



City of Gainesville Agenda Item Report

File Number: 2023-304

Agenda Date: April 6, 2023

Department: Gainesville Regional Utilities

Title: 2023-304 Resolution Authorizing the Current Refunding of the Variable Rate Utilities System Revenue Bonds, 2020 Series B through the Issuance of Variable Rate Utilities System Revenue Bonds, 2023 Series B (B)

Department: GRU, Budget/Finance/Accounting

Description: In 2017 as part of the financing to acquire the DHR facility, GRU issued \$150,000,000 original principal amount of Variable Rate utilities System Revenue bonds, 2017 Series B (the "2017 Bonds") in variable rate 2017 Series B Bonds in the form of a direct purchase agreement with Wells Fargo Bank. This was a three year agreement, and in 2020 \$45,000,000 of the 2017 Bonds were renewed with Wells Fargo and remained designated as 2017 Series B Bonds, and \$105,000,000 were refunded through a direct purchase agreement with TD Bank and re-designated as 2020 Series B Bonds. This direct placement expires this year, and staff is proposing that the 2020 Series B Bonds be refunded through a variable rate direct purchase agreement with TD Bank.

Fiscal Note: TD Bank's bid on the 2023 Series B Bonds is 80% of SOFR plus 53 basis points. At the rates as of the date of this writing, after factoring in the effects of the fixed to floating swap, the net effective borrowing rate on the 2023 Series B Bonds is ~2.83%.

Explanation: The current direct purchase agreement on the Series 2020 B Bonds with TD Bank expires this year. On January 3, 2023 a Request for Information from GRU's financial advisor PFM Financial Advisors, LLC was distributed to 15 banks soliciting proposals on renewal or replacement of three series of outstanding variable rate direct purchase bonds, including the 2020 Series B Bonds, as well as the issuance of new money bonds. Seven banks responded, and the proposal from TD Bank related to the Series 2020 B Bonds was evaluated as the top-ranked alternative for such series. TD Bank's top-ranked direct purchase loan alternative is priced as a percentage of the SOFR index. The 2020 Bonds are currently hedged through a LIBOR based fixed to floating rate swap with Goldman Sachs. To maintain the integration of the swap with the

loan it supports under IRS regulations the variable leg of the swap and the variable loan rate must be within 25 basis points. The primary benefit of maintaining the integration of the swap with the loan is that it retains GRU's ability to finance any potential future termination payment of the swap on a tax-exempt basis.

As of this writing, the spread between the variable rate of the loan based on 80% of SOFR and the variable rate of the swap at 70% of LIBOR exceeds 25 basis points. Accordingly, the attached resolution not only authorizes the issuance of the 2023 Series B Bonds to refund the 2020 Bonds but provides for the amendment of the underlying swap with Goldman Sachs to effect a transition from a LIBOR based swap to a swap based on the SOFR index and to modify the spread from 70% to more closely match the loan to maintain the integration. Irrespective of this refunding, the Goldman Sachs swap would transition to SOFR in July 2023 when 30-day LIBOR is to be phased out.

Strategic Connection:

- ☐ Goal 1: Equitable Community
- ☐ Goal 2: More Sustainable Community
- ☐ Goal 3: A Great Place to Live and Experience
- ☒ Goal 4: Resilient Local Economy
- ☐ Goal 5: "Best in Class" Neighbor Services

Recommendation: The City Commission approve the resolution authorizing: 1) refunding of the \$105,000,000 2020 Series B Bonds through the issuance of the 2023 Series B Bonds to be purchased by TD Bank in the principal amount of \$105,000,000 and 2) amendment of the underlying fixed to floating swap on the 2020 Series B Bonds with Goldman Sachs to change the index on the swap from LIBOR to SOFR and the percentage of the index. In their 3/28/23 meeting, the UAB voted unanimously to advise the Commission to approve the staff recommendation.