Memorandum

MIAMI-DADE COUNTY

Agenda Item No. 12B3

Date: February 19, 2008

To: Honorable Chairman Bruno A. Barreiro
and Members, Board of County Commissioners

From: George M. Burgess
County Manager

Subject: Annual Report on Swap Transactions for Fiscal Year 2006-07

Pursuant to the County's Swap Policy adopted by the Board under Resolution No. R-311-05, below is the annual report on the status of swaps the County has entered into with various counterparties. This report summarizes the swaps that the County has entered into since 1993 and the swap benefit received for fiscal year ending September 30, 2007. Exhibit A lists the details of each swap transaction.

Background

For the purpose of this report, the following general concepts are helpful:

- An interest rate swap is defined as a contractual agreement between two parties (the issuer and the counterparty) in which one stream of cash flows is exchanged or "swapped" for another series of cash flows during a mutually agreed upon period of time. A swap is designed to change the interest rate cash flows related to an underlying asset or liability without impacting the principal amount. In an interest rate swap, both parties agree to the rates they will pay each other and the notional (principal) amount that will be used as the basis for calculating the amounts due to each party. Although the components of each swap can vary, the typical interest rate swap is one in which one party's payments are calculated using a fixed interest rate while the other party's payments are calculated using a variable or floating interest rate. Payments are calculated on the notional amount as agreed to in the swap documents. The fixed rate is fixed for the life of the swap and the variable rate floats in conjunction with an underlying index/interest rate such as Treasury Bills, LIBOR, or SIFMA. LIBOR is the London InterBank Offer Rate which is the most frequently used index for taxable transactions.
- SIFMA is the Securities Industry and Financial Markets Association (previously known as BMA the Bond Market Association) Municipal Swap Index which is the typical benchmark index used for the municipal bond market.
- Counterparties are the entities that sign the swap documents. Typically, the County or the issuer would be one of the counterparties, and the other counterparty would be the swap dealer, such as a commercial bank or a subsidiary of an investment bank. Swap dealers earn a profit for arranging and carrying the swap by imbedding or adjusting the rates the dealer pays to or receives from the issuer.
- Termination value is the remaining value of the swap calculated based on current market rates or prices of the underlying instruments and reflects the cost to one counterparty or the other if the swap were to be terminated on a given date prior to the swap's schedule termination date. Termination risk is the risk that a swap will be terminated by the counterparty before maturity that could result in the issuer having to make a cash termination payment to the counterparty.

Once bonds are issued, the bond payment obligations do not change, and the County is obligated to make payments to the purchasers/investors of our bonds. Although swaps are used as a debt management tool and associated with a bond transaction, it is a stand alone contractual obligation. The County does not enter into swaps for speculative purposes. Swaps can be entered into at the same time as bonds are issued or in anticipation or subsequent to a bond issuance.

FY 2006-07 Swap Transactions

Below is a summary of the benefits achieved in FY 2006-07 by Department or Credit. The detail of each swap is listed in Exhibit A.

Water & Sewer

Series 1994	AIG	Variable to Fixed	$898,194
Series 2007*	Merrill Lynch	Fixed to Variable	0
Series 1994 & Series 1999A*	Rice	Basis Swap	1,716,780
Series 2007*	Rice	Basis Swap	1,821,080
Series 2005	Bank of America	Swaption Variable to Fixed	N/A
	Total Benefit for Water & Sewer		**$4,436,054**

* Upon the refunding of the Series 1997 Bonds in September 2007, the swaps were associated with the Series 2007 Bonds.

Solid Waste

Series 1996	Rice	Fixed to Variable	$962,455
Series 1996	Rice	Basis Swap	258,208
	Total Benefit for Solid Waste		**$1,220,663**

Convention Development Tax

Series 1996	Rice	Basis Swap	$785,920
Series 1996	Rice	Basis Swap	159,678
Series 1997	Rice	Basis Swap	2,648,403
Series 1997	Rice	Basis Swap	1,162,026
	Total Benefit for Convention Development		**$4,756,027**

Industrial Development Bonds (BAC Funding Corp. Project)

Series 2000B	Rice	Basis Swap	**$166,817**

Capital Asset Acquisition

Series 2004	J.P. Morgan	CPI	**$493,397**

Cumulative Benefit for Fiscal Year 2007 **$11,072,958**

The County has entered into swaps that fall into the following categories:

1. **Miami-Dade County issues fixed rate bonds and swaps the interest payments to variable interest rates.** This type of swap is typically done to take advantage of the variable rate market which is usually at a lower interest rate, and does not require credit or bank liquidity support usually required for variable rate bonds. Variable rate debt is used in moderation, as the rating agencies view overexposure to variable interest rate negatively.

2. **Miami-Dade County issues variable rate bonds and swaps the interest payments to fixed interest rates.** This is typically done to take advantage of a lower synthetic fixed rate than would have been available on a traditional fixed rate bond. The synthetic rate is the fixed rate on the swap plus the credit support fees and remarketing fees on the variable rate bonds.

3. **Miami-Dade County issues fixed rate bonds and enters into a basis swap based on the relationship between the taxable index and the tax exempt index.** In some cases, the County could make payments to the Counterparty based on a percentage of the taxable index, such as LIBOR. In other cases, it may be based on a complex formula.

Risks

There are numerous risks that are evaluated prior to entering into swap transactions. Where possible, the risks inherent in swap transactions are mitigated or reduced through the use of reserve funds or contract provisions that are meant to give the County control of defaults which could cause the County to make termination payments.

Risks associated with swap transaction are discussed below:

Counterparty Risk *is the risk that the Swap Counterparty will not fulfill its obligations specified in the swap contract.* The typical reason that a Counterparty fails to meet its obligations is bankruptcy or insolvency. County policy is to require Counterparties to be rated in the top two rating categories at the inception of the swap and incorporate the need for the Counterparty to post collateral upon its downgrade to levels not acceptable to the County. Counterparty risk is further mitigated through diversification to prevent the County from being overly exposed to a single Counterparty.

Termination Risk *is the risk that a swap may be terminated prior to its scheduled maturity date.* There are two types of termination risk: (a) a voluntary termination whereby the swap is terminated by the County; and (b) an involuntary termination whereby the swap is terminated by the Counterparty upon certain events stated in the swap documents. Upon termination, the County may have to make termination payments to the Counterparty or the County may receive termination payments from the Counterparty, depending on market conditions.

The amount of the termination payment is equal to the fair market value of the swap at the time of termination. The fair market value is equal to the present value of the future anticipated payments, and is impacted by the notional amount and the remaining term of the swap. The termination payments may be substantial. The County mitigates termination risk by tightly restricting the Counterparties' right to terminate the swap prior to maturity and by limiting downgrade events against the County.

Interest Rate Risk *is the risk that the County's debt service costs associated with variable rate debt increases and negatively impacts budgets, coverage ratios and cash flow margins.* Interest rate risk is impacted when interest rates are on the rise.

Basis Risk is the risk that the interest rate the County will pay to the Bondholder will not match to the interest rate the County receives from the Counterparty on the swap. The County mitigates this exposure by analyzing the transaction and determining that the benefit more than offsets the interest rate exposure.

Tax Risk is a type of basis risk, the risk of a mismatch between the floating rate on the tax exempt debt and the interest rate based on the swap index, such as one based on a taxable index like LIBOR. The correlation between the LIBOR based rate and the floating rate based on a tax exempt index known as SIFMA can be affected by changes in tax law or other market events.

Rollover Risk is the risk which occurs when the term of the Swap does not match the term of the associated bonds. Normally rollover risk arises when the issuer issues variable rate bond and enters into a swap to synthetically fix the interest rate. If the term of such a swap does not correspond with the term of the bonds, there is rollover risk that the issuer would be exposed to variable rates.

Swap Exposure

A summary of the County's notional amount, termination value by Counterparty and the Counterparties Credit Ratings from Moody's, S&P and Fitch, respectively, is as follows:

Counterparty	Notional Amount	Termination Value* at Sept. 28, 2007
AIG Financial Products Corp. **Ratings: Aa2; AA; AA**	$416,075,000	($55,745,722)
Merrill Lynch Capital Services **Ratings: A1; A+; A+**	215,000,000	(118,648)
Bank of America, NA **Ratings: Aaa; AA+; AA**	295,240,000	(47,357,375)
JPMorgan Chase Bank **Ratings: Aaa; AA; AA**	50,000,000	(482,773)
GBDP – Rice Financial Products GenRe **Ratings: Aaa; AAA; no rating from Fitch**	75,625,000	3,321,929
Rice Financial Products - AMBAC **Ratings: Aaa; AAA; AAA** AMBAC	779,335,505	25,478,800
Rice Financial Products - Bank of New York **Ratings: Aaa; AA-; AA** AMBAC	205,070,000	5,430,544

* A positive termination value would represent a payment to the County if the swap was terminated on September 28, 2007. A negative termination value would represent a payment made by the County to the counterparty if the swap was terminated on September 28, 2007.

Pursuant to the Swap Policy the County has adopted, and as a result of prudent analysis and risk tolerance management, the County has benefited by achieving savings of $11,072,958 (as detailed in the previous section) in FY 2006-07 and cumulative savings of $146,881,143 since 1993.

Cynthia W. Curry

Cynthia W. Curry
Senior Advisor to the County Manager

Exhibit A

Miami-Dade County Swaps as of September 30, 2007

(A) Below are the County's swaps, where the County issued fixed rate bonds and swapped the interest payments to a variable interest rate.

Bond Series	***Counterparty and Dates***	***Notional Amounts***	***Benefit***	***Termination Value***
Water & Sewer System, Series2007, initially the Water and Sewer System Refunding, Series 1993, was later associated with the Water and Sewer System, Series 1995, and then later with the Water and Sewer Series 1997.	Merrill Lynch Capital Services Term: 12/15/1993-6/15/2020	12/15/1993: $175,000,000 9/30/2007: $215,000,000	**Savings** is the difference between the Fixed Receiver Rate of 4.902% and the Variable Payer Rate of SIFMA. Savings from 1993 - 2005 $ 22,866,944 2006 9,163,260 2007 0 Total $ 32,030,204 **Benefit through June 15, 2008 was monetized in FY2006.**	**($118,648)**
Solid Waste Department (Resource Recovery Facility Refunding, Series 1996)	GBDP - (Guarantor – GenRe) Term: 9/10/1996-10/1/2013	09/10/1996: $182,695,000 9/30/2007: $75,625,000	**Savings** is the difference of a Fixed Receiver Rate of 6.01676% and a Variable Payer Rate of SIFMA plus 0.49776%. Savings from 1997 - 2005 $ 23,898,325 2006 1,561,289 2007 962,455 Total $ 26,422,069	**$3,321,929**

Exhibit A

(B) Below are the County's swaps, where the County issued variable rate bonds and swapped the interest payments to a fixed interest rate.

Bond Series	***Counterparty And Dates***	***Notional Amounts***	***Benefit***	***Termination Value***
Water & Sewer System, Series1994	AIG Financial Term: 2/4/1994-10/5/2022	02/04/1994: $418,540,000 9/30/2007: $416,075,000	**Savings** is the difference of a Fixed Payer Rate of 5.28% (inclusive of liquidity fees 5.565%) and a 2/4/94 expected Fixed Bond Rate of 5.78%. Savings from 1994 – 2005 $ 9,818,382 2006 898,194 2007 898,194 Total $ 11,614,770	**($55,745,722)**
Water & Sewer System, Series 2005	Bank of America Term: 10/1/2005-10/1/2025	9/30/2007: $295,240,000	**Savings** **Receipt of upfront payment for Swaption from BofA in 2005** Savings from 2005 – 2005 $ 27,645,965 2006 0 2007 0 Total $ 27,645,965	**($47,357,375)**

Exhibit A

(C) Below are the County's swaps where the County issued fixed rate bonds and entered into a basis swap.

Bond Series	***Counterparty And Dates***	***Notional Amounts***	***Benefit***	***Termination Value***
Water and Sewer System, Series 2007, initially the Water and Sewer System Refunding, Series 1993 and was later associated with the Water and Sewer System, Series 1997.	Rice Financial Products Corporation – (Guarantor – AMBAC) Term: 8/17/1998- 10/1/2026	08/17/1998: $200,000,000 9/30/2007: $200,000,000	**Savings** is the difference of a Variable Payer Rate of SIFMA divided by 0.604 and a Variable Receiver Rate of Libor plus 1.455%. Savings from 1998 - 2005 $ 9,347,130 2006 1,652,037 2007 1,716,780 Total $ 12,715,947	**$2,679,709**
Water and Sewer System, Series 1994 and Series 1999A	Rice Financial Products Corporation – (Guarantor – Bank of New York) Term: 3/6/2006- 10/1/2029	03/06/2006: $205,070,000 9/30/2007: $205,070,000	**Savings** is the difference of a Variable Payer Rate of SIFMA divided by 0.604 and a Variable Receiver Rate of 10 Year Libor plus 1.58%. Until March 2008, capped at 3 month Libor plus 1.58% plus 40 bpi and guaranteed a minimum of 3 month Libor plus 1.58% Savings from 2006 – 2006 $ 1,067,249 2007 1,821,080 Total $ 2,888,329	**$5,430,544**
Solid Waste Department (Resource Recovery Facility Refunding, Series 1996)	Rice Financial Products Corporation – (Guarantor – AMBAC) Term: 10/22/1997 10/1/2013	10/22/1997: $140,175,000 9/30/2007: $75,625,000	**Savings** is the difference of a Variable Payer Rate of SIFMA divided by 0.604 and a Variable Receiver Rate of Libor plus 0.30%. Savings from 1998 - 2005 $ 6,853,749 2006 (384,445) 2007 258,208 Total $ 6,727,512	**$837,006**

Exhibit A

(C) continued: County's swaps where the County issued fixed rate bonds and entered into a basis swap.

Special Obligation & Refunding, Series 1996B (Convention Development Tax)	Rice Financial Products Corporation – (Guarantor – AMBAC) Term: 5/12/2000 10/1/2022	5/12/2000: $102,611,557 9/30/2007: $80,778,851	**Savings** is the difference of a Variable Payer Rate of SIFMA divided by 0.604 and a Variable Receiver Rate of Libor plus 1.65343%. Savings from 2000 - 2005 $ 3,419,136 2006 785,820 2007 785,920 Total $ 4,990,876	**$2,909,310**
Special Obligation & Refunding, Series 1996B (Convention Development Tax)	Rice Financial Products Corporation – (Guarantor – AMBAC) Term: 7/21/2004 10/1/2010	7/21/2004: $19,627,539 9/30/2007: $14,612,681	**Savings** is the difference of a Variable Payer Rate of SIFMA divided by 0.604 and a Variable Receiver Rate of Libor plus 1.77%. 2005 $ 158,248 2006 166,746 2007 159,678 Total $ 484,672	**$201,885**
Subordinate Special Obligation, Series 1997 A, B & C (Convention Development Tax)	Rice Financial Products Corporation – (Guarantor – AMBAC) Term: 5/12/2000- 10/1/2022	5/12/2000: $291,625,675 9/30/2007: $275,297,755	**Savings** is the difference of a Variable Payer Rate of SIFMA divided by 0.604 and a Variable Receiver Rate of Libor plus 1.65343%. Savings from 2000 - 2005 $ 10,597,234 2006 2,557,452 2007 2,648,403 Total $ 15,803,089	**$11,219,907**
Subordinate Special Obligation, Series 1997 A, B & C (Convention Development Tax)	Rice Financial Products Corporation – (Guarantor – AMBAC) Term: 7/21/2004- 10/1/2022	7/21/2004: $77,853,923 9/30/2007: $113,313,218	**Savings** is the difference of a Variable Payer Rate of SIFMA divided by 0.604 and a Variable Receiver Rate of Libor plus 1.77%. 2005 $ 790,360 2006 1,006,543 2007 1,162,026 Total $ 2,958,929	**$7,211,968**

(C) continued: County's swaps where the County issued fixed rate bonds and entered into a basis swap.

Special Obligation Bonds - Capital Asset Acquisition, Series 2004	JPMorgan Chase Bank Term: 4/27/2004-4/1/2014	4/27/2004: $50,000,000 4/1/2006: $50,000,000	**Savings** is the difference of a Variable Payer Rate of SIFMA plus 0.235% and Variable Receiver Rate of CPI plus various spreads. 2005 $ 764,851 2006 558,962 2007 493,397 Total $ 1,817,210	**($482,773)**
Industrial Development Bonds (BAC Funding Corporation Project), Series 2000B	Rice Financial Products Corporation – (Guarantor – AMBAC) Term: 8/2/2002-10/1/2030	8/1/2004: $21,570,000 9/30/2007: $19,890,000	**Savings** is the difference of a Variable Payer Rate of SIFMA divided by 0.604 and a Variable Receiver Rate of Libor plus 1.31%. Savings from 2002 - 2005 $ 456,809 2006 157,945 2007 166,817 Total $ 781,571	**$419,015**

Swap Benefit for Fiscal Year 2007 **$ 11,072,958**

Swap Benefit inception to date **$ 146,881,143**