



# Upcoming Financial Transaction Opportunities

Utility Advisory Board  
October 10, 2019

City Commission  
October 17, 2019

# **Upcoming Financial Transaction Opportunities**

- **No transactions will be undertaken unless minimum execution parameters are met**
- **Refunding transactions will result in reduction in total principal & interest obligations, on both a gross and present value basis**
- **No new money - all refundings or restructurings of existing debt**
- **Bonds issued to refund outstanding debt will not have a maturity longer than the bonds they refund**
- **Goal is to identify the most efficient transactions to refund existing debt**

# Upcoming Financial Transaction Opportunities

TRANSACTION	SUMMARY	TIMEFRAME	EXECUTION PARAMETERS
<b>AMEND EXISTING SWAP AGREEMENT</b>			
2017 Series B Swap Amendment	Amend swap to achieve either reduction in fixed payment rate or up front lump sum payment	Through 9/30/20	Minimum annual \$200,000 savings or lump sum payment of \$5M
<b>REFUND FIXED RATE BONDS</b>			
Taxable Advance Refunding	Taxable advance refunding of outstanding fixed rate tax-exempt debt	Through 9/30/20	Minimum savings 5% NPV No extension of debt based on final maturity True Interest Cost not to exceed 5%
Tax-exempt Refunding	Tax-exempt refunding of outstanding fixed rate tax-exempt debt	Through 9/30/20	Change in tax code required Minimum savings 5% NPV No extension of debt based on final maturity True Interest Cost not to exceed 5%
Forward Starting Swap	Take advantage of current low long term rates and lock in swap rate at predetermined date	Through 9/30/20	Minimum savings 5% NPV
<b>FIX OUT VARIABLE RATE DEBT</b>			
Fixed Rate Refunding	Issue long-term fixed rate debt to refund variable debt	Through 9/30/20	No extension of debt based on final maturity
Fixed payer swap	Refund variable rate debt with low fixed payer swap rate	Through 9/30/20	Fixed payer rate not to exceed 3.25%
<b>ACCELERATE PRINCIPAL REPAYMENT</b>			
Cash Optimization	Use cash to defease outstanding higher coupon debt	Through 9/30/20	Amount not to exceed \$25,000,000

**Savings generated will be used to pay debt service**

# **Upcoming Financial Transaction Opportunities**

## **Transactions Under Current Consideration**

- **Current market conditions support:**
  - **Extension of the call option from 10 years to 17 years on the 2017 Series B fixed rate swap**
  - **\$405,000 cash defeasance 2005 Series A Bonds**
  - **\$10,505,000 taxable advance refunding 2010 Series C Bonds**
  - **\$23,165,000 forward starting swap 2014 Series A Bonds**
  - **\$98,610,000 fixed rate swap 2012 Series B Bonds**

# **Upcoming Financial Transaction Opportunities**

## **2017 Series B Swap Amendment**

- **As part of the DHR transaction GRU issued a variable rate series of bonds**
  - **GRU entered into a \$105M swap with Goldman Sachs in order to hedge the variable interest rate (change to synthetically fixed rate debt) as well as reduce the overall cost of financing the acquisition of DHR**
- **Swap included a right to terminate on and after year 10 without payment, similar to redemption rights on other bonds issued for DHR**
- **GRU is requesting authorization to negotiate an approximate seven year extension of the termination option**
  - **Moves the first call date from 10 years to 17 years**

# **Upcoming Financial Transaction Opportunities**

## **2017 Series B Swap Amendment**

- In exchange for the extension, staff will negotiate with the swap provider, either:
  - A reduction in the fixed rate GRU currently pays to the swap provider, or
  - An upfront lump sum payment
- Execution parameters
  - Authorization through 9/30/20
  - Minimum annual savings based on a reduction in the fixed rate leg of the swap of \$200,000 or an upfront payment of \$5M

# **Upcoming Financial Transaction Opportunities**

## **Taxable Advance Refunding of Outstanding Fixed Rate Debt**

- **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**
- **Proposal covers potential refundings of currently outstanding fixed rate tax-exempt debt**

# **Upcoming Financial Transaction Opportunities**

## **Taxable Advance Refunding of Outstanding Fixed Rate Debt**

- **Execution parameters:**
  - **Authorization through 9/30/20**
  - **Transaction savings threshold of 5% on an NPV basis**
  - **All in true interest cost not to exceed 5%**
  - **No extension of debt based on final maturity**



# **Upcoming Financial Transaction Opportunities**

## **Tax-Exempt Advance Refunding of Outstanding Fixed Rate Debt**

- **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 in the previous slides**
  - **Utilize the most economically efficient transaction**
- **May refund with tax-exempt bonds outstanding taxable 2009 Series B Build America Bonds**
- **Execution parameters: same as taxable advance refunding**

# **Upcoming Financial Transaction Opportunities**

## **Forward Starting Swap to Refund Outstanding Fixed Rate Debt**

- **Take advantage of low long term swap rates to secure refunding savings**
- **Enter into a forward starting swap based on current swap rates. At the optional redemption date of bonds to be refunded, GRU would have the option to:**
  - **Terminate the swap, either make or receive a termination payment, and do a fixed rate refunding**
  - **Continue the fixed rate swap and issue variable rate debt to refund the underlying outstanding fixed rate debt**
- **Execution parameters**
  - **Minimum savings 5% NPV**

# **Upcoming Financial Transaction Opportunities**

## **Fixed Rate Refunding of Variable Rate Debt**

- **Given the historic lows in rates, this would allow us to issue fixed rate refunding bonds and reduce variable rate debt outstanding**
  - **Allow for more cost certainty of debt service**
  - **Lock in low rates**
- **Ultimate benefits of this transaction**
  - **Reduction in potential volatility of interest rates**
  - **Increased budgetary certainty**

# **Upcoming Financial Transaction Opportunities**

## **Fixed Rate Refunding of Variable Rate Debt**

- **Execution parameters:**
  - **Authorization through 9/30/20**
  - **All in true interest cost not to exceed 5%**
  - **No extension of debt based on final maturity**

# Upcoming Financial Transaction Opportunities

## Fixed Payer Swap to Fix Rate on Variable Rate Debt

- Take advantage of current low long term rates to lock in low long term fixed payer swap rate
- Synthetically fix outstanding variable rate debt at favorable rates
- Execution parameters:
  - Fixed payer rate not to exceed 3.25%

# Upcoming Financial Transaction Opportunities

## Cash Optimization

- During FY20 budget hearings there was considerable discussion regarding accelerated payment of outstanding principal
- Accelerating payments provides dual benefits of:
  - Reducing overall interest obligations
  - Reducing our leverage ratios which continue to be watched by rating agencies
- Proposal considers using available cash to defease currently outstanding high coupon debt

# Upcoming Financial Transaction Opportunities

## Cash Optimization

- Execution parameters:
  - Authorization through 9/30/20
  - GRU cash on hand by system will dictate the amount of debt defeased, but not to exceed \$25,000,000

# Upcoming Financial Transaction Opportunities

- Depending on the combination of transaction options implemented the result can be potential
  - Annual debt service expense reductions
  - Receipt of lump sum up front payments
  - Reduced volatility of debt service expense
  - Lower leverage ratios



# Upcoming Financial Transaction Opportunities

## Recommendation

- **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**

**QUESTIONS?**