

Gainesville Regional Utilities

GREC Financing Scenarios ("GREC Transaction")

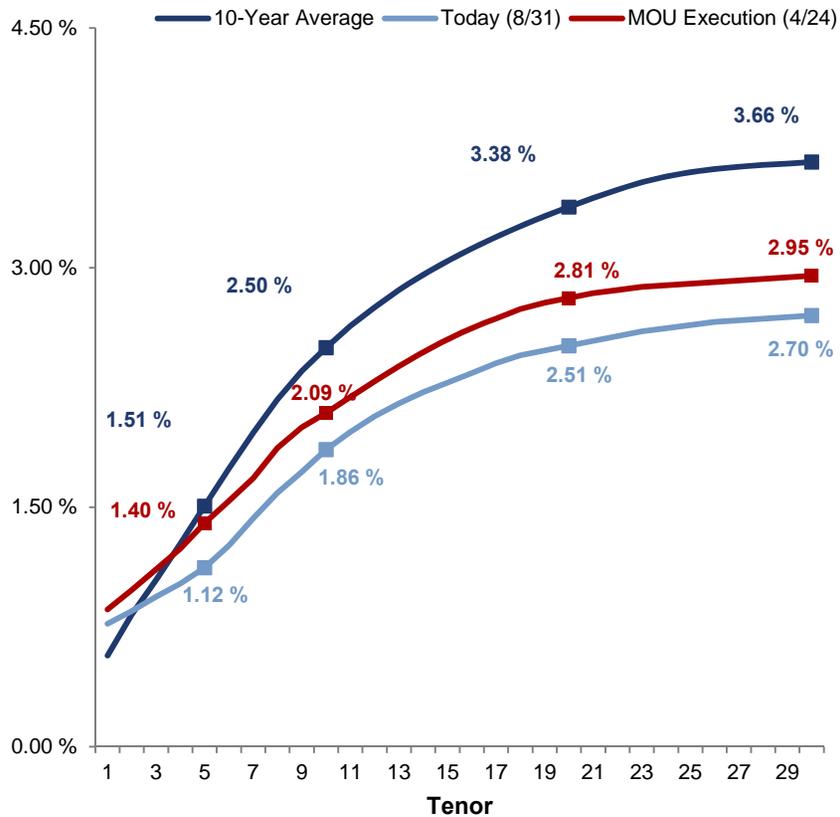
September 14, 2017

*Rates as of August 31, 2017.
Subject to market conditions.*



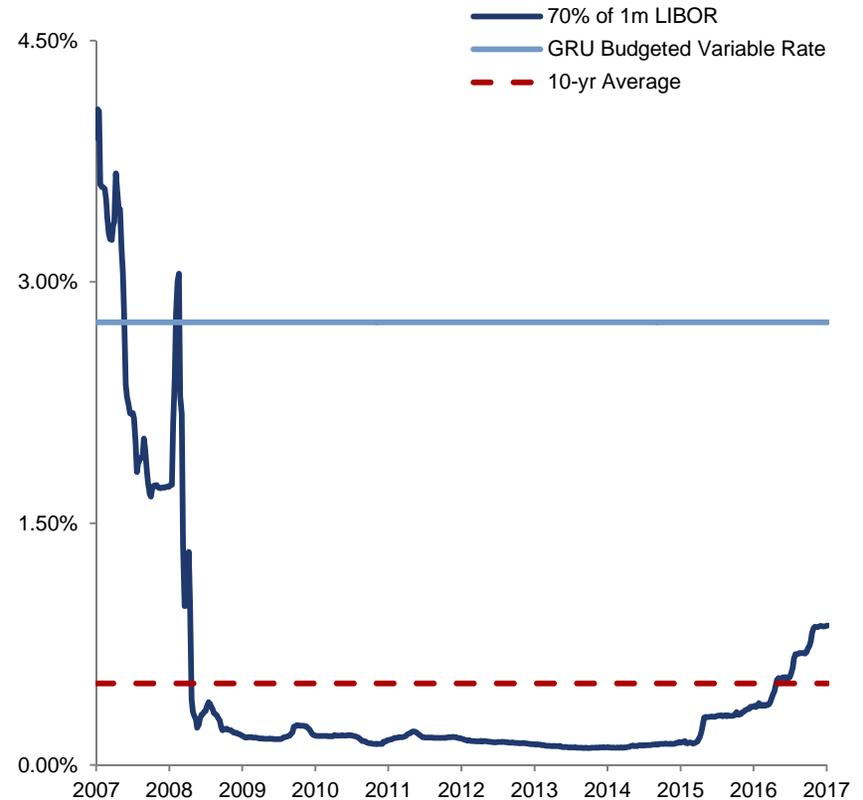
Interest Rates Remain Favorable

The Municipal Market's Tax Exempt Yield Curve



- Fixed rates have moved lower since MOU was signed (April)
- Fixed rates are currently below their 10 year average

Historical Variable Rates



- Variable rates have risen recently from their historic lows
- GRU has benefited from the variable rate portfolio over time

Assumptions Underlying Analysis and Savings

| GREC Plant/PPA Assumptions | |
|--|-------------------------------------|
| Capacity (MW) | 102.5 |
| Availability Factor | 95% |
| PPA Fixed Capacity (\$/MWh) | \$23.00 |
| PPA Non-Fuel Energy Charge (\$/MWh) | \$56.15 |
| 2016 Property Tax | \$6,655,000 (1.00% annual decrease) |
| PPA Termination Date | 2043 |
| Average Annual PPA Payments (2018 – 2043) | \$73,326,934 |
| GREC PPA Takeout Cost | ~\$750,000,000 |

Scenario 1: 85% Fixed / 15% Variable

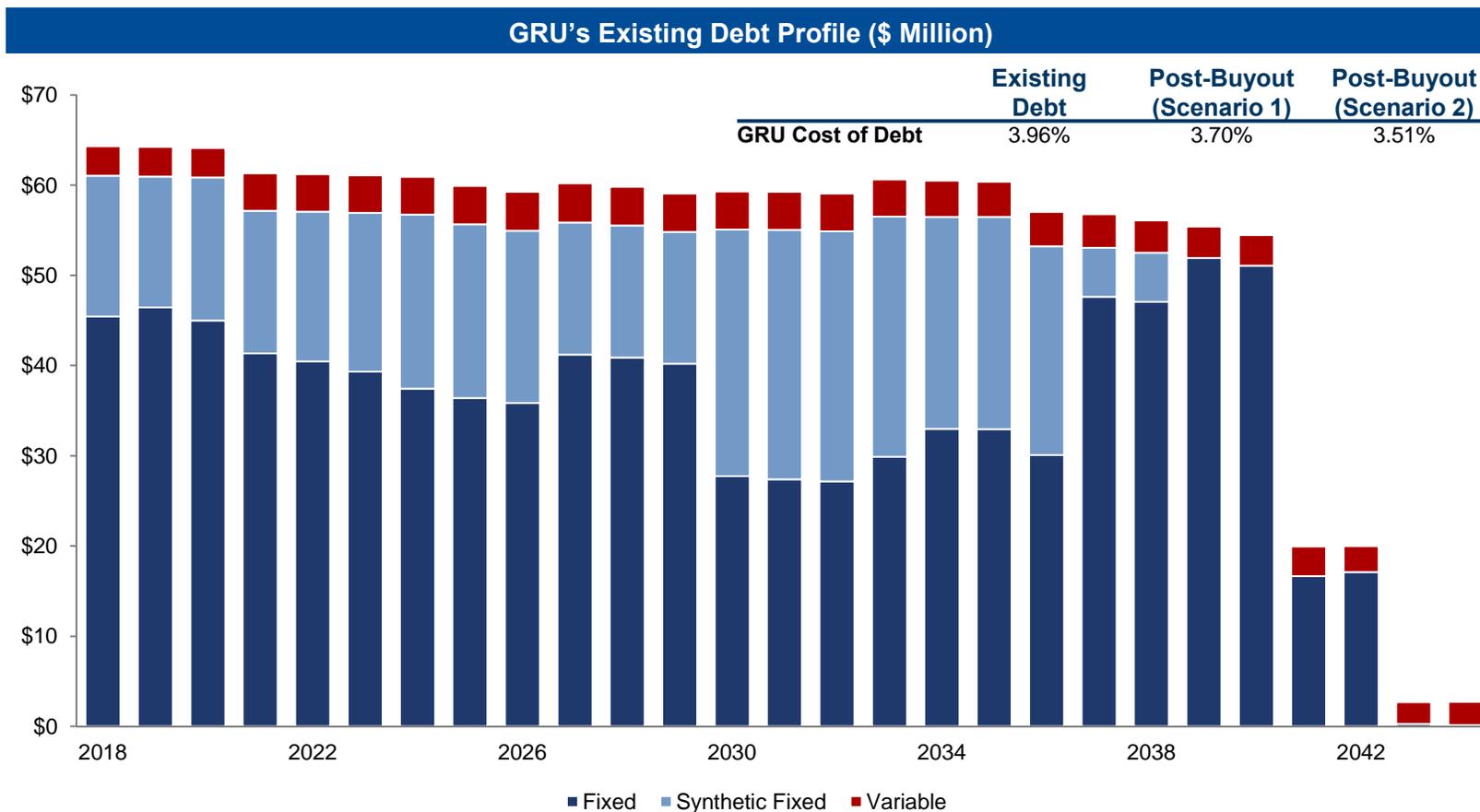
- 85% issued as fixed rate bonds
- 15% issued as variable rate bonds
 - Coupon resets monthly based on an established variable index

Scenario 2: 65% Fixed / 15% Variable / 20% Synthetic Fixed

- 65% issued as fixed rate bonds
- 15% issued as variable rate bonds
 - Same as under Scenario 1
- 20% issued as “synthetic fixed rate bonds”
 - GRU issues variable rate bonds and simultaneously enters into a swap transaction that converts GRU’s variable rate payment into a fixed rate payment¹
 - Currently, the fixed swap payment is lower than issuing traditional fixed rate bonds

1. Assumes synthetic fixed rate of 2.10% plus 35 bps for credit facility fees.

GRU's Estimated Borrowing Costs



GRU's current cost of debt is ~4%. Both Scenario 1 and Scenario 2 are expected to lower the overall cost of GRU's debt to 3.70% and 3.50%, respectively.

Scenario 1: 85% Fixed / 15% Variable

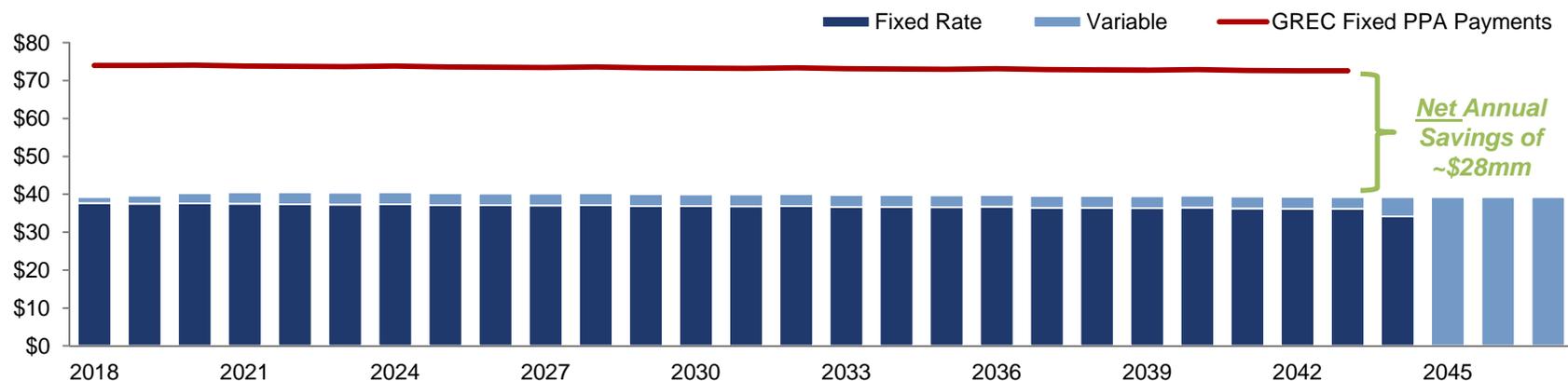
Sources and Uses

| | 2017 A 85% Fixed | 2017 B 15% Variable | Total |
|------------------------|---------------------|------------------------|------------------|
| Sources | | | |
| Par Amount | \$544,470 | \$113,640 | \$658,110 |
| Premium | 98,480 | | 98,480 |
| Total | \$642,942 | \$113,640 | \$756,590 |
| Uses | | | |
| GREC Purchase Proceeds | \$637,500 | \$112,500 | \$750,000 |
| Cost of Issuance | 5,450 | 1,140 | 6,590 |
| Total | \$642,950 | \$113,640 | \$756,590 |

Key Statistics

- All-in True Interest Cost: 3.36%
 - 2017A: 3.55%
 - 2017B: 2.68%
- Average Life: 18.6 years
 - 2017A: 16.6 years
 - 2017B: 28.9 years
- **Average Annual Debt Service: \$39,955,279**
- Average Annual Gross Savings: \$33,371,655
 - Estimated Annual O&M costs post-buyout: \$5,000,000
 - **Average Annual Net Savings: \$28,371,655**

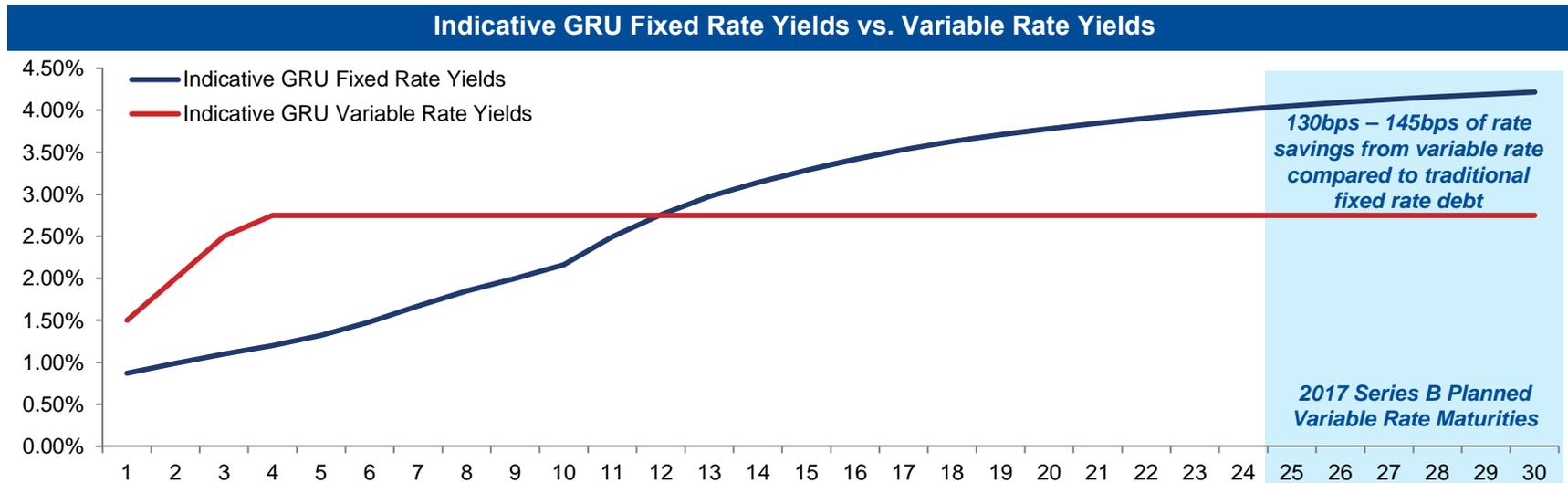
Scenario 1 Savings: Debt Service Compared to Existing PPA Payments



Considerations for Variable Rate Debt

- GRU's management and finance team discussed the addition of variable rate debt as a means to enhance savings
- Scenario 1's plan is to have 15% of the \$750 million in proceeds from variable rate debt
- Historically, GRU has benefited from utilizing variable rate debt as a part of its debt portfolio
- Variable rate debt improves savings but has some risks:

| Risks | Mitigants |
|--|--|
| <ul style="list-style-type: none"> ■ Variable Interest Rate Risk ■ Renewable / Replacement of Variable Rate Debt | <ul style="list-style-type: none"> ■ GRU's invested cash and investments ■ GRU's market access and credit capacity |



Scenario 2: 65% Fixed / 15% Variable / 20% Synthetic

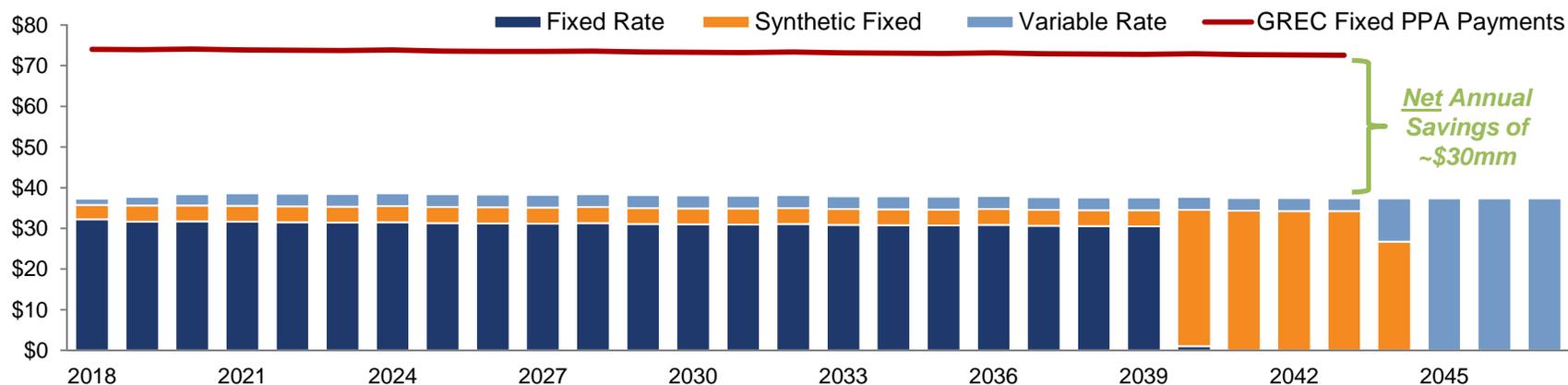
Sources and Uses

| | 2017 A <i>65% Fixed</i> | 2017 B <i>15% Var.</i> | 2017 C <i>20% Syn.</i> | Total |
|------------------------|----------------------------|---------------------------|---------------------------|------------------|
| Sources | | | | |
| Par Amount | \$414,180 | \$113,640 | \$151,520 | \$679,340 |
| Premium | 77,463 | | | 77,463 |
| Total | \$491,643 | \$113,640 | \$151,520 | \$756,803 |
| Uses | | | | |
| GREC Purchase Proceeds | \$487,500 | \$112,500 | \$150,000 | \$750,000 |
| Costs of Issuance | 4,143 | 1,140 | 1,520 | 6,803 |
| Total | \$491,643 | \$113,640 | \$151,520 | \$756,803 |

Key Statistics

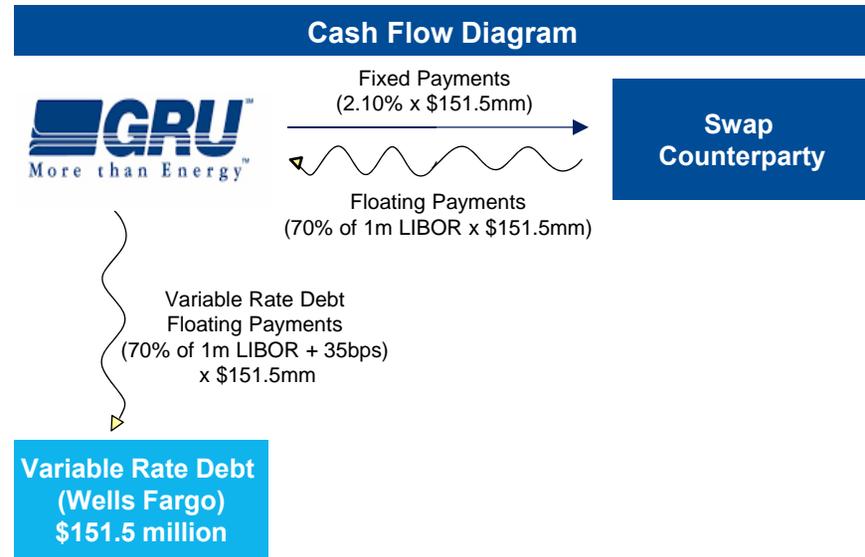
- All-in True Interest Cost: 2.92%
 - 2017A: 3.26%
 - 2017B: 2.68%
 - 2017C: 2.50%
- Average Life: 18.4 years
 - 2017A: 13.1 years
 - 2017B: 28.8 years
 - 2017C: 24.8 years
- **Average Annual Debt Service: \$37,816,612**
- Average Annual Gross Savings: \$35,303,877
 - Estimated Annual O&M costs post-buyout: \$5,000,000
 - **Average Annual Net Savings: \$30,510,322**

Scenario 2 Savings: Debt Service Compared to Existing PPA Payments



Variable Rate Debt and Creating Synthetic Fixed Rate Debt

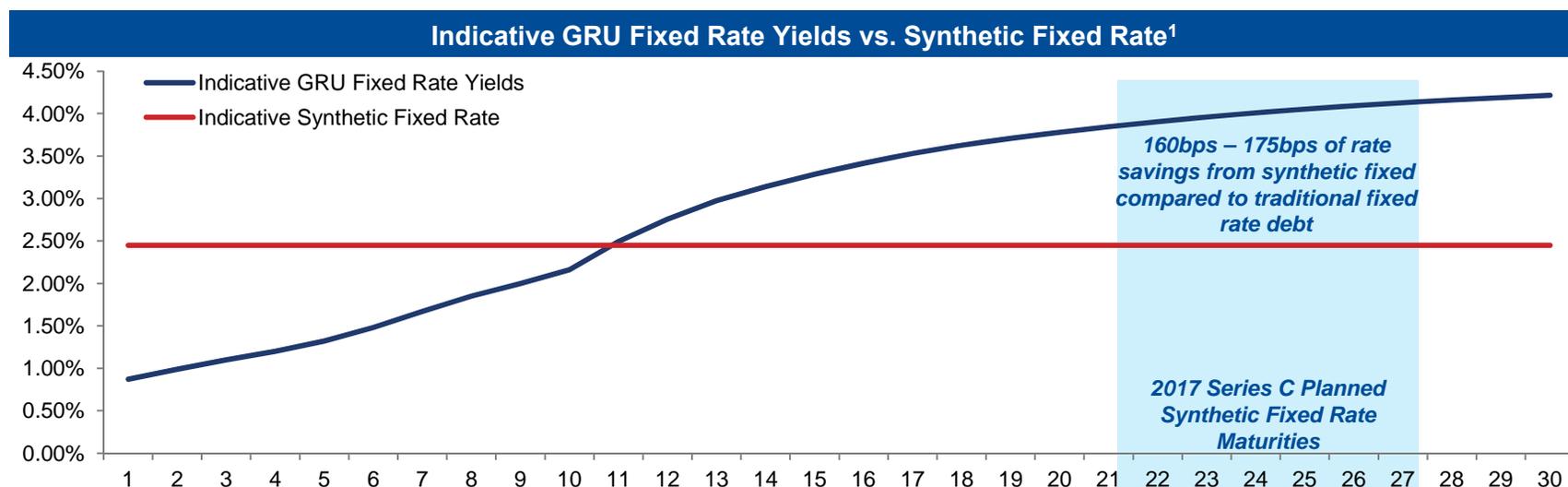
| GRU's Effective Borrowing Rate for the Synthetically Fixed Bonds | |
|--|----------------------|
| Swap Transaction | |
| GRU Pays the Fixed Swap Rate | 2.10% |
| GRU Receives the Variable Rate | 70% of 1 Month LIBOR |
| Direct Purchase | |
| GRU Pays the Variable Rate | 70% of 1 Month LIBOR |
| GRU pays the ~Credit Spread | 0.35% |
| Effective Borrowing Rate | 2.45% |



- A fixed “payer” interest rate swap allows GRU to effectively convert the variable rate debt to fixed rate debt
- With the swap, GRU becomes a “fixed rate payer”, paying a *predetermined* fixed rate and receiving a floating rate payment from the swap counterparty
- The variable rate received by GRU from the swap counterparty “flows” to Wells Fargo
- GRU’s debt cost for this part of the transaction equals the fixed swap rate + credit spread plus any ancillary fees
- GRU will have the right to cancel the swap from year 10 through maturity at no cost

Considerations for Synthetic Fixed Rate Debt

- GRU's current debt portfolio includes synthetic fixed rate debt
- GRU's management and finance team discussed the addition of synthetic fixed rate debt as a means to enhance savings
- To determine the value of the enhancement, the team compared the all-in cost of traditional fixed rate debt to synthetic fixed rate debt (including associated fees)
- In this case, compared to issuing bonds with a similar maturity, the synthetic fixed transaction offers a rate estimated to be between 1.60% and 1.75% lower
- Current conditions in the swap market present GRU with an opportunity to execute the swap and pay a comparatively lower fixed rate rather than issuing traditional fixed rate bonds



1. Includes 35 bps for credit facility fees.

Mitigating GRU's Risk with Synthetic Fixed Rate Debt

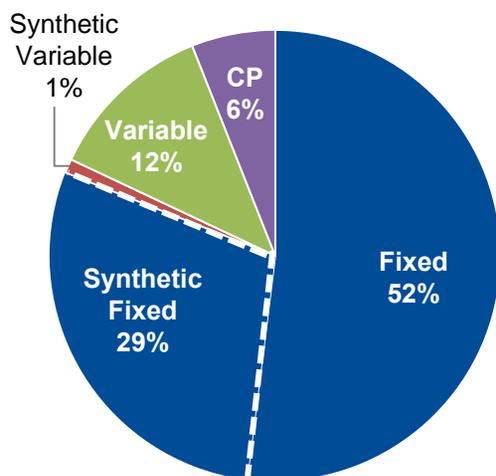
| Risk Factors | Description | Risk Level | Mitigating Factors |
|---------------------------------|---|------------|--|
| Basis Risk | Some variable rate bonds interest is based on SIFMA (tax-exempt index) and swap receipt is based on 70% of LIBOR (taxable index). Risk is that swap receipt will be less than what will be paid on the bonds. | Low/None | Both the planned variable rate series of bonds and the swap will be based on 70% of 1 Month LIBOR, eliminating basis risk. |
| Counterparty Risk | Risk that the counterparty to the swap will not live up to its obligations. Counterparty risk is a risk to both parties and is also known as default risk. | Low | GRU has identified and selected 5 potential counterparties for the transaction, all with at least "A" level-ratings. GRU will consider, given the \$151 million size of the transaction, splitting this between 2 counterparties. Additionally, the counterparty will have to post collateral based on their credit rating as well as the market valuation of the swap |
| Tax Risk | If tax-exemption on the underlying bonds is eliminated, or future income tax rates decrease, then 70% of LIBOR will not be enough to offset the rate paid on the bonds. | Medium | Future legislation that would impact tax-exempt status or adjust rates. GRU could also elect to cancel swap at no cost (10 year), keep underlying bonds in variable rate mode. |
| Liquidity Risk | There is a potential that direct purchase for the variable rate bonds is more costly and/or not renewed/available after the initial 3 year term and at future renewal points | Medium | GRU can elect to move to another variable rate product such as Variable Rate Demand Bonds. Requires an active and liquid short-term capital market |
| Market Risk | Risk that variable rate funding may not be available. If GRU were to be forced to refund the bonds in the future, there is a risk that the interest rate environment could be unfavorable and/or market access could be limited | Low | Variable rate funding has been available to GRU for decades, including through credit crisis. GRU has strong market access. |
| Termination Payment Risk | Exposed to termination payment risk and collateral posting obligations for the first ten years. (until call date) | Low | GRU's option to cancel swap at no cost after year 10 minimizes this risk and eliminates termination payment and collateral posting risk after 10 years. |

Comparing Savings Under the Proposed Scenarios

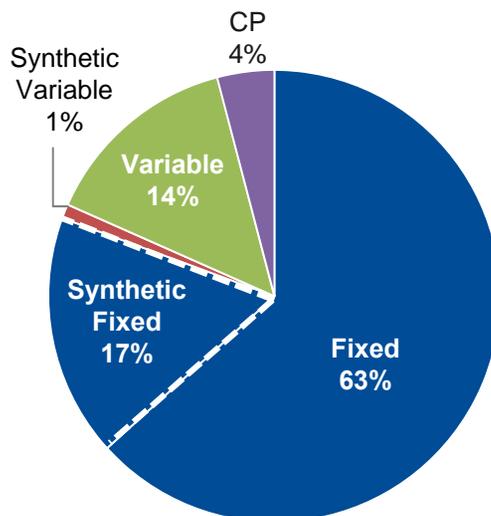
| | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Current Payments Under GREC PPA | | | | | |
| Capacity (MW) | 102.5 | 102.5 | 102.5 | 102.5 | 102.5 |
| Availability (%) | 95.0% | 95.0% | 95.0% | 95.0% | 95.0% |
| Plant Availability (MWh) | 853,005 | 853,005 | 855,342 | 853,005 | 853,005 |
| Non-Fuel Charge (\$56.15/MWh) | \$47,896 | \$47,896 | \$48,027 | \$47,896 | \$47,896 |
| Fixed Capacity (\$23.00/MWh) | \$19,619 | \$19,619 | \$19,673 | \$19,619 | \$19,619 |
| Property Taxes | \$6,523 | \$6,457 | \$6,393 | \$6,329 | \$6,266 |
| Total Payments | \$74,038 | \$73,973 | \$74,093 | \$73,844 | \$73,781 |
| Post Buyout Costs | | | | | |
| Scenario 1: Buyout DS | \$39,235 | \$39,661 | \$40,281 | \$40,533 | \$40,470 |
| <i>Estimated Post-Buyout Costs</i> | <i>\$5,000</i> | <i>\$5,000</i> | <i>\$5,000</i> | <i>\$5,000</i> | <i>\$5,000</i> |
| Scenario 1: Net Savings | \$29,803 | \$29,312 | \$28,812 | \$28,311 | \$28,311 |
| Scenario 2: Buyout DS | \$37,096 | \$37,530 | \$38,150 | \$38,402 | \$38,340 |
| <i>Estimated Post-Buyout Costs</i> | <i>\$5,000</i> | <i>\$5,000</i> | <i>\$5,000</i> | <i>\$5,000</i> | <i>\$5,000</i> |
| Scenario 2: Net Savings | \$31,942 | \$31,443 | \$30,943 | \$30,443 | \$30,441 |

GRU's Resulting Debt Mix Remains Manageable

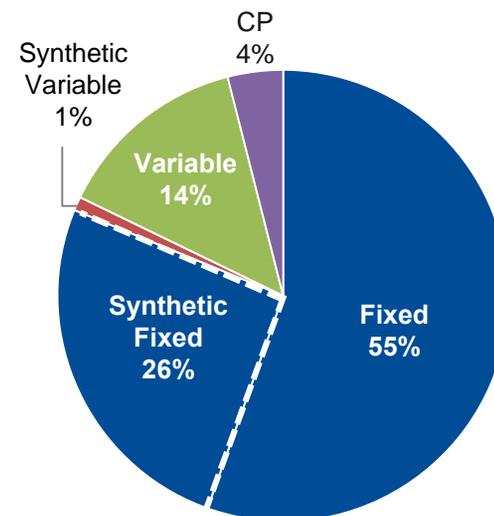
Existing Debt Composition



Post-Buyout (Scenario 1)



Post Buyout (Scenario 2)



- Currently, GRU has approximately 81% of debt fixed or synthetically fixed
- Under either Scenario 1 or Scenario 2, the amount of debt fixed or synthetically fixed does not significantly change

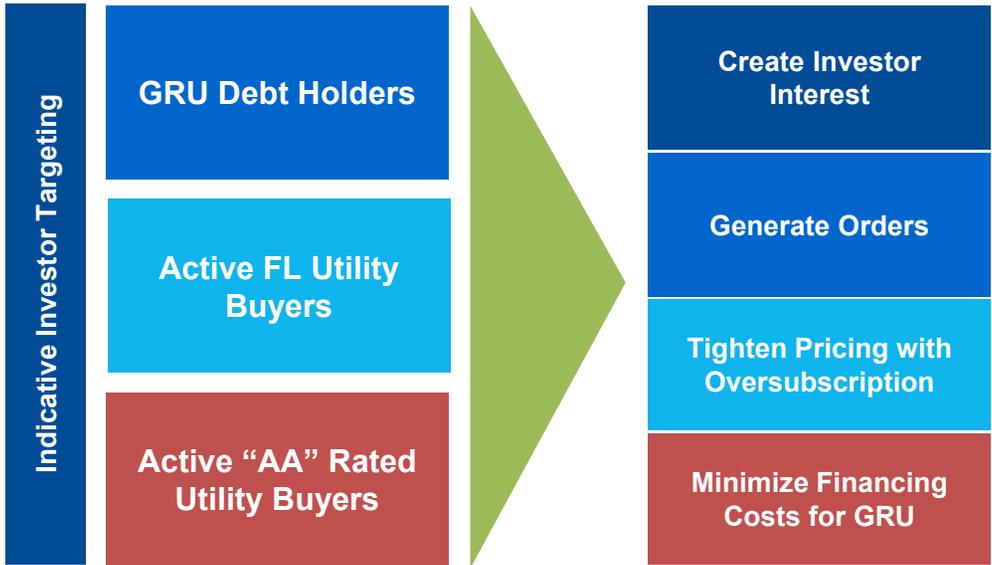
GREC Transaction Schedule and Road Ahead

- *September 5:* UAB Discussion
- *September 7:* City Commission Discussion
- *September 14:* UAB Discussion and Recommendation
- *September 21:* City Commission Review and Approval
- *September 27:* Receive Ratings, Transaction Announcement
- *October 5/12:* City Commission and UAB Meetings (updates on transaction)
- *October 13:* Expected FERC approval, GRU's purchase of GREC, Publish Preliminary Official Statement for the fixed rate transaction
- *October 16-20:* Investor Engagement (meetings and calls)
- *October 25:* Pricing of the fixed rate transaction
- *November 9:* Closing of all transaction (fixed rate, variable rate, and swap)

Once approved, GRU faces the risk of interest rate changes through the date of pricing – which could reduce expected savings.

Marketing Efforts

- Marketing efforts will focus on canvassing a full range of potential investors for GRU



- *Given strategic importance and transformational nature of transaction, physical roadshow will be important to get targeted message to investors in conjunction with an internet roadshow*
 - *Physical roadshow will target live meetings in New York, Boston, and Philadelphia*

Benefits of GREC Buyout

- Termination of the PPA and resulting operational flexibility;
- An immediate reduction of operating costs and an immediate one-time reduction of electric bill of approximately 8% addressing the City's policy for rate competitiveness;
- The realization of future annual cash flow savings from the elimination of the minimum annual payments under the PPA, compared to the estimated annual debt service on the 2017 Bonds;
- A reduction of long-term contractual obligations on GRU's balance sheet of approximately \$1 billion in exchange for adding approximately \$660 million of long-term debt;
- The flexibility to operate the GREC Biomass Plant as a strategic reliability hedge, based on the market cost of power, cost of fuel, and operating and maintenance requirements of the GREC Biomass Plant;
- The final resolution of all on-going arbitration between the City and GREC

Appendix: Resolution Amendments

Resolution Amendments

| Proposed Amendment | Benefits of Amendment |
|---|---|
| Definitions of Debt Service, Adjusted Aggregate Debt Service and Aggregate Debt Service | Clarify the treatment of swap payments and receipts and the assumptions used in connection with variable rate bonds to avoid the appearance of having to double count swap payments. |
| Addition of a definition of Connection Fees | Define connection fees imposed to compensate the City for the cost of required System expansions (i.e., “impact fees”) and restrict, to the extent imposed, the use thereof to the pay debt service on “expansion bonds” as required under Florida law. See Section 504 |
| Define “Subsidy Bonds” and clarify how payments made by the federal government with the respect thereto are treated. (See 504 and 505) | The amendment will provide for increased debt service coverage. |

Resolution Amendments

| Proposed Amendment | Benefits of Amendment |
|---|---|
| Debt Service Reserve Requirement | Clarify that the City may, by Supplemental Resolution, establish separate reserve requirements for individual series of Bonds, including a zero reserve fund requirement where warranted in the market. |
| Defeasance Securities | Modernized the definition to provide for updated securities which can be utilized for the defeasance of Bonds. |
| Qualified Hedging Contracts | Clarify what constitutes a Qualified Hedging Contract (to include only interest rate hedges) and clarify the priority of termination payments and other non-scheduled hedging costs. Provided that non-Qualified Hedging Contracts, such as fuel hedges, are payable as an O&M. |
| Operating and Maintenance Expenses | Clarify what should be included as an O&M expense, relying on the appropriate treatment under GAAP. |

Resolution Amendments

| Proposed Amendment | Benefits of Amendment |
|--|--|
| Additional Bonds Tests (202) | Combining the historical and prospective tests to include a single test based on historical net revenues adjusted for increased users, rate increases, acquisitions and other factors that may have occurred after the audit period and before the proposed bonds are issued, and prospective maximum annual debt service. |
| Refunding Bonds Test (204) | Provide for the issuance of Refunding Bonds that do not need to meet the additional bonds test in Section 202 if (i) there are debt services savings from the refunding in every year or (ii) if the Maximum Aggregate Debt Service on the refunding bonds is not greater than the Maximum Aggregate Debt Service on the bonds to be refunded. |
| Indemnification (305 and 905) | Limit indemnification requirements of the City. |
| Variable Rate Hedging Obligations (209) | Clarify methodology to calculate prospective payments due under Variable Rate Hedging Obligations. |

Resolution Amendments

| Proposed Amendment | Benefits of Amendment |
|--|---|
| Surety Reserve Products (508) | Modify rules for using surety policies in lieu of a cash funded Debt Service Reserve Account, and provide further details and requirements with respect to such policies. |
| Valuation of Funds (604) | Provide that deposits in various funds and accounts held under the Resolution shall be valued at Fair Market Value (in lieu of “amortized cost”). Provide for funding the Debt Service Reserve Fund as a result of a decline in value of investments over 90 days, or as otherwise provided in a Supplemental Resolution for subaccounts. |
| Use of Insurance Proceeds (712) | Modify the rules governing the use of insurance proceeds received from the damage or destruction of all or a part of the System to include the City’s right to reconstruct the System or redeem Bonds. |
| Annual Reporting (708, 712 and 713) | Delete the City’s requirement to file annual reports with the Trustee. |

Resolution Amendments

| Proposed Amendment | Benefits of Amendment |
|---|--|
| <p>Conceptual Amendments (716 and 1003)</p> | <p>Describe in general terms amendments that would be authorized without further consent (i) if ownership of the System is reorganized into a separate form of government and (ii) to allow the City to delete from or add to the definition of “System,” (other than the electric, water and wastewater systems) various components thereof that would not adversely affect the City’s ability to meet its rate covenant.</p> |
| <p>Events of Default (801)</p> | <p>Provide clarification that payment defaults on Parity Reimbursement Obligations are subject to applicable grace periods and provide for continued cure right of City for covenant defaults so as City continues in good faith to cure.</p> |
| <p>Amendments to Master Resolution (1003 and 1103)</p> | <p>Modify the methods by which the Master Resolution can be further amended, which amendments would specifically permit (i) underwriters to consent on behalf of bondholders before marketing such bonds and (ii) consents granted by bondholders as part of their acceptance of the Bonds. Simplify the amendment process by providing consent to amendments is irrevocable and removing many of the administrative hurdles currently required.</p> |
| <p>Cost Containment Bonds (1108)</p> | <p>Authorize the City to issue Cost Containment Bonds, thereby excluding from the definition of Revenues amounts generated from assessments or “utility project charges” imposed or levied in connection therewith.</p> |