Gainesville Regional Utilities

2017 Series C
Synthetic Alternatives

February 8, 2018

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Bank of America Costless Collar Proposal Matrix

Current 85% 1M LIBOR Reset: 1.326%

Effective Date 2/1/18

85% 1 Month LIBOR Costless Collar Floor Strike			
		Floor Strike Rate	
Cap Strike Rate	5 Year	10 Year	25 Year
2.50%	1.93%	2.10%	2.22%
2.75%	1.81%	1.97%	2.06%
3.00%	1.70%	1.83%	1.91%

Bank of Upfront Premium Interest Rate Cap Proposal

Effective Date 2/1/18

85% 1 Month LIBOR Cap - Upfront Premium			
Strike Rate	**5 Year**	**10 Year**	**25 Year**
2.50%	$1,266,000	$4,185,000	$12,855,000
2.75%	$964,000	$3,526,000	$11,078,000
2.75%	$737,000	$2,898,000	$9,577,000

Synthetic Alternative Product Comparison

Assuming 2.50% Cap Strike Rate, 25 Year Term			
Excluding 41 BP Credit Spread (consistent for all products)			
Non-cancellable swap	2.40%	Collar	never pay less than 2.22%, never pay more than 2.50%
Swap cancellable in 10 years	2.920%		
Interest rate cap - up front payment	$12,855,000		

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Synthetic Alternative Product Comparison

Assuming 2.50% Cap Strike Rate, 25 Year Term

Excluding 41 BP Credit Spread (consistent for all products)

Non-cancellable swap	**2.40%**	**Collar**	**never pay less than 2.22%, never pay more than 2.50%**
Non-cancellable swap preferable to collar if rate > 2.40		Collar preferable to non-cancellable swap if rate < 2.40	
1 - 10 BPS if rate between 2.40 & 2.50		1 - 18 BPS if rate between 2.22 & 2.40	
10 BPS if rate above 2.50		18 BPS if rate below 2.22	

Both of these products carry some similar risk factors: mark-to-market risk, potential collateral posting, counterparty risk

Swap cancellable in 10 years **2.920%**

From a rate perspective, non-cancellable swap and collar are preferable

However, option to cancel at 10 years mitigates some of the mark-to-market, collateral posting and counterparty risk associated with other products

Interest rate cap - up front payment **$ 12,855,000**

Requires up front out of pocket cash outlay

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Advantages and Disadvantages of Interest Rate Collar

ADVANTAGES:

- Floor and Cap strikes can be set so that no upfront cash outlay required (Zero Cost Collar)
- Mitigates interest rate risk above the Cap strike rate

DISADVANTAGES:

- No ability to benefit if future decline in interest rates below Floor strike rate
- May immediately increase floating rate debt cost depending on level of Floor strike rate
- Collar mark-to-market value will become negative if rates decline
- Possible collateral posting requirement depending on terms of the ISDA Agreement
- Credit exposure (default risk) to bank counterparty
- Large bid/offer spread (transactions costs) for long-dated interest rate options

Advantages and Disadvantages of Interest Rate Cap

ADVANTAGES:

- Mitigates interest rate risk above the Cap strike rate
- Ability to benefit if interest rates decline or remain unchanged
- Can set Cap strike rate out of the money (above current rates) if only need “disaster insurance”
- Cap always remains an asset to purchaser (can never have a negative mark-to-market value)

DISADVANTAGES:

- Upfront cash outlay (premium) required
- Credit exposure (default risk) to bank counterparty
- Large bid/offer spread (transactions costs) for long-dated interest rate options

Staff Recommendation

- For the time being remain with original financing plan to keep Series 2017C variable rate debt unhedged
- Continue to monitor markets and movements in short-term rates to identify potential opportunities