



Legislation Text

File #: 200097., **Version:** 1

Mandatory Tender of 2017 Series B and 2017 Series C Bonds (NB)

As part of the financing to acquire the DHR facility in 2017, GRU issued \$265 million in variable rate debt in the form of two direct purchase agreements - \$150,000,000 of 2017 Series B bonds with Wells Fargo and \$115,000,000 in 2017 Series C Bonds with Bank of America.

Both of these direct purchase agreements have mandatory tender dates of November 7, 2020. This means that GRU must make a determination as to what financing options are preferable for the renewal of this variable rate debt. There are two primary options available to redeem this debt:

- 1) Issue fixed rate debt and terminate the swaps or allocate them to other variable rate debt
- 2) Maintain variable rate debt with the following choices:
 - a) Renew the existing direct purchase agreements
 - b) Issue floating rate notes
 - c) Issue variable rate demand bonds supported by a credit facility

Fixed rate options: Both of these variable rate issues are synthetically fixed through swaps, therefore issuance of fixed rate debt to redeem the issues is not an economically viable option.

Variable Rate Options: Circumstances of the COVID-19 Pandemic have created a supply and demand imbalance. Issuers either (1) need credit (2) need to increase credit or (3) draw on credit to improve cash balance and liquidity measures for FY20 and FY21. In this environment it now appears that floating rate notes or variable rate demand bonds may be the most viable options for GRU for renewing this debt but these options are dictated by investor preference.

GRU plans to post an announcement on EMMA regarding its variable rate process to potentially redeem this variable rate debt, the 2017 B and C Bonds. This redemption disclosure will facilitate GRU's (and the banks supporting this effort) to do price discovery by having preliminary discovery with market participants. Price discovery can determine the most efficient and effective way for GRU to pursue this transaction. As part of being ready to exercise whichever option is determined to be preferable, staff will be bringing back to the City Commission supporting documents for both floating rate notes and variable rate demand bonds so that we can

employ whichever the most efficient option is as dictated by market conditions at the time of the tender date.

The process for renewing this variable rate debt is designed to identify the most efficient and effective manner to proceed.

The City Commission receive a report on redeeming the Series 2017 B and Series 2017 C bonds on their mandatory tender date of November 7, 2020.