2023-304A

Gainesville Regional Utilities
Proposed Financial Transactions
City Commission
April 6, 2023

More than Energy

Refunding of Outstanding Variable Rate Direct Purchase Bonds

$45,000,000 2017 Series B
$115,000,000 2017 Series C
$105,000,000 2020 Series B

NO NEW DEBT

CITY OF GAINESVILLE 1869 STATE OF FLORIDA

GRU

More than Energy

Refunding of Outstanding Variable Rate Direct Purchase Bonds

- In 2017 as part of the financing to acquire the DHR facility, GRU issued the following debt through variable rate direct purchase bonds:
  - $150,000,000 in 2017 Series B Bonds with Wells Fargo
  - $115,000,000 in 2017 Series C Bonds with Bank of America

- These agreements were for three year terms expiring in November of 2020

Refunding of Outstanding Variable Rate Direct Purchase Bonds

- Upon the expiration of the original three year agreements, based on proposals solicited through our financial advisor PFM LLC in 2020:

  - $45,000,000 of the 2017 Series B Bonds were renewed for three years with Wells Fargo and remained designated as 2017 Series B Bonds
  - The remaining $105,000,000 in 2017 Series B Bonds were refunded through a three year direct purchase bond with TD Bank and re-designated as 2020 Series B Bonds
  - $115,000,000 in Series 2017 C Bonds were renewed for three years with Bank of America

- All three of these agreements expire this year

Refunding of Outstanding Variable Rate Direct Purchase Bonds

- On January 3, 2023 PFM LLC distributed a Request For Information to 15 banks soliciting proposals on renewal or replacement of these three direct purchase bonds, with seven banks responding

- Truist Commercial Equity, Inc. (Truist) had the top-rated proposal on both the $45,000,000 in 2017 Series B Bonds and the $115,000,000 in 2017 Series C Bonds

- TD Bank had the top-rated proposal on the $105,000,000 in 2020 Series B Bonds

Refunding of Outstanding Variable Rate Direct Purchase Bonds

- These direct purchase bonds are priced as a percentage of the SOFR index, and are hedged through LIBOR based fixed to floating swaps which pays GRU 70% of one-month LIBOR

- Under IRS regulations to maintain integration of the swaps with the loans they support the variable receiving leg of the swap and the variable loan rate must be within 25 basis points of each other.

- 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 swap termination payments on a tax-exempt basis

Refunding of Outstanding Variable Rate Direct Purchase Bonds

- As of this writing the spread between the SOFR based loans and the LIBOR based swaps exceeds 25 basis points on the Series 2017 B underlying swap with Citi Bank and the Series 2020 B swap with Goldman Sachs

- Accordingly the authorizing resolutions provide not only for refunding of the direct purchase bonds but also for amending the underlying swaps to effect a transition from LIBOR based swaps to swaps based on the SOFR index and to modify the spread from 70% to more closely match the loan to maintain the integration of the swaps

- Irrespective of this refunding, these swaps would transition to SOFR in July 2023 when 30-day LIBOR is phased out

Refunding of Outstanding Variable Rate Direct Purchase Bonds

RECOMMENDATION

The City Commission approve the resolution authorizing 1) refunding of the $45,000,000 2017 Series B Bonds and
$115,000,000 2017 Series C Bonds through issuance of a variable rate direct purchase agreement with Truist for the $160,000,000 2023 Series A Bonds and 2) amendment of the underlying fixed to floating swap on the 2017 Series B Bonds with Citi Bank changing the index on the swap from LIBOR to SOFR and the percentage of the index.

Refunding of Outstanding Variable Rate Direct Purchase Bonds

RECOMMENDATION

The City Commission approve the resolution authorizing 1) refunding of the $105,000,000 2020 Series B Bonds through issuance of a variable rate direct purchase agreement with TD Bank and 2) amendment of the underlying fixed to floating swap on the 2020 Series B Bonds with Goldman Sachs changing the index on the swap from LIBOR to SOFR and the percentage of the index.