Gainesville Regional Utilities

Lease In Lease Out Termination

February 19, 2009

Lease In Lease Out (LILO) History

- On December 10, 1998 the City entered into a LILO transaction
  - The Owner Trust prepaid a substantial portion of the rend under the Head Leases to the City in a lump sum
  - The Trust then leased the Plant back to the City under a shorter term lease, which gave the City an option to purchase back the remaining term for a fixed purchase option price
- Net proceeds received by the City totaled $35.6m
  - $5.1m was transferred to the City's General Fund
  - Remaining funds were used to pay down generation debt of the Utility

Deal Structure - Partial

- As part of the transaction, bids were taken to fill specific roles
- Affiliates of Ambac Assurance Corporation (Ambac) were selected as equity credit enhancer and debt provider
- A part of the Participation Agreement required the City to provide additional credit support for the benefit of the equity investor (BNY) in the event of a downgrade in Ambac’s credit ratings

Recent Market Events

- On November 19, 2008, Standard & Poor's lowered its rating on Ambac from "AA" to "A"
  - As a result of the downgrade, GRU had 30 days to provide additional credit support
  - BNY has provided several extensions
- GRU has been working closely with our Bond Counsel, Financial Advisor, and an advisory firm specializing in this type of transaction. The team:
  - Canvassed the market for replacement credit support providers
  - Began negotiating with Ambac and BNY to determine buyout prices

Two Available Options

- Option 1: Replace credit support
  - The only reasonable proposal for credit support came from Berkshire Hathaway Assurance Company
  - Present value cost of approximately $15.2m
  - GRU would retain ongoing credit exposure to Ambac
- Option 2: Terminate LILO transaction
  - Negotiations have reduced the liability from $214m to $138.4m
  - Current value of investments equal $125.2m
  - Difference between two of $13.2m would be paid by GRU

Recommendations

- Option 2 is the recommended option as it is the least risk option for the Utility and its customers
- Given current market conditions and accelerated timing of this transaction, staff recommends that the termination payment be made through the issuance of taxable commercial paper notes
- Although a termination payment was not the desired outcome, a substantial portion of the net benefit from this transaction remains