

## **Executive Summary**

### **Authorizing Resolution for a Constant Maturity Swap**

- UBS, one of the District's Underwriters, provided a proposal to serve as swap counterparty for a Constant Maturity Swap (CMS) for the 2002D COP transaction.
- Staff, in conjunction with the District's Financial Advisor, reviewed the proposal and prepared a recommendation for the Finance Committee.
- During the meeting on July 27, 2006, the Finance Committee reviewed the proposed transaction. The Committee unanimously recommended that the District move forward to complete the transaction. A draft of the meeting minutes as well as the presentations are available online at <http://www.palmbeach.k12.fl.us/FinMan/FINANCIALDIVISIONS/Treasury/nTreasury%20FinCom.htm>
- The CMS will work with the previously implemented basis swap to further reduce the interest costs associated with the 2002D COP issue.
- The Basis Swap, which was approved in 2002, allows the District to receive an amount based on 1-month LIBOR (London Interbank Offering Rate). The CMS will offset the 1-month rate with either a 5 year or 10 year rate.
- In the normal interest rate environment, the CMS will result in increased savings to the District. The transaction is appealing at this time because of the unusual flat shape of the yield curve. There is very little difference between the 1 month LIBOR rate and the 5 and 10 year LIBOR rates. If the transaction becomes effective in the current interest rate environment, the District will see a reduction in the current savings. However, as the interest rate curve normalizes, the savings will increase significantly. Based on historical data, this transaction will produce average annual savings of approximately \$600,000.