Board Meeting Date: February 20, 2008

Executive Summary
Authorizing Resolution to Restructure the COPS 2003B

- The 2003B COP issue was issued in June 2003 as a variable rate transaction in a VRDO mode.
- “VRDO” or Variable Rate Demand Obligation bond mode is a method which reoffers the securities each week. The underwriter re-markets the certificates and finds the best possible rate for the District. The VRDO mode also requires a liquidity provider or a letter of credit to purchase COP’s that cannot be remarketed. These liquidity features adds efficiency and stability to the market for VRDO’s.
- The 2003B COP issue is insured by Ambac Assurance Corporation (Ambac) and the liquidity provider is Dexia.
- Due to their capital position, Ambac has been downgraded from AAA to AA by Fitch Ratings and placed on negative watch by all three rating agencies.
- The downgrades have resulted in a much higher interest rate for the transaction and could create significant difficulties in marketing the certificates in the future.
- To eliminate that risk, Dexia, the liquidity provider, has offered an alternative mode, specifically an index rate mode, which will lock the borrowing rate to an index. When you consider the interest rate swap, the new synthetic rate would be 4.56%.
- This mode would be in place until at least August 2009 but can remain in place until the certificates mature in 2029. Based on discussions with our underwriters and financial advisor, we do not expect the market to be better for the next year or two. This solution will allow the District to determine when and if the transaction should revert to another interest rate mode while locking in a reasonable borrowing rate.
- During the meeting on January 30, 2008, the Finance Committee recommended this action. A draft of the meeting minutes is available online at http://www.palmbeach.k12.fl.us/FinMan/FINANCIALDIVISIONS/Treasury/nTreasury%20FinCom.htm