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Title: Resolution Authorizing the Execution of Gainesville Regional Utilities Financial Transactions (B)

This item was presented to the UAB on October 10, 2019.

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| Date | Ver. | Action By | Action | Result |
|------------|------|------------------------|--|--------|
| 10/17/2019 | 1 | City Commission | Adopted (Resolution) and Approved the Recommendation | Pass |
| 10/10/2019 | 1 | Utility Advisory Board | | |

Resolution Authorizing the Execution of Gainesville Regional Utilities Financial Transactions (B)

****This item was presented to the UAB on October 10, 2019.****

Taxable and tax-exempt rates have dropped to historic lows. These rates and the compression between the two yield curves is offering unprecedented opportunities for municipal issuers. Working with its independent financial advisor, GRU’s staff has identified a range of potential financial transactions for consideration in the upcoming months which, based on these market conditions, may allow the utility to

- Achieve current savings or lock in future savings
- Reduce debt portfolio risk
- Reduce leverage ratios

Staff’s intent is to describe and discuss the scope of each transaction with the City Commission and request that the Commission provide authorization to the General Manager or his designee to execute the transactions within prescribed parameters and timeframes to expeditiously take advantage of these changing market conditions. This City Commission authorization will provide staff the flexibility to execute transactions in a timely fashion, thereby contributing to GRU’s ability to deliver the \$38.3 million budgeted transfer to the General Fund.

Following are the potential transactions, execution parameters and timeframes.

AMEND EXISTING SWAP AGREEMENTS

(1) 2017 Series B Swap Amendment:

In 2017, as part of the DHR acquisition transaction, GRU entered into a 27 year \$105 million swap with Goldman Sachs. The purpose of this swap was to hedge a portion of the variable interest rate debt issued to acquire the plant to a fixed rate, as well as to achieve additional savings compared to issuing more fixed rate debt. This swap included a right for GRU to terminate the swap on and after year 10 without cost, similar to the redemption rights of the fixed rate bonds issued for the acquisition. GRU is requesting authorization to negotiate an approximate seven year extension of the termination option, extending the call option from 10 years to 17 years. In exchange for this extension, staff will negotiate with the swap provider, based on current market conditions, either a reduction in the fixed rate GRU currently pays to the swap provider or an upfront lump sum payment.

Execution parameters: Authorization through September 30, 2020, with minimum annual savings based on a reduction in the fixed rate leg of the swap of \$200,000 or an upfront payment of \$5 million.

REFUND FIXED RATE BONDS

(2) Fixed Rate Refunding of Currently Outstanding GRU Debt:

(a) Taxable Refunding: Last year IRS regulations were changed to eliminate the authority for tax-exempt advance refundings (issuing tax-exempt bonds more than 90 days prior to the official “call” date to refund the bonds). With taxable interest rates at historic lows, it is economically viable to issue taxable debt to advance refund outstanding tax-exempt debt and achieve significant savings. This proposal covers potential refundings of currently outstanding GRU fixed rate tax-exempt debt:

2005 Series A 2010 Series C 2012 Series A
2014 Series A 2014 Series B 2017 Series A 2019 Series A

(b) Tax-Exempt Refunding: In addition this would provide for a tax-exempt refunding of the currently outstanding 2009 Series B bonds.

Execution parameters: Authorization to enter into a bond purchase contract and related documents through September 30, 2020 to refund GRU’s tax-exempt debt with a savings threshold of 5% NPV, and an all in true interest cost not to exceed 5%. No extension of debt based on final maturity.

(3) Tax-Exempt Advance Refunding of Currently Outstanding Debt:

There is currently some momentum towards Congressional reauthorization of tax-exempt advance refundings. In the event this occurs, GRU would potentially pursue this avenue versus the taxable refunding described above and utilize the most economically efficient transaction. The bonds to be refunded as well as the execution parameters would remain the same. The resolution authorizes the issuance of tax-exempt bonds if permissible.

(4) Forward Starting Swap:

In this transaction GRU would take advantage of current low long term rates to lock in a favorable long term swap rate. Under this structure, GRU would enter into a forward starting fixed rate swap today that would be based on currently effective interest rates and the swap would become effective at the optional redemption date of an outstanding series of bonds. At the call date of the bonds to be refunded, GRU would have the option to:

- Terminate the swap (either receiving or making a termination payment based on market rates at the time the swap is effective) and do a fixed rate refunding, or

- Continue the swap and issue variable rate debt that would refund the outstanding bonds and the swap would synthetically fix the interest rate on the variable rate debt.

Execution parameters: Authorization through September 30, 2020. Minimum savings of 5% NPV.

FIX OUT VARIABLE RATE DEBT

(5) Issue Long Term Fixed Rate Debt:

Given the historic lows in rates, this transaction would allow GRU to issue fixed rate refunding bonds to redeem currently outstanding variable rate debt to allow for more cost certainty while locking in low long-term fixed interest rates. The ultimate benefit of this transaction is the reduction in potential volatility of interest rates, increased budgetary certainty, and improved leverage ratios, such as debt service coverage. These bonds would be issued as tax-exempt bonds.

Execution parameters: Authorization to enter into a bond purchase contract through September 30, 2020. All in true interest cost not to exceed 5%. No extension of debt based on final maturity.

(6) Fixed Payer Swap:

This transaction involves taking advantage of current low long term rates by entering into a fixed rate swap to synthetically fix the interest rate on outstanding variable rate debt.

Execution parameters: Authorization through September 30, 2020. Fixed interest rate payable by the City under the swap not to exceed 3.25%. The amount of the swap cannot exceed the principal amount of the associated bonds and if recommended by the Financial Advisor the City may have the right to terminate the swap without payment to either party and if so recommended, such termination right shall not be less than 11 years from the trade date of such swap.

ACCELERATED PRINCIPAL PAYMENT

(7) Cash Optimization:

During the FY20 budget hearings there was a great deal of discussion surrounding the prospect of accelerating principal payments on our existing outstanding debt. This proposal contemplates using cash to defease currently outstanding, high coupon debt. This would provide the dual benefits of, upon the redemption of the bonds, reducing our overall interest obligations as well as immediately reducing our leverage ratios which continue to be watched by the rating agencies.

Execution parameters: Authorization through September 30, 2020. GRU cash on hand by system will dictate the amount of debt defeased but not to exceed \$25,000,000.

Depending on the combination of transaction options implemented, under current market conditions the potential result can be:

- Annual debt service expense reductions
- Receipt of lump sum up front payments
- Reduced volatility of debt service expense
- Increased budgetary certainty

- Lower leverage ratios

The City Commission authorize the General Manager or his designee to negotiate and execute the listed transactions within the prescribed execution parameters and timeframes, and approve the

- Thirty Second Supplemental Utilities System Revenue Bond Resolution
- Forms of the Escrow Deposit Agreement, Bond Purchase Contract, Preliminary Official Statement, and Continuing Disclosure Certificate
- Delegation of selection of the underwriting team

and authorize the execution and delivery thereof, subject to approval of the City Attorney as to form and legality.

The UAB voted 6-0, with Member Rockwell absent, to recommend that the City Commission approve the staff recommendation.