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DEALS

Diminutive Rice Gains Notice Again with Novel Swap

By Katherine M. Reynolds

WASHINGTON - With **Rice Financial Products** Co.'s execution last week of a \$140 million **Dade County**, Fla., interest rate swap, the small, minority-owned firm continues to give Wall Street bigshots a run for their money.

"To our knowledge, this is the first floating-to-floating interest rate swap that has been done in the municipal marketplace," president **J. Donald Rice, Jr.** said in a telephone interview, adding that it is one of the largest muni swaps in this year.

Market sources said **Merrill Lynch & Co.**, for one, has done floating-to-floating swaps, although they are very rare. The private nature of the over-the-counter derivatives means that few deals are announced.

The deal lowers Dade's borrowing costs to under 3% and provides \$12 million of cash-flow savings over the life of the deal, Rice said.

The deal is also unusual because it employs a blend of two interest rate indexes.

Under the transaction, which was priced Wednesday, Rice Financial will pay Dade County a rate based on The Bond Market Association index, and Dade will pay Rice Financial a rate based on a blend of that index and the LIBOR index, until the swap matures in October 2013. The Bond Market Association index was formerly known as the PSA index.

"It's unusual for issuers to change basis," a market participant said. "Given that they're changing basis, this is the most cost-effective way to get from one index to another."

"We're expecting to keep all of the savings in a rate-stabilization fund," said Dade County finance director **Rachel Baum**. The fund would provide a cushion in the event of a tax law change.

She added that the county relied heavily on financial advice and financial modeling provided by the team of **P.G. Corbin & Co.** and **Southern Municipal Advisors Inc.**

"We are quite happy we were able to complete the transaction and meet the pre-established savings parameters," Baum said in a statement.

Last week's swap fits in with outstanding fixed-rate solid-waste debt and an existing \$180 million fixed-to-TBMA swap. Dade now has an outstanding TBMA-LIBOR blended liability of \$140 million, instead of that \$140 million of fixed-rate or straight TBMA exposure.



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Rice said the rate Dade will pay is designed to exploit the spread between the tax-exempt TBMA index and the taxable LIBOR index. The contribution of the TBMA index and LIBOR to the rate Dade pays will change over the 16-year life of the swap.

"The interest rate swap is designed to take advantage of the relative steepness of the municipal yield curve compared to the tax-able yield curve," he said. "In the current market, the transaction saves almost 100 basis points per year."

Baum said the rate the county pays on the existing swap will be adjusted by a factor of TBMA/0.604 minus LIBOR minus 0.86. The existing swap has a variable rate of TBMA plus about 50 basis points.

On the tax-exempt yield curve there are 215 basis points of slope between the long-term bond and the weekly The Bond Market Association index, Rice partner **Michael Murray** said. On the other hand, the taxable curve has 118 basis points of slope between long- and short-term yields.

Ambac Assurance Corp. will serve as credit-support provider, guaranteeing Rice Financial's obligation under the swap. In previous transactions, **Gen Re Insurance Co.** played that role for Rice Financial, Rice said.

However, he indicated that the two firms are still on good terms. "There has not been any change in our relationship," he said.

An Ambac official said the firm is very happy to have worked with Rice and his company on the trade.

Rice said it is difficult to pin down how much Rice Financial will earn on the trade, since it depends on how the swap performs over its entire life.

As for the risk of a change in tax law, both parties are exposed.

"Because this transaction is a floating-to-floating interest rate swap based on a combination of [TBMA] and LIBOR, the issues related to tax exposure found in conventional floating-to-fixed interest rate swaps are less relevant even though both parties have tax exposure," Rice said.

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