

Memorandum



Date: January 12, 2016

SPAGO

Agenda Item No. 7(A)

To: Honorable Chairman Jean Monestime and Members,
Board of County Commissioners

From: Carlos A. Gimenez
County Mayor

Subject: Annual Report on Swap Transactions for Fiscal Year ended September 30, 2015.

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 the 6 outstanding swaps the County has entered into with various counterparties since 1996 and the swap benefits received for fiscal year ending September 30, 2015. 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 the issuer agrees to exchange or "swap" an interest rate (whether fixed or variable) for a counterparty's interest rate (if issuer is paying a fixed rate of interest, the counterparty pays a variable rate of interest, and vice versa) on a contractual amount (notional amount) for a mutually agreed upon period of time. In an interest rate swap, there are key issues to note:
 - The stated amount in a swap contract that is used to calculate payments is the notional amount. This amount does not change hands and is thus referred to as notional.
 - The fixed rate is set for the life of the swap.
 - The variable rate varies 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's Municipal Swap Index which is the typical benchmark index used in the tax-exempt municipal bond market.
- The 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 the issuer or the counterparty if the swap were to be terminated prior to the swap's schedule termination date.
- Termination risk is the risk that a swap will be terminated by the counterparty before maturity and thus 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 of or subsequent to a bond issuance.

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

- **Miami-Dade County issues fixed rate bonds and swaps the fixed interest payments to variable interest payments.**
 - This type of swap is typically done to take advantage of the variable rate market, which is usually at a lower interest rate. The counterparty pays the issuer a fixed rate, lower than what could be achieved in the Bond Market, but such difference in the bond fixed rate and the counterparty's fixed is less than credit or bank liquidity support required when issuing variable rate debt. Issuer's

payment of a variable rate does not require credit or bank liquidity support. Variable rate debt is used in moderation, as the rating agencies view overexposure to variable interest rates negatively.

- The County has no outstanding swaps that fall into this category as of September 30, 2015.
- **Miami-Dade County issues variable rate bonds and swaps the variable interest payments to fixed interest payments.**
 - This is typically done to take advantage of a lower net fixed interest rate than would have been available on a traditional fixed rate bond. The net 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 County has no outstanding swaps that fall into this category as of September 30, 2015.
- **Miami-Dade County issues fixed rate bonds and enters into a basis swap based on the relationship between the taxable interest rate (LIBOR) and the tax exempt interest rate (SIFMA).**
 - In a basis swap, the LIBOR and SIFMA indices are adjusted so that at time of entering into the swap both indices are equal and neither party would receive a payment nor make a payment. As the market changes from the date of entering into the swap, the adjusted indices cause a receipt by one of the counterparties that is offset by a payment of the other counterparty.
 - The following County swaps fall into this category:
 1. With Bank of New York Mellon – associated with the Water & Sewer System Revenue Bonds, Series 2007
 2. With Bank of New York Mellon – associated with the Water & Sewer System Revenue Bonds, Series 2013B
 3. With Deutsche Bank AG – associated with the Special Obligation & Refunding Bonds (Convention Development Tax), Series 1996B (2000 Swap)
 4. With Deutsche Bank AG – associated with the Special Obligation & Refunding Bonds (Convention Development Tax), Series 1997 (2000 Swap)
 5. With Deutsche Bank AG – associated with the Subordinate Special Obligation Bonds (Convention Development Tax), Series 1997 A, B & C (2004 Swap)
 6. With Deutsche Bank AG – associated with the Industrial Development Bonds (BAC Funding Corporation Project), Series 2000B

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 over defaults which could cause the County to make termination payments. Risks associated with swap transaction are discussed below:

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 basis risk 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 variable rates will increase and the County's debt service costs associated with variable rate debt will 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 correlation between the LIBOR and SIFMA can be affected by changes in tax law or tax related market events.

Termination Risk is the risk that a swap may be terminated prior to its scheduled maturity date and the County would have to make a payment to the counterparty. 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. The County is in full control of a County voluntary termination. The County tries to restrict, mitigate and limit any termination events under full control of the counterparty by establishing a cure period or narrowing the parameters that such event could occur.

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. Termination payments may be substantial.

Rollover Risk is the risk which occurs when the term of the Swap does not match the term of the associated bonds. If the term of such a swap does not correspond with the term of the bonds, there is a risk that the issuer may not be able to re-enter into a swap that would provide the same economics on the swap which may result in higher debt service costs.

Fiscal Year 2015 Swap Transactions

Below is a summary of the net receipts (swap receipts less swap payments) received in fiscal year 2015 broken down by Department and bond Issue. The detail of each swap is listed in Exhibit A.

<u>Department</u>	<u>Counterparty</u>	<u>Transaction Type</u>	<u>2015 Net Receipts</u>
Water & Sewer Department			
Series 2007	Bank of New York Mellon	Basis Swap	\$7,518,183.12
Series 2013AB	Bank of New York Mellon	Basis Swap	\$3,322,435.99
Total Net Receipts for Water & Sewer			\$10,840,619.11
Convention Development Tax ¹			
Series 1996-2000	Deutsche Bank AG	Basis Swap	\$281,313.06
Series 1997-2000	Deutsche Bank AG	Basis Swap	\$1,211,675.88
Series 1997-2004	Deutsche Bank AG	Basis Swap	\$750,933.27
Total Net Receipts for Convention Development Tax			\$2,243,922.21
Industrial Development Bonds (BAC Funding Corp. Project)			
Series 2000B	Deutsche Bank AG	Basis Swap	\$257,569.75
Cumulative Net Receipts for Fiscal Year 2015			<u>\$13,342,111.07</u>

¹ Swap receipts/payments have been suspended as part of the CDT Swap Restructure per resolution R-579-14. The swap receipts/payments calculation period will commence on October 1, 2016 with the first receipt/payment due January 1, 2017.

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:

<u>Counterparty</u>	<u>Notional Amount (Stated Contract Amount)</u>	<u>Termination Value * (At September 30, 2015)</u>
Deutsche Bank AG Ratings: A3; BBB+; A	\$437,600,505	\$32,646,264.00
Bank of New York Mellon Ratings: Aa2; AA-; AA	\$405,070,000	\$51,983,604.00

* A positive termination value would represent a payment to the County if the swap had terminated on September 30, 2015.
A negative termination value would represent a payment made by the County to the counterparty if the swap had terminated on September 30, 2015.

Pursuant to the Swap Policy the County adopted and as a result of prudent analysis and risk tolerance management, the County benefited by achieving savings of \$13,342,111.07 (as detailed in the previous section) in FY 2015. In addition to these cash receipts and the cash receipts from prior years, it is important to consider the significant future savings from these swap transactions. Through the use of carefully calculated swap transactions, the County may realize future benefits by moving to lower cost debt, when possible, or terminating debt arrangements when necessary.

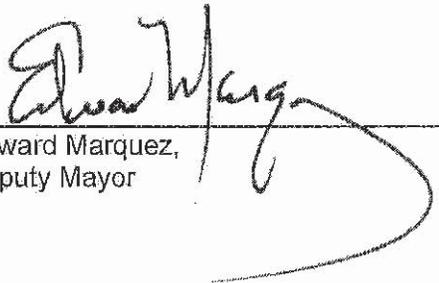

Edward Marquez,
Deputy Mayor

Exhibit A

Notional Amount	Associated Bonds	Counterparty (Guarantor) Rating	Payment Dates	Counterparty Payment	County Payment	County's Net Quarterly Receipt/ (Payment)	County's Net Annual Receipt/ (Payment)	Total Net Receipts from Swap Inception to 9/30/15	Termination Receipt/ (Payment) as of 9/30/2015
\$61,910,000	CDT-96-2000	Deutsche Bank AG, A3/BBB+/A	10/15/2014 1/15/2015 4/16/2015 7/16/2015	\$293,366.78 0.00 0.00 0.00 <u>\$293,366.78</u>	(\$12,853.72) 0.00 0.00 0.00 <u>(\$12,853.72)</u>	\$281,313.06 0.00 0.00 0.00 <u>\$281,313.06</u>	\$281,313.06	\$13,162,740.77	\$0.00
	Termination Date 9/22/2014	Novated and Assigned (11/19/09)		Counterparty pays the County LIBOR plus 1.65343% times the Notional Amount	County pays Counterparty SIFMA/0.604 times the Notional Amount				
\$249,357,573	CDT-97-2000	Deutsche Bank AG, A3/BBB+/A	10/15/2014 1/15/2015 4/16/2015 7/16/2015	\$1,263,578.73 0.00 0.00 0.00 <u>\$1,263,578.73</u>	(\$33,902.85) 0.00 0.00 0.00 <u>(\$33,902.85)</u>	\$1,211,675.88 0.00 0.00 0.00 <u>\$1,211,675.88</u>	\$1,211,675.88	\$47,877,787.25	\$18,549,705.00
	Termination Date 10/1/2037	Novated and Assigned (11/19/09)		Counterparty pays the County LIBOR plus 1.567% times the Notional Amount	County pays Counterparty SIFMA/0.604 times the Notional Amount				
\$172,352,932	CDT-97-2004	Deutsche Bank AG, A3/BBB+/A	10/15/2014 1/15/2015 4/16/2015 7/16/2015	\$781,149.16 0.00 0.00 0.00 <u>\$781,149.16</u>	(\$30,215.89) 0.00 0.00 0.00 <u>(\$30,215.89)</u>	\$750,933.27 0.00 0.00 0.00 <u>\$750,933.27</u>	\$750,933.27	\$20,807,667.16	\$12,871,458.00
	Termination Date 10/1/2032	Novated and Assigned (11/19/09)		Counterparty pays the County LIBOR plus 1.567% times the Notional Amount	County pays Counterparty SIFMA/0.604 times the Notional Amount				
\$15,690,000	Industrial Development Bonds, (BAC Funding Corp Project), Series 2000A	Deutsche Bank AG, A3/BBB+/A	10/15/2014 1/15/2015 4/16/2015 7/16/2015	\$69,361.11 66,764.96 66,101.97 67,388.01 <u>\$269,616.05</u>	(\$7,261.80) (2,713.24) (3,356.79) (4,813.37) <u>(\$18,145.20)</u>	\$66,099.31 64,051.62 64,745.18 62,673.64 <u>\$257,569.75</u>	\$257,569.75	\$2,869,110.79	\$1,225,101.00
	Termination Date 10/1/2030	Novated and Assigned (11/19/09)		Counterparty pays the County LIBOR plus 1.43% times the Notional Amount	County pays Counterparty SIFMA/0.604 times the Notional Amount				
\$200,000,000	Water & Sewer Series 1999A & 2007	Bank of New York Mellon Aa2/AA-/AA	10/15/2014 1/15/2015 4/16/2015 7/16/2015	\$868,684.44 868,940.00 860,100.00 829,236.94 <u>\$3,426,961.38</u>	(\$40,011.04) (34,894.25) (37,392.13) (62,637.37) <u>(\$173,935.79)</u>	\$828,673.40 834,355.75 842,807.87 816,598.97 <u>\$3,322,435.99</u>	\$3,322,435.99	\$33,433,216.82	\$19,080,988
	Termination Date 10/1/2026	Novated and Assigned (10/20/09)		Counterparty pays the County LIBOR plus 1.465% times the Notional Amount	County pays Counterparty SIFMA/0.604 times the Notional Amount				
\$205,070,000	Water & Sewer Series 2013B	Bank of New York Mellon Aa2/AA-/AA	10/15/2014 1/15/2015 4/16/2015 7/16/2015	\$2,037,539.34 2,041,267.14 1,840,536.82 1,757,282.42 <u>\$7,676,625.72</u>	(\$41,945.33) (35,400.95) (17,330.48) (66,128.84) <u>(\$158,805.60)</u>	\$1,996,514.02 2,005,806.18 1,822,806.34 1,693,056.58 <u>\$7,518,183.12</u>	\$7,518,183.12	\$54,195,389.17	\$32,902,616
	Termination Date 10/1/2023	Novated and Assigned (10/20/09)		Counterparty pays the County 90.15% of 10 yr LIBOR plus 1.58% times the Notional Amount	County pays Counterparty SIFMA/0.604 times the Notional Amount				
Totals of Current County Swaps							\$13,342,111.07	\$172,365,911.96	\$84,629,868.00