Memorandum

MIAMI-DADE COUNTY

Date: July 21, 2009

Agenda Item No. 14B2

To: Honorable Chairman Dennis C. Moss
and Members, Board of County Commissioners

From: George M. Burgess
County Manager

Subject: Annual Report on Swap Transactions for FY ended September 30, 2008 - REVISED

The following report provides the status of swaps that the County has entered into with various counterparties since 1993, and the swap transactions for fiscal year ending September 30, 2008. Exhibit A lists the details of each swap transaction and Exhibit B is the annual report prepared by the County's swap advisor, Swap Financial Group, LLC. Once the County issues bonds, the bond payment obligations do not change, and the County is obligated to make payments to the purchasers/investors of our bonds. However, an interest rate swap (as described below) is a stand-alone contractual obligation and a debt management tool which allows the County take advantage of alternative interest rate programs to better manage the underlying bond payments.

Definitions
For the purpose of this report, the following general concepts may be helpful:

Interest Rate Swap is defined as a contractual agreement between two parties (the issuer and counterparty) in which one stream of interest rate cash flow is exchanged or "swapped" for another series of interest rate cash flows during a mutually agreed upon period of time. In an interest rate swap, both parties agree to the rates they will pay each other. The typical interest rate swap is one in which the first party's payments are calculated using a fixed interest rate, while the second party's payments are calculated using a variable or floating interest rate. The fixed rate is set for the life of the swap. 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, the most frequently used index for taxable transactions. SIFMA is the Securities Industry and Financial Markets Association Municipal Swap Index (previously known as BMA or Bond Market Association) which is the typical benchmark index used in the municipal bond market. A common type of interest rate swap occurs when a municipality has issued floating rate bonds and is concerned with their level of floating rate debt. Thus, they enter into a swap to pay a fixed rate to a swap provider (counterparty), who in turn, agrees to pay back a floating rate theoretically equal to the floating rate of the underlying bonds.

Counterparties are the entities that sign the swap documents. Typically, the County or the issuer of a bond series 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.

Termination Value is the remaining value of the swap calculated based on current market rates and reflects the cost to one counterparty or the other if the swap were to be terminated on a given date in the future prior to the swap's schedule termination date.

Risks are the numerous risks evaluated prior to entering into swap transactions. Where possible, the risks inherent in swap transactions are mitigated using reserve funds, guarantees or contract provisions meant to give the County control over default termination payments. Risks associated with swap transaction are as follows:

- **Basis Risk** is the risk that the interest rate the County will pay to the Bondholder will not match 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.

- **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 by one of the three rating agencies at the inception of the swap, and incorporates the need for the Counterparty to post collateral upon a downgrade to levels not acceptable to the County. Counterparty risk is further mitigated through diversification, preventing the County from being overly exposed to a single Counterparty.

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

- **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.

- **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. 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 providing mitigating options upon a rating downgrade to the County.

- **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.

County Swaps

Since 1993, the County has entered into swaps that fall into the following categories:

- **The County issues fixed rate bonds and swaps the fixed 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 to issue variable rate bonds. Variable rate debt is used in moderation, as the rating agencies view overexposure to variable interest rates negatively. The following County swaps fall into this category:
  - With Merrill Lynch Capital Services – associated with Water & Sewer System Revenue Bonds, Series 2007
  - With GBDP – associated with the Solid Waste Resource Recovery Facility Refunding Bonds, Series 1996
- **The County issues variable rate bonds and swaps the variable interest payments to fixed interest rates.** This is typically done to take advantage of a lower synthetic fixed interest 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 that will be charged on the variable rate bonds. The following County swaps fall into this category:
  - With AIG Financial – associated with the Water & Sewer System Revenue Bonds, Series 1994
  - With Bank of America – associated with the Water & Sewer System Revenue Bonds, Series 2005

- **The 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 makes payments to the Counterparty based on differences between two interest rate indices, such as LIBOR and SIFMA. The following County swaps fall into this category:
  - Rice Financial Products Corporation – associated with the Water & Sewer System Revenue Bonds, Series 2007 and Series 1999A
  - Rice Financial Products Corporation – associated with the Solid Waste Resource Recovery Facility Refunding Bonds, Series 1996
  - Rice Financial Products Corporation – associated with the Special Obligation & Refunding Bonds (Convention Development Tax), Series 1996B (2000 Swap) & (2004 Swap)
  - Rice Financial Products Corporation – associated with the Subordinate Special Obligation Bonds (Convention Development Tax), Series 1997 A, B & C (2000 Swap) & (2004 Swap)
  - JP Morgan Chase Bank – associated with the Special Obligation Bonds (Capital Asset Acquisition), Series 2004
  - Rice Financial Products Corporation – associated with the Industrial Development Bonds (BAC Funding Corporation Project), Series 2000B
  - The swap associated with the Series 2007 Water & Sewer Bonds was terminated by Merrill Lynch per the terms of the swap agreement as amended in 2001.
  - In July, the swap with AIG Financial, associated with the Series 1994 Water & Sewer Bonds, was terminated by the County due to the downgrade of the bond insurer (FGIC) for the Series 1994 Bonds.

<u>**Swap Terminations During FY 2008**</u>

Two County swaps were terminated during FY 2008:

- **Merrill Lynch Swap Associated with the Water & Sewer** June **Bonds, Series 2007**
  On February 22, 2001, Merrill Lynch purchased the right to terminate the swap on June 15, 2008, associated with the Water & Sewer Bonds, Series 2007 (originally issued in 1993 and refunded in 2007). When Merrill Lynch purchased the right to terminate the swap, the terms were also changed to give the County a net additional benefit of $6 million through June 15, 2008. On June 15, 2008, Merrill Lynch exercised their right to terminate the swap. On the termination date, no termination funds were exchanged since the fee to terminate the swap was paid to the County in the improved terms of the swap (Merrill Lynch agreed to pay the County a higher fixed rate of 0.323% on the swap) when Merrill Lynch purchased the right to terminate in 2001. The calculated interest savings to the County from this swap is approximately $32 million.

- **AIG Financial Swap Associated with the Water & Sewer Bonds, Series 1994**
  In July 2008, the County terminated the swap with AIG Financial. The termination of this swap was triggered by the downgrade of the bond insurer for the Series 1994 Water & Sewer Bonds. In February 1994, the County entered into a variable to fixed rate swap with AIG on the Series 1994 Bonds, under which the County paid AIG a fixed rate of 5.28 percent and AIG was to pay the County a variable rate equal to the rate on the bonds. In 1994, if the County were to have issued fixed rate bonds in the prevailing bond market, it was anticipated that the fixed rate would have been 5.780% with a total debt service of $1032.5 million. The swap enabled the County to pay 5.28% plus the cost of a Line of Credit (LOC) and a fee for remarketing services (resulting in a synthetic fixed rate of 5.565%) with a total debt service of $996.8 million. The County anticipated $35.7 million in debt service savings over the life of the Series 1994 Bonds from entering into this interest rate swap.

In February 2008, Financial Guarantee Insurance Company (FGIC), the insurer on the Water and Sewer System Revenue Bonds, Series 1994, was downgrade below "AAA" due to the rippling effects of the credit crunch caused by sub-prime mortgage-backed securities. This downgrade caused the Series 1994 Bonds to trade at a much higher interest rate and some bondholders began to remarket these bonds because they were not as desirable, causing a draw upon the LOC. Pursuant to the swap documents, a draw on the LOC allowed AIG to switch from paying the variable rate on the bonds to paying SIFMA. There was a draw on the LOC and AIG switched to SIFMA. The switch caused the County to incur basis risk – the difference between the variable rate paid to the bondholders and the variable rate received under the swap. Such difference (basis risk) was costing the County an additional $383,000 per week in swap interest payments. If the County had not terminated the swap with AIG, it was anticipated that the swap payments associated with the Series 1994 Bonds would have increased approximately $19.9 million yearly.

The County chose to terminate the AIG swap on July 14, 2008 by issuing the fixed rate Series 2008A Bonds in the amount of $68,300,000 to fund the termination of the swap and $374,555,000 of fixed rate Series 2008B Bonds to refund the Series 1994 Bonds. The issuance of the Series 2008A and the Series 2008B Bonds resulted in a fixed rate of 4.29 percent. Additionally, the refunding of the Series 1994 Bonds guarantees no further exposure to basis risk and the swap. The calculated debt service savings of this swap was $9.5 million and the combined unfavorable interest and net outflow termination payment was $26.2 million.

Remaining Swap Exposure
A summary of the County's remaining swaps by Counterparty and the Counterparties Credit Ratings from Moody's, S&P and Fitch, respectively, is as follows:

Counterparty	**Notional Amount (Stated Contract Amount)**	**Termination Value * (At September 30, 2008)**
Bank of America, NA **Ratings: Aaa; AA+; AA-**	$295,240,000	($53,042,681)
JPMorgan Chase Bank **Ratings: Aaa; AA; AA-**	$50,000,000	$36,504
GBDP – Rice Financial Products GenRe **Ratings: Aa1; AAA; AA+**	$54,060,000	$2,982,248
Rice Financial Products-AMBAC **Ratings: as of 9/30/2008 – Aa3: AA; no rating from Fitch**	$756,860,505	($8,766,741)
Rice Financial Products-Bank of New York **Ratings: Aaa; AA; AA-**	$205,070,000	($3,102,286)

* A positive termination value would represent a payment to the County if the swap had terminated on September 30, 2008. A negative termination value would represent a payment made by the County to the counterparty if the swap had terminated on September 30, 2008.

Pursuant to the Swap Policy the County adopted, and as a result of prudent analysis and risk tolerance management, the County has benefited by achieving cumulative savings since 1993 of well over $100 million. However, the County is well aware of the associated risks as discussed in this report. The downgrades of insurers and the potential counterparty risk is being carefully monitored.

Assistant County Manager

Exhibit A

Miami-Dade County Swaps as of September 30, 2008

(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 (Stated Contract Amounts)***	***Rates***	***Termination Value***
Water & Sewer System, Series 2007, 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 9/30/2008: $215,000,000	**Savings** is the difference between the Fixed Receiver Rate of 4.902% and the Variable Payer Rate of SIFMA.	**Terminated - Option to Terminate exercised 6/15/08 by Merrill Lynch**
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 9/30/2008: $64,845,000	**Savings** is the difference of a Fixed Receiver Rate of 5.97276% and a Variable Payer Rate of SIFMA plus 0.49776%.	**$2,982,248**

(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 (Stated Contract Amounts)***	***Rates***	***Termination Value***
Water & Sewer System, Series1994	AIG Financial Term: 2/4/1994-10/5/2022	02/04/1994: $418,540,000 9/30/2008: $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%.	**Swap Terminated on 7/14/08**
Water & Sewer System, Series 2005	Bank of America Term: 10/1/2005-10/1/2025	9/30/2008: $295,240,000	**Savings** Receipt of upfront payment for Swaption from BofA in 2005	**($53,042,681)**

τ

(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 (Stated Contract Amounts)***	***Rates***	***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 9/30/2008: $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%.	**($7,776,279)**
Water and Sewer System, Series 1999A	Rice Financial Products Corporation – (Guarantor – Bank of New York) Term: 3/6/2006-10/1/2029	03/06/2006: $205,070,000 9/30/2008: $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%	**($3,102,286)**
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 9/30/2008: $64,845,000	**Savings** is the difference of a Variable Payer Rate of SIFMA divided by 0.604 and a Variable Receiver Rate of Libor plus 1.6871%.	**$594,773**
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 9/30/2008: $77,014,300	**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%.	**($228,062)**
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 9/30/2008: $11,538,042	**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%.	**$57,925**

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 9/30/2008: $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%.	**($833,019)**
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 9/30/2008: $119,970,412	**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%.	**($150,661)**
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.	**$36,504**
Industrial Development Bonds (BAC Funding Corporation Project), Series 2000B	Rice Financial Products Corporation – (Guarantor – AMBAC) Term: 8/2/2002-10/1/2030	8/1/2002: $21,570,000 9/30/2008: $19,445,000	**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 -	**($431,418)**

Swap Financial Group

Swap Financial Group, LLC
76 South Orange Avenue
South Orange, NJ 07079
(973) 378-5500, fax (973) 378-5575

November 5, 2008
Miami-Dade County
111 N.W. First Street, Suite 2550
Miami, FL 33128

Attn: Frank Hinton
Finance Department

Interest Rate Swap Transactions

Re: Market Valuations, September 30, 2008

Swap Financial Group, LLC, performed market-based valuations of the below listed interest rate swaps using market prices in effect as of the close of business on September 30, 2008. These valuations include the current interest period accruals which would be payable on the next interest payment dates, as applicable.

Your Identification	Swap Floating and Fixed Rates, Direction, Current Notional, Termination Date	Option Provision, Owner, Style, Date	Counter -party	Contract Valuation (Midmarket)
Water & Sewer Series 1997 (Confirmation dtd 7/18/02)	SIFMA vs Libor+1.455% You pay (1.6556)(SIFMA) 200,000,000 10/1/2026	None	RFPC	(7,776,279)
Special Obligation and refunding Bonds, Series 1996B (CDT)	SIFMA vs Libor+1.65343% You pay (1.6556)(SIFMA) 77,014,300 10/1/2022	None	RFPC	(228,062)
Special Obligation and refunding Bonds, Series 1996B (CDT) Incremental Swap	SIFMA vs Libor+1.7700% You pay (1.6556)(SIFMA) 11,538,042 10/1/2010	None	RFPC	57,925
Special Obligation and refunding Bonds, Series 1997 A,B,C (CDT)	SIFMA vs Libor+1.65343% You pay (1.6556)(SIFMA) 275,297,755 10/1/2022	None	RFPC	(833,019)

Special Obligation and refunding Bonds, Series 1997 A,B,C (CDT) Incremental Swap	SIFMA vs Libor+1.7700% You pay (1.6556)(SIFMA) 119,970,412 10/1/2022	None	RFPC	(150,661)
Water and Sewer Series 1995	SIFMA vs 5.27% You Pay Fixed 295,240,000 10/1/05 to 10/1/25	Exercised	BOA	(53,042,681)
Special Obligation Bonds, Capital Asset Acquisition Series 2004	CPI plus various spreads vs SIFMA plus 23.5 bp. You pay SIFMA 50,000,000 4/1/2014	None	JPM	
Industrial Develop 1996 Montenay Fixed Rate Swap	SIFMA+49.776 vs Various% You receive fixed 64,845,000 10/1/2013	Exercised	GBDP	2,982,248
Industrial Develop 1996 Montenay Exercised Swap	SIFMA vs Libor+Various% You pay (1.6556)(SIFMA) 64,845,000 10/1/2013	None	RFPC	594,773
Industrial Develop 2000 BAC Funding	SIFMA vs Libor+1.43% You pay (1.6556)(SIFMA) 19,445,000 10/1/2030	None	RFPC	(431,418)
Water & Sewer Series 1997 (Confirmation dtd 3/06/06, amended 7/05/07)	SIFMA vs 90.15% 10yr Libor CMS+1.58% You pay (1.6556)(SIFMA) 205,070,000 10/1/2029	CMS Collar 7/01/07-1/01/09	RFPC CSI	(3,102,286)

Valuation numbers are from the perspective of Miami-Dade County; i.e., a negative number is what Miami-Dade would have owed had the transaction(s) been terminated at midmarket on the valuation date.

Our pricing valuations were based upon Confirmation transactional information, including the Notional Principal amortization schedules as were furnished to us, comparing the rate on each swap with market rates on the valuation date and present-valuing the differential between the swap and market rates back to the valuations shown above using accepted market discount rates for the each respective amortization date involved. As per market convention, our pricings reflect the valuation of the financial elements of each transaction. To the extent that a particular transaction contains restrictive transfer, collateralization, or termination event language, it could be expected that such provisions would impact the ability of an entity to assign or terminate a swap contract at market value.

The valuation shown for any swap contract having multiple pricing components (such as a swap with an embedded option within it for a counterparty to cancel that swap) is the net sum of all the separate pricing components in the contract.

Swap Financial Group LLC is an established advisor and arranger of interest rate swaps and option derivatives and is professionally knowledgeable of the transaction type represented in this valuation.

Swap Financial Group, LLC

By:________________________
Lillian Chern
Vice President

Swap Financial Group (the "Company") has used multiple modeling systems to determine the values shown in this report. One of our modeling system vendors requires us to make the following disclosure in connection with valuations provided to third parties: Products and services provided by the Company may include output values, analysis and reports generated using the proprietary system owned by Principia Partners LLC ("Principia") known as the Principia Analytic System. These materials and outputs are provided AS IS, for informational purposes only and do not constitute advice of any kind. Principia does not warrant or guarantee the accuracy or timeliness of any materials or outputs. Principia shall not be responsible or liable for the accuracy, usefulness or availability of any such materials or outputs and shall not be responsible or liable for any financial or investment decisions made based on such information. If you do not agree to the foregoing, you are not authorized to access, view and/or use any such materials or outputs.