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Miami-Dade Tries Unique Swap With Eye on \$30 Million Savings

By Michael McDonald

Miami-Dade County has entered into an alternative variable-rate transaction with Rice Financial Products Co., a unique derivative that alters the interest rate exposure on \$200 million of fixed-rate bonds and could save it \$30 million in interest costs.

The deal amplifies and extends to 2026 from 2013 a derivative arrangement that the two entered into four years ago, officials said, and marks the fourth time Miami-Dade has altered interest rate exposure on its bonds with an alternative variable-rate agreement with Rice.

"Based on the performance of the original 1998 transaction, the county felt comfortable extending the term of the financing in order to take greater advantage of the available savings," said Rachel Baum, the county's finance director.

Miami-Dade, Baum said, has \$1.6 billion of debt.

By altering the interest rates on tax-exempt bonds with rates that are derived from the taxable fixed-income market, the deal is part of a larger trend with issuers seeking to lower interest costs through what are generally known as basis swaps. "It's becoming more common to see people doing basis trades," said Brian Nevel, partner in derivative services at Rice. "They are changing the basis of the interest payments, exchanging [The Bond Market Association] for Libor [London Interbank Offered Rate]."

The alternative variable-rate transaction is unique in that it combines elements of a fixed-to-floating-rate swap with a basis swap, which is typically done by swapping a tax-exempt floating rate to a Libor-derived floating rate. Rice said it has

also done such deals with others in the municipal market, including West Basin Municipal Water District in California and Southwest Georgia Power Co., or Sowegea.

In the Miami-Dade deal, the county pays Rice the TBMA municipal swap index after it is adjusted higher - divided by 0.604, which reflects a tax rate assumption - while it receives the taxable swap market benchmark, the Libor, plus a rate of 1.45%.

If TBMA trades at historic levels to Libor, Miami-Dade would receive a net quarterly payment from Rice that it would use to offset the cost of the \$200 million of fixed-rate bonds. Historically, the one-week TBMA has traded at less than 65% of Libor. Last week, at 1.44%, TBMA was trading at 78% of the 30-day Libor, which was 1.84%.

The county entered into a similar deal in 1998 on \$114.5 million of water and sewer revenue bonds, and had received \$5 million in net payments from Rice, the company said. The new deal, which was executed during the week of July 15, expands that deal to \$200 million, extends the maturity to 2026 from 2013, and amplifies the potential for savings by further boosting the Libor-based payment.

While it is projected to save \$3 million a year, the net present-value savings from the arrangement was estimated at \$30 million, Rice said.

However, with short-term rates at historic lows and the taxable and tax-exempt rates compressed, TBMA could continue to rise relative to Libor, and Miami-Dade could have to make net payments to Rice.

According to Rice, of the seven derivative transactions it has done with the county since 1994, four have

used an alternative variable-rate structure, altering the exposure on outstanding bonds, and netting Miami-Dade \$20 million in swap payments. For instance two years ago, it did such a swap on nearly \$400 million of special obligation bonds.

While the structure is not conventional, and Miami-Dade has done four such deals, Public Financial Management, the county's financial adviser, said it was comfortable with the most recent deal.

"Based on our analysis of the Water and Sewer Department's outstanding swap exposure, its financial resources, and the low probability of loss under the new swap, it is our opinion that the county is not unduly at risk," Jeff Pearsall, managing director at PFM, said in a report.

Moody's Investors Service and Standard & Poor's were also made aware of the deal. "We have a AA-minus rating on the county and an A rating on the water and sewer bonds," said Robin Prunty, director in the Eastern Region group at Standard & Poor's. "I think we are comfortable with both ratings."

The swap was done on water and sewer revenue bonds dating back to 1997, the county said. The bonds involved were sold to raise new money and were not refunding bonds.

Miami-Dade has done more conventional swaps in the past with Merrill Lynch & Co. and what was formerly Smith Barney & Co. The Smith Barney deal in the mid-1990s turned out to be controversial and led to the firm paying a fine to the Securities and Exchange Commission.