

Airport hopes to save with rate swap

Deal intended to cut interest on bonds

By Matt Scallan

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The New Orleans Aviation Board hopes to save \$8.6 million in interest costs over the next 14 years using a complicated interest rate swap on \$89 million in bonds at Louis Armstrong International Airport.

The board approved the deal with Rice Financial Products Co. of Houston at Tuesday's Aviation Board meeting. The Aviation Board studied the proposal for about a year before approving the deal, which is expected to save \$600,000 to \$700,000 a year.

The move will cost the airport \$372,000, including the cost of the transaction and fees for analyzing the proposal.

The airport's bonded debt totals \$172 million. The money was used for construction. The Aviation Board decided to commit only \$89 million to the agreement because there is some risk.

The intent of the deal is to lower the amount of interest the airport pays on the bonds, currently a fixed interest rate. It allows the airport to take advantage of variable interest rates, which are at historic lows, while protecting it from dramatic increases

in the variable rate that could occur. The deal expires in 2016.

The agreement requires Rice Financial to pay the airport money based on a relationship between the Bond Market Associates Index, which tracks interest rates on tax-free bonds, and the London Interbank Offered Rate index, which tracks taxable bonds. Based on the relationship of the two indices, the airport could be paid extra or would have to pay Rice. Any revenue the airport receives from Rice will be used to repay bond interest.

The Rice firm says it will make money from the deal by making its own hedge investments using minute differences between the two indices.

The board's adviser on the deal, Lennard Cuenco of P.G. Corbin Inc., said the airport will save as long as the marginal income tax rate, now 38.6 percent, remains above 15 percent. The marginal income tax rate is the highest personal tax rate levied. The marginal tax rate is a crucial factor in the profitability of the deal because of its effect on the value of tax-free bonds.