Financing Our Energy Future

38th Annual PURC Conference
Next Generation Regulation:
Strengthening the Foundation While Adapting to Change
February 3, 2011

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Gainesville Regional Utilities
Gainesville Regional Utilities

• Municipally-owned Combined Utility System
  – Located in Gainesville, Florida
  – 847 employees serving:
    • 93,129 Electric customers
    • 33,451 Natural Gas customers
    • 69,496 Water customers
    • 62,071 Wastewater customers

• Revenue Base is Diversified
  – FY 2009 combined systems revenue of $363.6 million
  – FY 2009 Revenue Breakdown:
    • Electric 73.4%, Wastewater 8.9%, Water 7.8%, Gas: 7.2%, Other 2.7%

• Total Debt Outstanding of approximately $983m, with an overall cost of debt below 4.50%
Debt Management Policy

• **Objective**
  – Take a long term approach in borrowing funds at the lowest possible interest cost in view of GRU’s risk tolerance

• **Investment Structure is contemplated in debt management**

• **Annual Plan of Finance projects the amount of debt to be issued considering**
  – Capital project evaluation
  – Availability of equity funds
  – Desired debt service coverage levels
Debt Management Policy:
Debt Structure

- Authorized to issue senior and subordinate debt
- Can issue either tax-exempt or taxable
- Fixed versus Variable Rate Debt
  - Overall cost of capital
  - Interest rates
  - Shape of the yield curve
  - Changing tax or other laws
  - Flexibility
  - Goal is a 75% Fixed/Synthetic Fixed and 25% Variable
- Evaluate risk versus cost savings
- GRU consults with our financial advisor routinely
Debt Management Policy:  
Debt Structure

Gross Debt Structure (including CP)

- Build America Bonds: 28%
- Taxable Fixed: 16%
- Tax-Exempt Fixed: 17%
- Weekly Variable: 23%
- Daily Variable: 10%
- Tax-Exempt CP: 6%
- Build America Bonds
- Gross Debt Structure (including CP)
Debt Management Policy:
Debt Structure

Net Fixed and Variable

- Synthetic Fixed: 35%
- Variable: 4%
- Synthetic Variable: 4%
- Fixed: 57%
Debt Management Policy

- Ability to:
  - Fund a Debt Service Reserve
  - Utilize bond insurance
  - Refund debt where economical
  - Enter into interest rate swaps
  - Select underwriters, bond counsel and others

- Reporting and Compliance
  - Annually report on outstanding indebtedness summarizing principal amounts, interest rates and maturities
  - Responsibility to comply with all arbitrage and other bond related requirements
  - Regularly analyze investments and use of bond proceeds
GRU 2010 Issuance

- Market Conditions Leading up to Issuance
  - Economic uncertainty
  - Changing US political climate
  - Federal Reserve QEII purchase
  - Muni volume increasing
  - MMD rising but still historically low
GRU 2010 Issuance

• GRU Conditions Leading up to Issuance
  - Prefunding & Refunding
  - Second BABs issuance
  - Renewed scrutiny of liquidity & coverage levels by CRAs
  - Total debt approaching $1B
  - Total annual budget of $385M
  - Rate awareness vs. revenue requirements
GRU 2010 Issuance

2010 Series A (Taxable)
Par Amount: $12,930,000
Optional Redemption: Make Whole Cal at T+25 bp
Structure/Amortization: Term Bonds (2030)

2010 Series B (BABS)
Par Amount: $132,445,000
Optional Redemption: Make Whole Call at T+30 bp
Extraordinary Redemption: Make Whole Call at T+100 bp
Structure/Amortization: Term Bonds (2040)

2010 Series C (Tax-Exempt)
Par Amount: $16,365,000
Optional Redemption: Par Call on October 1, 2020
Structure/Amortization: Serial Bonds (2014-2019); Term Bonds (2034)

Ratings: Aa2/AA/AA (Moody’s/S&P/Fitch)

- Funded BAB eligible and taxable new money
- Prefunded $126M of future CapX to utilize BABS
- Capitalized interest thru 10/1/2012

-Achieved PV Savings of $189,931
or 3.11% of refunded bonds
GRU 2010 Issuance

Rates Sold-off in Response to the FOMC Quantitative Easing Announcement and Year End Supply Concerns

30-Year Treasuries (%)

<table>
<thead>
<tr>
<th>Date</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Sep</td>
<td>3.60%</td>
</tr>
<tr>
<td>12-Sep</td>
<td>3.88%</td>
</tr>
<tr>
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<td>4.00%</td>
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<tr>
<td>4-Oct</td>
<td>4.10%</td>
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<tr>
<td>16-Oct</td>
<td>4.20%</td>
</tr>
<tr>
<td>27-Oct</td>
<td>4.30%</td>
</tr>
<tr>
<td>7-Nov</td>
<td>4.40%</td>
</tr>
<tr>
<td>19-Nov</td>
<td>4.50%</td>
</tr>
</tbody>
</table>

Daily Volatility

- Avg 5 bp
- Min 0 bp
- Max 13 bp

GRU Pricing Nov 10 4.24%

Market Reaction to FOMC Announcement

30-Year MMD (%)

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Daily Volatility

- Avg 3 bp
- Min 0 bp
- Max 20 bp

GRU Pricing Nov 10 4.17%

Sept 1 3.68%
GRU 2010 Issuance

Accelerating Pricing by a Week Saved GRU an Estimated 25-80 bp Across the Curve

Net Debt Service Comparison

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Transaction</th>
<th>1-Week Later</th>
<th>Difference</th>
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<tbody>
<tr>
<td>2011</td>
<td>$722,527</td>
<td>$766,086</td>
<td>$43,559</td>
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<tr>
<td>2012</td>
<td>844,513</td>
<td>885,426</td>
<td>40,913</td>
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<tr>
<td>2013</td>
<td>6,790,037</td>
<td>7,115,901</td>
<td>326,864</td>
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<tr>
<td>2014</td>
<td>6,750,037</td>
<td>7,115,901</td>
<td>326,864</td>
</tr>
<tr>
<td>2016</td>
<td>7,850,037</td>
<td>8,215,901</td>
<td>365,864</td>
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<tr>
<td>2017</td>
<td>7,847,037</td>
<td>8,213,401</td>
<td>366,864</td>
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<tr>
<td>2018</td>
<td>7,851,537</td>
<td>8,213,401</td>
<td>361,864</td>
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<tr>
<td>2019</td>
<td>7,853,037</td>
<td>8,217,501</td>
<td>364,864</td>
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<tr>
<td>2020</td>
<td>6,497,037</td>
<td>6,812,151</td>
<td>315,114</td>
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<tr>
<td>2021</td>
<td>6,497,037</td>
<td>6,812,151</td>
<td>315,114</td>
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<tr>
<td>2022</td>
<td>6,497,037</td>
<td>6,812,151</td>
<td>315,114</td>
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<td>2023</td>
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<td>6,812,151</td>
<td>315,114</td>
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<td>2024</td>
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<td>315,114</td>
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<td>10,092,037</td>
<td>10,422,151</td>
<td>330,114</td>
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<td>10,020,867</td>
<td>10,365,894</td>
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<td>2029</td>
<td>9,971,473</td>
<td>10,305,137</td>
<td>333,664</td>
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<td>2030</td>
<td>7,767,083</td>
<td>8,053,348</td>
<td>336,266</td>
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<td>2031</td>
<td>7,828,716</td>
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<td>2032</td>
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<td>2034</td>
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<td>2035</td>
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<tr>
<td>2037</td>
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<td>333,582</td>
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<tr>
<td>2038</td>
<td>27,135,614</td>
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<td>331,773</td>
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<tr>
<td>2039</td>
<td>32,678,586</td>
<td>32,915,409</td>
<td>336,824</td>
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<td>2040</td>
<td>43,187,323</td>
<td>43,521,817</td>
<td>334,293</td>
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</table>

Total: $326,132,470 | $334,687,689 | $8,555,219

PV Difference: $8,555,219

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GRU is approximately $5 million PV better off than if it had priced 1-week later.
In addition, the 2003 Series A refunding would have instead produced 1% dissavings.

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1 Represents the difference in debt service costs on an offering 1 week following GRU’s pricing using updated benchmarks and credit spreads 26-32 bp wider
2 Represents the average life of the tax-exempt Series C bonds
Looking Ahead

RIP
BABS
02/17/09
to 12/31/10
?

13
Looking Ahead

- BABs expiration could increase 2011 tax-exempt supply, and push tax-exempt credit spreads wider
- However, economic recovery could support tighter credit spreads (good for state/muni tax revenues, GO’s)
- BASEL III and industry consolidation could drive liquidity costs higher
Looking Ahead

- Scrutinize capital expenditures/budgets
- Strengthen liquidity
- Be vigilant and proactive about credit ratings
- Consider alternative financing & revenue sources
- Think like a potential investor **AND** a customer