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## DERIVATIVES NEWS AND TRENDS

### Dade County, Fla., Enters Into a Fixed-to-Floating Interest Rate Swap

By Joanne Morrison

Washington – **Dade County, Fla.**, entered into a fixed-to-floating interest rate swap with **GBR Financial Products** in conjunction with the county's \$182.695 million of resource recovery facility refunding bonds priced late last month.

GBR Financial Product structured and served as counterparty for the swap, which extends through the final maturity of the bonds, 2013. GBR says the swap is possibly one of the largest and longest transactions of its kind ever executed by a municipal issuer.

"The fixed-to-floating interest rate swap was always an integral part of the county's financing plan," said **Don Rice**, president and chief executive officer of GBR Financial, adding that the county saves 100 basis points annually by entering into the transaction rather than issuing traditional variable-rate debt.

"In addition to much lower costs through the removal of letter of credit and remarketing fees, the county also removed several burdensome revenue constraints which should provide added financing flexibility to the county's overall debt portfolio," Rice said.

Rice said synthetic variable-rate debt has "distinct advantages" over conventional floaters because there are no LOC or remarketing fees and no increase fees as a result of credit downgrades.

"We believe more municipal entities will look to replace their old costly variable rate with this cheaper and far more efficient structure," Rice said.

"I think it is a good deal for the county, it saves a lot of money and gives us a lot of flexibility in the future," said Dade County commission, **James Burke**, in a statement released by GBR.

"GBR's innovative structure allowed us to do what we needed and at a much lower cost than a conventional financing," Burke said.



The interest rate swap is structured so that the county will receive fixed-rate payments from GBR that offset the fixed rate it is paying out on its bonds.

In exchange, the county will then pay GBR a floating rate based on the Public Securities Association Municipal Swap Index. The structure produces interest costs more than 100 basis points lower than the county's current cost of funds.

"In all, the swap should generate about \$15 million in present value savings, which is more than 8% of par," Rice said.

A unique feature of the swap was the firm's development of its so-called actual annual effective interest cost swap, which takes into account the increase in the average coupon over the life of the bonds. The fixed rate that the county receives will be equal to the fixed rate on the outstanding bonds and will change annually as that rate changes.

"By increasing the fixed swap coupon as the lower coupon bonds are amortized, we were able to achieve a structure that more closely resembles conventional variable-rate debt," said **Michael Murray**, vice president and senior trader at GBR.

Under a traditional fixed-to-floating swap, the fixed rate an issuer receives remains the same over the life of the swap. But in the actual annual effective interest cost swap, the fixed-swap rate rises so that it always equals the average coupon of the outstanding bonds.

Under this structure, the issuer can gauge in advance what the rate will be.

**'We believe more municipal entities will look to replace their old costly variable rate with this cheaper and far more efficient structure,' says Don Rice of GBR Financial.**

Rice cited a \$35 million deal for the **Texas Veterans Land Board**, closed in May 1994, as another example of a successful fixed-to-floating rate swap transaction. It was the state's first such deal, he said.

The purpose of Dade County's bonds issue and underlying interest rate swap transaction last month was to refinance the county's Series 1988, 1989, and 1990A variable-rate bonds that originally funded the county's waste-to-energy resources recovery facility.

That facility is operated by **Montenay-Dade Ltd.**, a joint venture between the county and **Montenay Power Corp.**

**Grigsby Brandford & Co.**, which is a part owner of GBR Financial, ran the books and headed a syndicate for the negotiated bond offering that includes **Smith Barney Inc.** as co-senior manager, **Howard Gary & Co.** and **AIBC Investment Services Corp.** are also aboard.

The bonds, with yields ranging from 4% in 1997 to 5.75% in 2010, are insured by AMBAC and have triple-A ratings from Standard & Poor's and Moody's.

A few weeks ago, GBR implemented a similar conversion to variable-rate debt for the city of **Fort Worth, Tex.**, against a portion of the city's already outstanding fixed-rate water and sewer revenue bonds.

Fort Worth officials said the program would allow the city to continue to benefit from the lower interest rates available in the short-term debt market that have been attained through the Water and Sewer Commercial Paper Program, without incurring additional principal obligations.

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