Pennsylvania School Boards Association

Testimony of Pennsylvania School Boards Association
Senate Bill 903 Interest Rate Swaps
Presented to the Senate Local Government Committee
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by
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Hello, Chairmen Eichelberger and Teplitz and members of the Committee. I am Karen McConnell, Assistant Superintendent for Finance and Administrative Operations at Central Dauphin School District. Thank you for the opportunity to share our experiences at Central Dauphin with regard to interest rate swap agreements on behalf of PSBA.

Currently, Pennsylvania law permits school districts to enter into Swap Agreements. Far from jeopardizing taxpayer funds, Central Dauphin School District's management of its finances, including its execution and monitoring of Swap Agreements, has generated substantial savings for taxpayers, producing more than $5.6 million since 2009 in non-taxpayer generated revenue to support the quality education and programming provided by the District. The current swap termination values for the District remain positive.

The District entered into three Swap Agreements, two of which are currently outstanding with certain restrictions applicable to the timing of termination. The District terminated a Basis Swap in December 2009. The District received $3,486,259 in net, non-taxpayer revenue in relation to that swap.

The District entered into a Fixed Receiver Swaption in 2010. The swap cannot be terminated prior to February 2014. However, the District and its taxpayers have received and will continue to receive a substantial positive financial benefit from this Swaption Agreement. To date, the District has received $1,544,100 in net, non-taxpayer revenue. The Swap Counterparty has until February 2014 to place the District into a Fixed Receiver Swap. Pursuant to the Swap Agreement, if exercised, the District will receive payments based upon an interest rate of 4%, which will be netted against payments made by the District at the SIFMA rate, which is currently at 0.06%. As is self evident, the District and its taxpayers stand to realize significant net revenue from this arrangement, and the disparity in rates will afford the District ample opportunity to terminate the swap should rates materially change while still receiving a termination payment.

Finally, the District entered into a Basis Swap in 2011. Under the terms of the Swap Agreement, the District has been receiving payments based on an interest rate that is approximately 300% more the rate it is paying. To date, the District has received $594,379 in net, non-taxpayer revenue in relation to the swap.

Despite the overwhelming financial success of the Swap Agreements for the District's taxpayers, the District takes the hypothetical risk involved with swaps very seriously and closely monitors its agreements. Should interest rate dynamics materially change, the District will be prepared to ensure timely termination of the Swap Agreements and may realize additional termination payments in conjunction therewith. The District also reviewed 3 other Swap Agreements which were not undertaken by the Board of Directors. This type of vigilant and prudent financial management has enabled the District to continue to provide its students, residents and taxpayers with a quality education and school system, despite the ever increasing financial challenges and burdens facing Pennsylvania Public Schools.

We urge the committee to discontinue pursuing the elimination of all interest rate management agreements as a financial tool for school districts and instead implement revisions to Act 23 that would address the weaknesses in the law that Mr. Wenger discussed. We appreciate this opportunity to testify today and would be happy to answer any questions you may have.