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Metro

FINANCE AND BUDGET COMMITTEE
FEBRUARY 20, 2008

SUBJECT: REFUNDING OF PROP C BONDS

ACTION: ADOPT RESOLUTION AUTHORIZING USE OF INTEREST RATE SWAPS

RECOMMENDATION

Adopt a resolution, Attachment A, that authorizes the execution of one or more interest rate swaps, for a notional amount not to exceed $205 million, in connection with the issuance of bonds that will refund portions of the outstanding Prop C 1998-A bonds and approves documents on file with the Board Secretary.

(Requires separate, simple majority Board vote.)

RATIONALE

Low interest rates are providing an opportunity to refund up to $170 million of outstanding Prop C 1998-A bonds by utilizing an interest rate swap structure (Attachment B) to achieve interest savings of as much as $14 million on a present value basis.

DISCUSSION

The interest rate swaps will be executed approximately one month in advance of issuance of the bonds in order to lock in currently favorable interest rates. The swaps will be indexed to either the London Interbank Offering Rate (LIBOR) or the Securities Industry and Finance Markets Association (SIFMA) index. The SIFMA index is an index representing short-term tax-exempt interest rates. The SIFMA indexed swap provides a slightly more precise hedge of the variable interest rates for our bonds and avoids tax event risk, while the LIBOR indexed swap provides a greater benefit. We will work with our swap advisor to determine the most appropriate swap index given levels of benefit and considering existing exposure to LIBOR swaps.

The swap strategy is being recommended in conjunction with a traditional fixed rate bond sale approved at the January Board meeting. Individual bond maturities will be allocated to the swap transaction to the extent they generate greater savings. The fixed rate bond transaction will also be utilized if we determine that we should not issue additional variable rate bonds. Certain types of variable rate bonds and the bond insurance market have been negatively impacted by the subprime mortgage problem. The result has been higher interest rates on the variable rate bonds and higher fees for liquidity facilities that back the bonds.

In January 2008 the Board approved the appointment of underwriters/remarketing agents for the variable rate bonds. The bonds will be issued and the interest rate swaps entered into in accordance with the parameters of the Debt and Interest Rate Swap Policies.

FINANCIAL IMPACT

The financing will not affect the FY08 budget. Issuance costs will be paid from proceeds of the financing and debt service will be funded from the amounts budgeted for the bonds being refunded. Over the life of the bonds the interest rate swap strategy is projected to generate present values savings of $14 million, or $23 million on a cash basis.

ALTERNATIVES CONSIDERED

Alternatives considered include:

Issuance of fixed rate bonds has already been approved to accomplish the refunding for bond maturities that would provide greater savings. If we determine that we should not issue additional variable rate bonds at this time, we may use this method to accomplish the refunding.

Deferring the refunding to a later date. This alternative is not recommended due to the risk that long-term interest rates may rise and potential savings could be lost.

ATTACHMENTS

A. Authorizing Resolution
B. Transaction Explanation

Prepared by: Michael J. Smith, Assistant Treasurer

Terry Matsumoto
Chief Financial Services Officer and Treasurer

Roger Snoble
Chief Executive Officer

RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY AUTHORIZING THE EXECUTION OF AN INTEREST RATE SWAP OR SWAPS IN CONNECTION WITH THE PROPOSED ISSUANCE OF ONE OR MORE SERIES OF ITS PROPOSITION C SENIOR SALES TAX REVENUE REFUNDING BONDS AND OTHER RELATED MATTERS

(PROPOSITION C SALES TAX)

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "LACMTA"), as successor to the Los Angeles County Transportation Commission (the "Commission"), is authorized, under Chapter 5 of Division 12 of the California Public Utilities Code (the "Act"), to issue bonds to finance and refinance the acquisition, construction or rehabilitation of facilities to be used as part of a countywide transit system; and

WHEREAS, pursuant to the provisions of Section 130350 of the California Public Utilities Code, the Commission was authorized to adopt a retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory of the County of Los Angeles (the "County") subject to the approval by the voters of the County; and

WHEREAS, the Commission, by Ordinance No. 49 adopted August 28, 1990 ("Ordinance No. 49"), imposed a ½ of 1% retail transactions and use tax upon retail sales of tangible personal property and upon the storage, use or other consumption of tangible personal property in the County, the proceeds of the tax to be used for public transit purposes (the "Proposition C Tax"), and such tax was approved by the electors of the County on November 6, 1990; and

WHEREAS, the revenues received by the LACMTA from the imposition of the transactions and use tax are, by statute, directed to be used for public transit purposes, which purposes include a pledge of such tax to secure any bonds issued pursuant to the Act and include the payments or provision for the payment of the principal of the bonds and any premium, interest on the bonds and the costs of issuance of the bonds; and

WHEREAS, the LACMTA is planning and engineering a Countywide rail, bus and highway transit system (the "Rail, Bus and Highway Transit System") to serve the County and has commenced construction of portions of the Rail, Bus and Highway Transit System; and

WHEREAS, to facilitate the development and construction of the Rail, Bus and Highway Transit System, the LACMTA, as authorized by the Act, pursuant to the terms of a Trust Agreement, dated as of October 1, 1992, as amended and supplemented (the "Trust Agreement"), by and between the Commission, as predecessor to the LACMTA, and Bank of America National Trust and Savings Association, the predecessor trustee to U.S. Bank Trust National Association, as succeeded by merger by U.S. Bank National Association (the "Trustee"), issued $516,855,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 1992-A (the "Series 1992-A Bonds") pursuant to a First Supplemental Trust Agreement, dated as of October 1, 1992, by and between the Commission, as predecessor to the LACMTA, and the Trustee; issued $204,095,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 1993-A (the "Series 1993-A Bonds") pursuant to a Third Supplemental Trust Agreement, dated as of June 1, 1993, by and between the LACMTA and the Trustee; issued $312,350,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 1993-B (the "Series 1993-B Bonds") pursuant to a Fourth Supplemental Trust Agreement, dated as of November 15, 1993, by and between the LACMTA and the Trustee; issued $250,000,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 1995-A (the "Series 1995-A Bonds") pursuant to a Fifth Supplemental Trust Agreement, dated as of June 1, 1995, by and between the LACMTA and the Trustee; issued $219,710,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 1998-A (the "Series 1998-A Bonds") pursuant to a Sixth Supplemental Trust Agreement, dated as of March 1, 1998, by and between the LACMTA and the Trustee; issued $124,805,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 1999-A (the "Series 1999-A Bonds") pursuant to a Seventh Supplemental Trust Agreement, dated as of February 1, 1999, by and between the LACMTA and the Trustee; issued $161,995,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 2000-A (the "Series 2000-A Bonds") pursuant to an Eighth Supplemental Trust Agreement, dated as of November 1, 2000, by and between the LACMTA and the Trustee; issued $94,840,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2003-A (the "Series 2003-A Bonds") pursuant to a Ninth Supplemental Trust Agreement, dated as of March 1, 2003, by and between the LACMTA and the Trustee; issued $170,775,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2003-B (the "Series 2003-B Bonds") pursuant to a Tenth Supplemental Trust Agreement, dated as of October 1, 2003, by and between the LACMTA and the Trustee; issued $221,850,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2003-C (the "Series 2003-C Bonds") pursuant to an Eleventh Supplemental Trust Agreement dated as of October 1, 2003, by and between the LACMTA and the Trustee; issued $176,345,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 2004-A (the "Series 2004-A Bonds") pursuant to a Twelfth Supplemental Trust Agreement, dated as of October 1, 2004, by and between the LACMTA and the Trustee; issued $129,385,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 2006-A (the "Series 2006-A Bonds") pursuant to a Thirteenth Supplemental Trust Agreement, dated as of September 1, 2006, by and between the LACMTA and the Trustee (collectively, the "Prior Bonds"); and

WHEREAS, the LACMTA has pledged the Proposition C Tax (less the 20% local allocation and the State Board of Equalization's costs of administering such tax) to secure the Prior Bonds; and

WHEREAS, the LACMTA may consider the issuance of one or more series of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2008-B (collectively, the "Bonds") on or after April 2, 2008 (the "Expected Closing Date") (i) to refund up to $169,835,000 aggregate principal amount of the outstanding Series 1998-A Bonds, (ii) to fund or make provision for a reserve fund (the "Reserve Fund"), if necessary, for the Bonds, and (ii) to pay certain costs related thereto, subject to the approval prior to such issuance of certain documentation relating to such bonds as described herein; and

WHEREAS, the LACMTA staff is concerned that increases in interest rates over the coming months may make the refunding of the Series 1998-A Bonds less desirable for the LACMTA; and

WHEREAS, in order to protect the LACMTA against such rising interest rates, the LACMTA may issue the Bonds on or about the Expected Closing Date at variable interest rates (unless it is determined by a Designated Officer (defined below) in consultation with the Swap Advisor (defined below) and Bond Counsel (defined below) to issue such Bonds at a fixed rate), to enter into one or more interest rate swap transactions to become effective on or about the Expected Closing Date with qualified swap counterparties under which the LACMTA would pay a fixed rate to the qualified swap counterparties and receive a floating rate from the qualified swap counterparties over the term of the swap transactions and, if so determined by a Designated Officer after consultation with the Swap Advisor and Bond Counsel, to integrate the Bonds, if such Bonds are authorized by the Board of Directors of the LACMTA (the "Board"), with such qualified hedge for tax purposes, thereby altering the interest rate risk and/or altering the cost of borrowing in a beneficial manner, and when used in combination with the Bonds, enhancing the relationship between risk and return or achieving other policy objectives consistent with the LACMTA's Interest Rate Swap Policy; and

WHEREAS, such interest rate swap transactions shall be in the form of one or more interest rate swap agreements for which the LACMTA intends to receive competitive bids, with the assistance of the LACMTA's swap advisor (the "Swap Advisor") as bidding agent; and

WHEREAS, there has been presented to the LACMTA the form of Request for Interest Rate Swap (the "Request for Interest Rate Swap") prepared by the Swap Advisor in connection with the competitive bid of the Swap Agreement; and

WHEREAS, the LACMTA desires to enter into one or more ISDA Master Agreements and the related Schedules, Credit Support Annexes and Confirmations (collectively, the "Swap Agreement") on terms consistent with those set forth in the Request for Interest Rate Swap (as such terms may be modified by a Designated Officer) with one or more qualified swap counterparties in connection with the Bonds, if such Bonds are authorized by the Board, and such Swap Agreement is expected to become effective beginning on or after April 2, 2008 with an aggregate net notional amount (calculated in accordance with the LACMTA's Interest Rate Swap Policy) not to exceed the par amount of the Bonds and a termination date no later than the final maturity of the Bonds, if such Bonds are authorized by the Board; and

WHEREAS, the Chief Financial Services Officer and Treasurer, the Assistant Treasurer, the Swap Advisor and Bond Counsel have evaluated the proposed Swap Agreements and the Swap Advisor has presented its Policy Analysis to the LACMTA; and

WHEREAS, the LACMTA has determined that it is in the best interest of the public transportation needs of the County to provide for the issuance and sale of one or more series of the Bonds, from time to time, to refund all or a portion of the outstanding Series 1998-A Bonds and to enter into the Swap Agreement with one or more qualified swap counterparties;

WHEREAS, the Proposition C Tax, less the 20% allocated to local jurisdictions and less the costs of the State Board of Equalization for administering the Proposition C Tax, is herein referred to as the "Pledged Taxes"; and

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY, AS FOLLOWS:

Section 1. Findings. The LACMTA hereby finds and determines that:

(a) The issuance of one or more series of its Bonds, if such Bonds are authorized by the Board, on or after the Expected Closing Date (i) to refund up to $169,835,000 aggregate principal amount of the outstanding Series 1998-A Bonds, (ii) to fund or provide for the Reserve Fund, if necessary for the Bonds and (iii) to pay certain costs related thereto is in the public interest and beneficial to the LACMTA

(b) Under the provisions of Ordinance No. 49, all of the Pledged Taxes are revenues of the LACMTA available for rail, bus and highway transit purposes and are available to be and are, by the terms of the resolutions and the Trust Agreement under which the Prior Bonds were issued, pledged to secure the Prior Bonds and are pledged to secure the Bonds by this Resolution and, subject to a resolution of the Board authorizing the issuance of the Bonds (the "Authorizing Resolution"), such pledge is reaffirmed.

(c) The Swap Agreement is designed to reduce the amount or duration of payment, currency, rate, spread, or similar risk or result in a lower cost of borrowing when used in combination with the issuance of the Bonds, pursuant to California Government Code Section 5922, and will be used to alter interest rate risk and/or alter the cost of borrowing in a beneficial manner, and when used in combination with the Bonds, if such Bonds are authorized and issued by the Board, will enhance the relationship between risk and return or achieve other policy objectives consistent with the LACMTA's Interest Rate Swap Policy.

Section 2. Issuance of Bonds. For the purposes of refunding up to $169,835,000 aggregate principal amount of outstanding Series 1998-A Bonds, funding or providing for a portion of the Reserve Fund, if necessary, established under the Trust Agreement and paying certain costs related thereto, all in accordance with the LACMTA's Debt Policy, the LACMTA hereby will consider the issuance of one or more series of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, from time to time or at the same time. The total aggregate principal amount of Bonds to be considered under the Authorizing Resolution (whether in one series or multiple series) less any net original issue discount shall not exceed $205,000,000. The Chair of the LACMTA, any Vice Chair of the LACMTA, the Chief Executive Officer ("CEO") of the LACMTA, the Chief Financial Services Officer of the LACMTA, the Treasurer and Assistant Treasurer of the LACMTA, or any such officer serving in an acting or interim capacity, and any written designee of any of them (each, a "Designated Officer"), acting in accordance with this Section 2, are each hereby authorized to determine the actual aggregate principal amount of the Bonds, if such Bonds are authorized by the Board, to be issued from time to time (not in excess of the maximum amount set forth above) and to direct the execution and authentication of the Bonds in such amounts. Such direction shall be conclusive as to the principal amounts hereby authorized. Any Designated Officer, in consultation with the Swap Advisor and Bond Counsel, may determine the method of calculating interest on the bonds, which may be either a variable rate or a fixed rate, such determination to be conclusively evidenced by direction of the execution and authentication of the Bonds, if such Bonds are authorized by the Board. The authority conferred by this paragraph shall be subject to the presentation to and approval by the LACMTA of certain documents relating to the Bonds in substantially final form prior to their issuance, specifically: a Supplement to the Trust Agreement providing for the issuance of the Bonds; an Escrow Agreement providing for the defeasance of the Series 1998-A Bonds to be defeased; a Continuing Disclosure Certificate if in Bond Counsel's opinion such a certificate is required by Rule 15c2-12 promulgated under the Securities Exchange Act of 1934; a Purchase Contract providing for the sale of the Bonds; an Official Statement relating to the Bonds in either preliminary or final form; and such other agreements as a Designated Officer, with the advice of Bond Counsel, determines should be approved by the LACMTA.

Section 3. Pledge of Pledged Taxes. The Pledged Taxes are hereby irrevocably pledged in accordance with the terms of the Trust Agreement to secure the outstanding Prior Bonds, the Bonds, if such Bonds are authorized and issued by the Board, any additional bonds which may subsequently be issued under and secured by the terms of the Trust Agreement and, in accordance with the terms of the Trust Agreement and Swap Agreement, to the swap counterparty or counterparties for Regularly Scheduled Swap Payments (as such term is defined in the Trust Agreement). Except for the Prior Bonds and Regularly Scheduled Swap Payments, the LACMTA hereby confirms that it has not previously granted any prior or parity interest in such Pledged Taxes, and the LACMTA hereby agrees that, except as permitted by the Trust Agreement (as amended in accordance with its terms), it will not, as long as any of the Bonds, if such Bonds are authorized by the Board, or Regularly Scheduled Swap Payments remain outstanding, grant or attempt to grant any prior or parity pledge, lien or other interest in the Pledged Taxes to secure any other obligations of the LACMTA except as otherwise provided in the Trust Agreement.

Section 4. Special Obligations. The Bonds, if such Bonds are authorized and issued by the Board, shall be special obligations of the LACMTA secured by and payable from the Pledged Taxes and from the funds and accounts held by the Trustee under the Trust Agreement. The Bonds, if such Bonds are authorized and issued by the Board, shall also be secured by and be paid from such other sources as the LACMTA may hereafter provide.

Section 5. Bid of Swap Agreement. The Designated Officers are each hereby authorized and directed to arrange for the competitive bid of the Swap Agreement among one or more counterparties (or the guarantors thereof) whose long-term, unsecured and unsubordinated obligations are (i) rated "AA-" or better by Standard & Poor's Rating Services ("S&P") or Fitch, Inc. ("Fitch") or "Aa3" or better by Moody's Investors Service Inc. ("Moody's") and (ii) not rated below "A" by S&P or Fitch or "A2" by Moody's, on such terms as described in the Request for Interest Rate Swap, with such changes thereto as may be determined by any Designated Officer, upon consultation with the Financial Advisor and Bond Counsel.

Section 6. Negotiation of Swaps. The Designated Officers and each of them are hereby authorized and directed to determine the advisability of entering into the Swap Agreement with a counterparty or counterparties selected as a result of the competitive bid process described in the preceding Section and to negotiate and determine the terms of such Swap Agreement consistent with the LACMTA's Interest Rate Swap Policy and the terms set forth in this Resolution.

Section 7. Approval of Swap Agreement. The Designated Officers are, and each of them is, hereby authorized and directed to execute, acknowledge and deliver the Swap Agreement including counterparts thereof, in the name and on behalf of the LACMTA and the LACMTA's corporate seal is hereby authorized (but not required) to be affixed or imprinted on each of such documents. The Swap Agreement, as executed and delivered, shall be consistent with the terms described in the Request for Interest Rate Swap, with such changes therein as shall be approved by any Designated Officer upon consultation with the Swap Advisor and Bond Counsel, provided that the terms of the Swap Agreement are consistent with this Resolution and the LACMTA's Interest Rate Swap Policy. Execution of the Swap Agreement shall constitute conclusive evidence of the LACMTA's approval of any and all changes or revisions therein from the terms set forth in the Request for Interest Rate Swap now before this meeting. From and after the execution and delivery of the Swap Agreement the officers, agents and employees of the LACMTA are, and each of them is, hereby authorized and directed to take all such actions and to execute all such documents as may be necessary to carry out and comply with the provisions of the Swap Agreement.

Section 8. Credit Enhancement. The Designated Officers and each of them are hereby authorized and directed to determine the advisability of obtaining credit enhancement for all or certain of the payments to be made in connection with the Swap Agreement and to accept the terms and provisions and price of such credit enhancement, to select a provider or providers thereof (the "Credit Enhancer") and to determine such other matters related thereto as in the opinion of such Designated Officer or Officers shall be considered necessary or appropriate and to effect such determinations by making any changes in or additions to the form of Swap Agreement required by such Credit Enhancer relating to, without limitation, provisions regarding the termination of such agreement, the provision for collateralization of obligations thereunder, the mechanism for repayment of amounts advanced thereunder or the payment of fees, premiums, expenses or other amounts, notices, the provision of information and such other matters of a technical, mechanical, procedural or descriptive nature necessary or appropriate to implement an insurance policy or other form of credit enhancement with respect to the Swap Agreement; the execution of the Swap Agreement as so modified being conclusive evidence of LACMTA's approval.

Section 9. Pledge of Collateral. The Designated Officers and each of them are hereby authorized and directed to pledge or caused to be pledged, to the swap counterparty or counterparties selected pursuant to the competitive bid process described in Section 5, collateral in the form of cash or securities to secure its obligations under the Swap Agreement when required by and in accordance with the terms thereof.

Section 10. Authorization to Amend, Supplement, Modify or Terminate Swap Agreement The Designated Officers and each of them are hereby authorized and directed to amend, supplement or otherwise modify the Swap Agreement at any time and in any manner determined to be necessary or desirable by the Designated Officer executing such amendment, supplement or modification, upon consultation with the Swap Advisor and Bond Counsel, the execution of such amendment, supplement or other modification being conclusive evidence of LACMTA's approval thereof. In addition, the Designated Officers and each of them are authorized to optionally terminate the Swap Agreement in whole or in part in accordance with the terms of the Swap Agreement.

Section 11. Additional Authorization. The Designated Officers and all officers, agents and employees of the LACMTA, for and on behalf of the LACMTA, are hereby authorized and directed to take any and all actions necessary or desirable to effect the issuance and sale of the Bonds, if such Bonds are authorized by the Board, and the execution and delivery of the Swap Agreement and to carry out the transactions contemplated herein and therein. The Designated Officers and all other officers, agents and employees of the LACMTA are further authorized and directed, for and on behalf of the LACMTA, to execute all papers, documents, certificates and other instruments that may be necessary or desirable in order to carry out the authority conferred by this Resolution or the provisions of the Bonds, if such Bonds are authorized by the Board, or the Swap Agreement. Further, the Designated Officers are authorized to identify the Swap Agreement as integrated with the Bonds, if such Bonds are authorized and issued by the Board, for tax purposes on its books and records as required under the Federal tax law. All actions heretofore taken by the officers, agents and employees of the LACMTA in furtherance of the purposes of this Resolution are hereby confirmed, ratified and approved.

Section 12. Bond Counsel and Disclosure Counsel. The LACMTA hereby confirms, ratifies and approves the appointment of Hawkins Delafield & Wood LLP as bond counsel and disclosure counsel to the LACMTA in connection with the entry into the Swap Agreement and the issuance and sale of the Bonds.

Section 13. Severability. The provisions of this Resolution are hereby declared to be severable and if any section, phrase or provision shall for any reason be declared to be invalid, such sections, phrases and provisions shall not affect any other provision of this Resolution.

Section 14. Effective Date. The effective date of this Resolution shall be the date of its adoption.

CERTIFICATION

The undersigned, duly qualified and acting as Board Secretary of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true and correct copy of the Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on February __, 2008.

[SEAL]

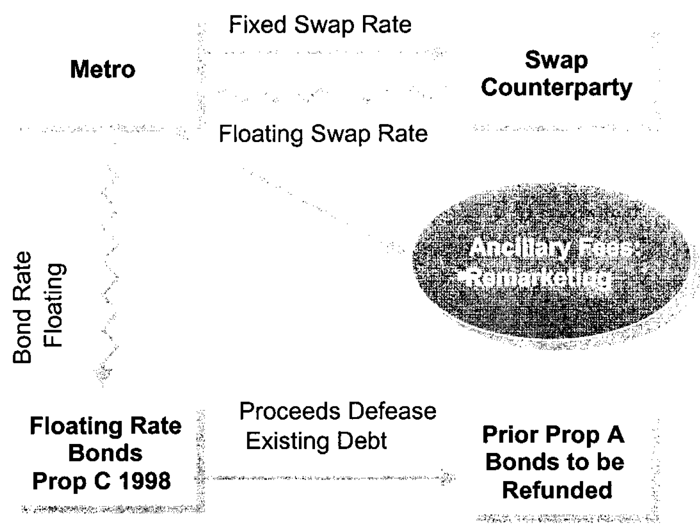
By: ______________________________
Board Secretary, Los Angeles County
Metropolitan Transportation Authority

Dated: ____________, 2008

ATTACHMENT B

Transaction Explanation

This synthetic fixed rate strategy will produce an interest rate lower than traditional fixed rate bonds. To implement the transaction we will issue variable rate bonds and enter into an interest rate swap indexed to either the London Interbank Offering Rate (LIBOR) or Securities Industry and Finance Markets Association (SIFMA) index. We will pay the actual interest costs to the bondholders. Under the swap we will make a monthly fixed rate payment to the provider based on a fixed rate that is determined by competitive bid when the swap is entered into. The swap provider simultaneously will make a variable rate payment to Metro based on the variable rate index. In practice the payments are netted and only one payment is made. Over the life of the bonds, the variable rate payments received from the swap provider will offset the variable rate payments paid to the bondholders. The end result is that the net cost will be the fixed rate determined in the swap contract. This rate is referred to as the synthetic fixed rate.



The interest rate for the monthly variable rate swap payments received by Metro will be set at a percentage of the index that best correlates to the interest rates on our variable rate bonds. The actual dollar amount of a payment is calculated by multiplying the variable rate by the "notional" amount of the swap. The notional amount is essentially the par amount of the outstanding bonds. There is no exchange of principal amounts when transacting a swap, so the quantity is described as notional.

Relative to a fixed rate bond transaction, interest rate swaps provide greater financial benefit and bear various additional risks. The additional financial benefit of the proposed swap is believed to be greater than the amount of additional risk, net of risk mitigation as outlined in the Interest Rate Swap Policy. The major risks and significant mitigation measures related to swaps are identified in the Interest Rate Swap Policy.