Item No. : 1

June 25, 2019 – The Broward School Board Leasing Corp

EXECUTIVE SUMMARY

Resolution No. 19-01 - Certificates of Participation, Series 2019A (COPs 2014A SWAP Termination) and Resolution No. 19-02- Certificates of Participation, Series 2019B (COPs 2015C SWAP Termination)

Certificates of Participation (COPs), Series 2014A (formally COPs, Series 2004C) and 2015C (formally COPs, Series 2006A) have a similar variable rate and SWAP structure.

Resolution No. 19-107 (new COPs, Series 2019A) and Resolution No. 19-108 (new COPS, Series 2019B), respectfully, are being brought forth to terminate the current structure and convert to a fixed rate structure.

The following explains the current variable rate and SWAP structure:

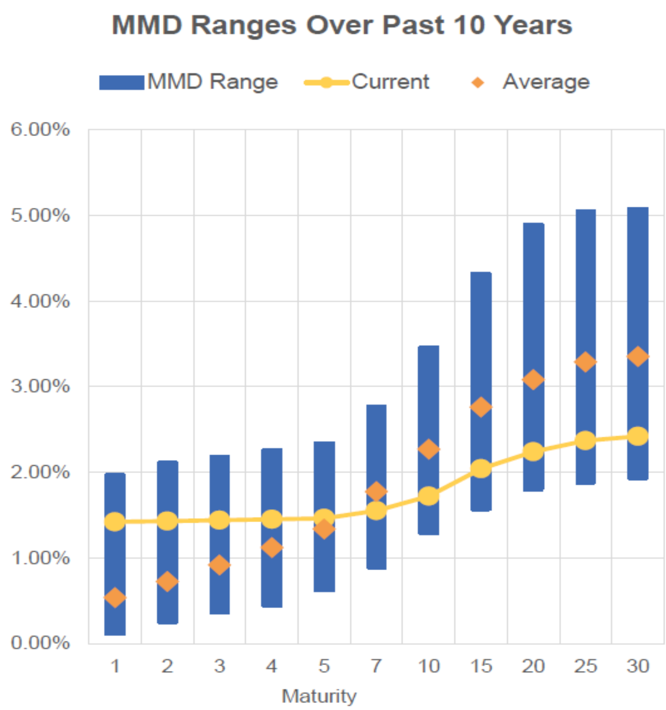
Variable Rate: In order to reduce interest rate costs, the District issued COPs, Series 2004C ($113,825,000) and COPs, Series 2006A ($65,000,000) as variable rate structures, since they were more efficient than a fixed rate structure at that time. Action Rate Certificates (ARCs) were the preferred variable structure in the market (at the time) and, as such, they were selected by the District. However, during the start of the "Great Recession," the underlying credits of ARC became negative and interest costs were escalating. Ultimately, the District was able to restructure the ARCs during the remarketing period of these notes and converted them to Floating Rate Notes (FRNs). (The ARC market collapsed in February 2008.) Currently, the index used for the FRN is the London Interbank Offered Rate (LIBOR).

SWAP: The District issued COPs, Series 2004C and COPs, Series 2006A during a period of rising interest rates. At the time, the market and the financial pundits expected interest rates to continue to rise in the foreseeable months and years. In order to hedge (protect) the anticipation of the possibility of interest rates rising further, the District prudently entered into SWAP arrangements for both issuances. The SWAPs performed as expected until 2008 when rates began to fall and the commencement of the "Great Reccession". Since then, we have experienced a relatively low interest rate environment, which made the SWAPs less efficient and more expensive to terminate.

The Treasurer's Office has been monitoring both SWAPs since the Great Recession to see if termination of the SWAPs was a viable option. Unfortunately, market conditions were not ideal and we were looking at negative savings of approximately $20 million in 2017.

Today, we are in an unexpected paradigm with interest rates and the yield curve in regards to Municipal Market Data (MMD), a high-grade municipal bond index used as a benchmark to price COPs and other municipal bonds.

Based on the chart below, the MMD ranges over the past ten (10) years illustrates this unexpected paradigm. The current marker (yellow circle with a line in the middle) depicts short-term interest rates (years 1 through 5) higher than the average marker (yellow diamond). This reverses in the longer term, as shown in years seven (7) through thirty (30). Again, this phenomenon of short-term being higher and longer term being lower does not occur often.



This unexpected paradigm in the MMD as shown above is ideal for the District to terminate both SWAPs and convert to a fixed rate structure. Based on current analysis, we are expecting the following:

- Refunding COPs, Series 2014A: Net Present Value Savings (NPV) $1,311,938.00
  Percent (%) NPV savings 1.153%
- Refunding COPs, Series 2006B: Net Present Value Savings (NPV) ($1,856,394.00)
  Percent (%) NPV savings (2.856%)
- Combined (COPs, Series 2014A & COPs, Series 2006B) Net Present Value Savings (NPV) ($544,456.00)
  Percent (%) NPV savings (1.703%)

In order to capitalize on this short window of opportunity, we are requesting these two (2) series of COPs be terminated and restructured to a fixed rate instrument. The Financial Advisory Committee approved for staff to proceed with the termination of SWAPs into a fixed rate structure at the May 30, 2019 meeting, with the caveat that savings cannot exceed +/(-) NPV of 3%.

Another ancillary consideration brought to the Committee is the fact that LIBOR, the index used for the FRN described above, is expected to be phased out by the end of 2021. The Secured Overnight Financing Rate (SOFR) is expected to replace LIBOR. While we cannot predict the future pricing and/or spreads of SOFR, currently SOFR is higher than LIBOR by approximately twenty (20) basis points, making interest costs more expensive.

Again, considering all factors, along with this unique market window, the opportunity is here now for the District to transition from an inefficient to more efficient fixed rate structure, which will also eliminate the remarking of the variable rate every three (3) years and the associated professional costs (i.e., bond counsel, financial advisor, staff time, etc.)