



City of Gainesville Agenda Item Report

File Number: 2023-305

Agenda Date: April 6, 2023

Department: Gainesville Regional Utilities

Title: 2023-305 Resolution for Current Refunding of Variable Rate Utilities System (VRUS) Revenue Bonds, 2017 Series B, and VRUS Revenue Bonds, 2017 Series C, thru Issuance of VRUS Revenue Bonds, 2023 Series A (B)

Department: GRU, Budget/Finance/Accounting

Description: In 2017 as part of the financing to acquire the DHR facility, GRU issued:

- \$150,000,000 in variable rate 2017 Series B Bonds in the form of a direct purchase agreement with Wells Fargo Bank, and
- \$115,000,000 in variable rate 2017 Series C Bonds in the form of a direct purchase agreement with Bank of America

These were three year agreements with termination dates in November of 2020. 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 \$115,000,000 in Series 2017 C Bonds were renewed for three years with Bank of America. Both of these direct purchase agreements expire this year, and staff is proposing that the two issues be currently refunded through a variable rate direct purchase agreement with Truist Commercial Equity, Inc. an affiliate of Truist Bank ("Truist") through the issuance of \$160,000,000 of the Bonds.

Fiscal Note: Truist's bid on the 2023 Series A Bonds is 79% of SOFR plus 57 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 \$45,000,000 of refunded 2017 Series B Bonds is ~2.62% and the effective borrowing rate on the \$115,000,000 of refunded 2017 Series C Bonds is ~2.47%.

Explanation: The current direct purchase agreements on the Series 2017 B Bonds with Wells Fargo and the Series 2017 C Bonds with Bank of America expire this year. On January 3, 2023 a Request for Information by 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 as well as the issuance of new money bonds. Seven banks responded, and the proposal from Truist Bank related to the Series 2017 B and Series 2017 C Bonds was evaluated as the top-ranked alternative for such series.

Truist's top-ranked direct purchase loan alternative is priced as a percentage of the SOFR index. The 2017 Series B Bonds are currently hedged through a LIBOR based fixed to floating rate swap. 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 79% of SOFR and the variable rate of the swaps at 70% of LIBOR exceeds 25 basis points. Accordingly, the attached resolution not only authorizes the refunding of the 2017 Series B Bonds and 2017 Series C Bonds but also provides for the amendment of an underlying swap on the Series 2017 B Bonds with Citi Bank 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 of the swap. Irrespective of this refunding, the Citi swap would transition to SOFR in July 2023 when 30-day LIBOR is 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 \$45,000,000 2017 Series B Bonds and \$115,000,000 2017 Series C Bonds through the issuance of the 2023 Series A Bonds to be purchased by Truist in the principal amount of \$160,000,000 and 2) amendment of the underlying fixed to floating swap on the 2017 Series B Bonds with Citi Bank 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 City Commission to approve the staff recommendation.