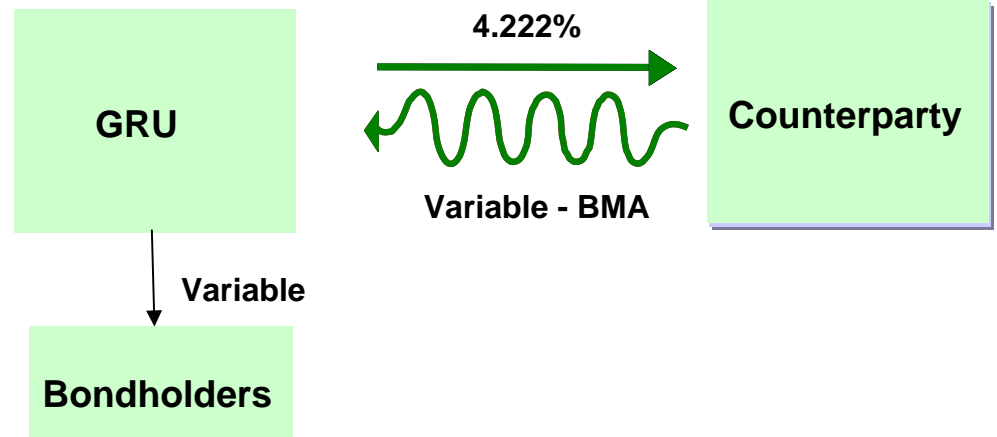
January 14, 2008

Prior Actions and Authorization

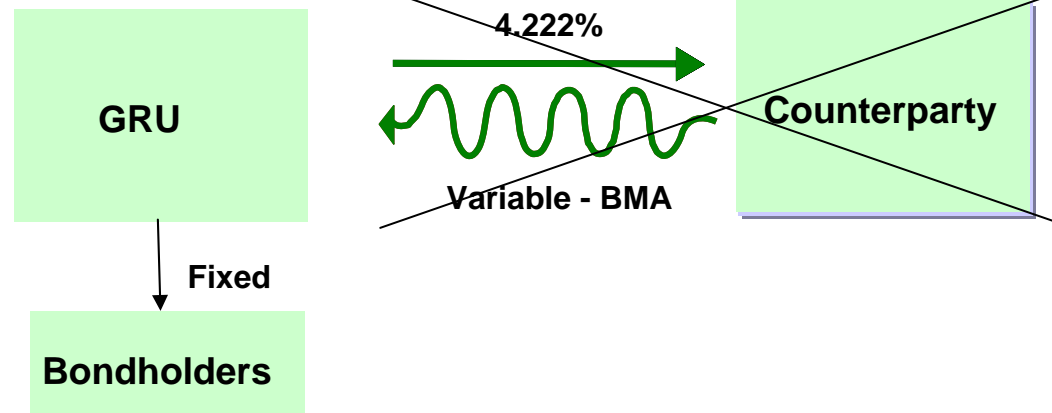
- In October 2006, GRU entered into a forward starting fixed-payer swap to:
 - Take advantage of low rates on the date of execution
 - Over the previous 5 years, fixed rates were higher over 91% of the time
 - Hedge against interest rate volatility prior to bond issuance in 2008
 - “Lock-in” a historically low synthetically fixed rate
- In November 2007, the City Commission authorized the:
 - Financing of up to \$205 million of new money fixed-rate bonds for capital projects
 - Approximately \$100 million of Tax-Exempt Bonds
 - Approximately \$105 million of Taxable Bonds
 - Termination of two interest rate swaps totaling \$90 million

Original Plan

Enter into an interest rate swap to capture the then current low interest rate environment, effectively securing a low fixed rate of 4.222% on the Tax-Exempt Bonds



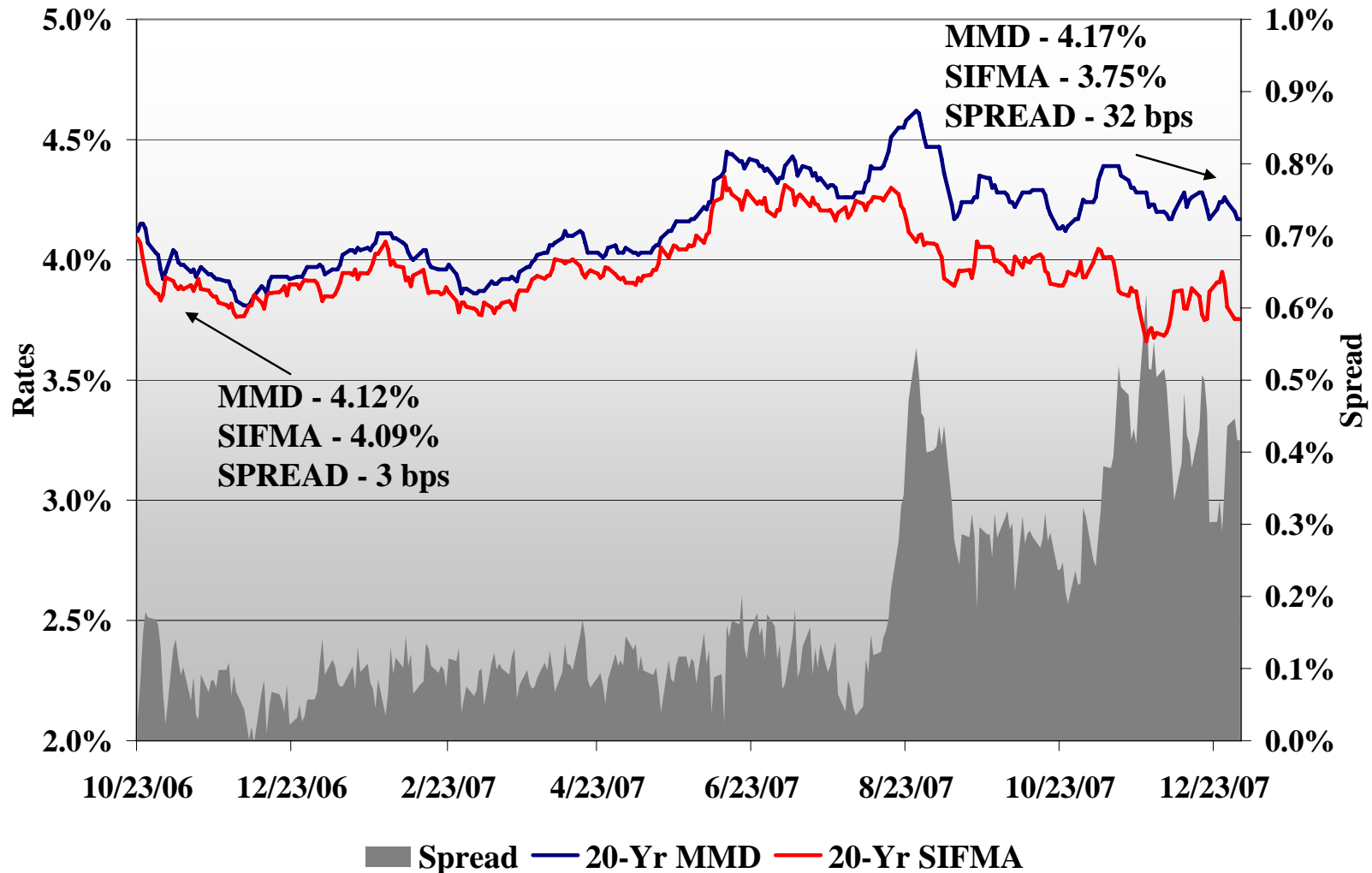
Then cancel the swap in order to issue fixed-rate Tax-Exempt Bonds, still achieving a low fixed rate near the 4.222%, depending on market conditions



Current Market Conditions

- Typically, fixed rates are slightly higher than synthetic fixed rates
 - Usually within 15 basis points or 0.15% of each other
 - In this case, most entities issue fixed-rate bonds as GRU intended
- Current market conditions have significantly altered the historical relationship between fixed and synthetic fixed borrowing costs
 - Current events such as the subprime mortgage crisis have pushed investors into Treasury bonds and/or short-term investment alternatives (“Flight to Quality”)
 - Therefore, rates have risen on conventional tax-exempt bonds
 - The typical difference of 15 basis points has grown to over 40 basis points
 - In addition, current variable rates are historically low

MMD & SIFMA Relationship Since Swap Execution



Alternate Plan

- Under current market conditions it is preferable to leave the swaps in place and issue variable-rate bonds
- At the last calculation, this alternative will save over \$5 million of net present value debt service

Staff Recommendation – In Summary

- Staff, in summary, is asking the City Commission to:
 - Authorize the issuance of variable-rate bonds that are converted synthetically to a fixed rate through the use of a “floating-to-fixed” interest rate swap for the \$100 million of new money for payment of Costs of Acquisition and Construction previously authorized by the City Commission on November 15, 2007;
 - Authorize the Clerk of the Commission, the General Manager, and other Authorized Officers to execute such documents as may be necessary to proceed with the Attorney as to form and legality, and to take such other actions as may be necessary or advisable to proceed with these transaction in accordance with this City Commission authorization

Conclusion

- Authorization to issue variable-rate bonds for the tax-exempt portion of the financing will allow us to secure the lowest possible rate for our ratepayers
- We will be returning to the commission in two weeks to seek approval for the financing documents