



- **Swap Report**

Summary

The attached monthly report provides a summary of outstanding interest rate swaps in accordance with Resolution No. 8773, as amended, and Section 5922 of the California Government Code.

Attachments

Attachment 1: Swap Report –October 2011



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: November 7, 2011
To: Finance and Insurance Committee
From: Gary M. Breaux, Assistant General Manager/Chief Financial Officer
Subject: Swap Monthly Report, October 2011

This letter provides a summary of the interest rate swaps outstanding as of October 31, 2011. These transactions are consistent with Board policy and Section 5922 of the California Government code, and have been executed to reduce debt service costs and reduce duration and interest rate risk.

As approved by the Board, Metropolitan has \$1.40 billion in outstanding interest rate swaps. These transactions and their associated bonds have resulted in \$79.6 million in savings through the date of this report. The mark-to-market value of the portfolio is a negative \$193.3 million, reflecting interest rates as of October 31, 2011, which was significantly lower than when these swaps were executed. Net exposure to all counterparties is within Board-approved guidelines. As of October 31, 2011, Metropolitan had \$20.0 million of collateral posted with Morgan Stanley.

At the August 2010 board meeting, the Board approved \$500 million of interest rate swap authority for the next two years. Staff will continue to monitor the market for opportunities and work with the committee on transactions that meet Metropolitan's policies and financial objectives.

A handwritten signature in black ink, appearing to read "Gary M. Breaux".

Gary M. Breaux

The Metropolitan Water District of Southern California

Outstanding Swaps By Counterparty

<u>Swap</u>	<u>Amount Outstanding</u>	<u>Swap Counterparty</u>
2004C	\$ 59,094,000	Citigroup Financial Products Inc.
July 2005	\$ 58,547,500	Citigroup Financial Products Inc.
2001B (1)	\$107,500,000	JPMorgan Chase Bank
2002B (1)	\$ 33,320,700	JPMorgan Chase Bank
2004 Basis (1)	\$125,000,000	JPMorgan Chase Bank
2003	\$164,637,500	JPMorgan Chase Bank
2004 Basis-Amended	\$125,000,000	JPMorgan Chase Bank
April 2006	\$ 30,990,000	JPMorgan Chase Bank
April 2006	\$ 6,027,500	JPMorgan Chase Bank
July 2005	\$ 58,547,500	JPMorgan Chase Bank
2002A	\$ 89,069,300	Morgan Stanley Capital Services Inc.
2004A	\$155,930,000	Morgan Stanley Capital Services Inc.
2004C	\$ 72,226,000	Morgan Stanley Capital Services Inc.
2001B (2)	\$107,500,000	Deutsche Bank AG
2003 (2)	\$164,637,500	Deutsche Bank AG
April 2006 (2)	\$ 30,990,000	Deutsche Bank AG
April 2006 (2)	\$ 6,027,500	Deutsche Bank AG
Total	\$1,395,045,000	

(1) Interest rate swaps formerly with Bear Stearns Financial Products, Inc., which merged with JPMorgan Chase Bank, effective May 26, 2009.

(2) Interest rate swaps were novated from UBS AG to Deutsche Bank AG, effective July 22, 2010.

2001 SERIES B SWAP

Purpose of the Transaction:

The 2001 Series B Bonds were issued to provide funds to refund \$167,840,000 of the 1992 Water Revenue Bond issue maturity of 7/1/2019; and \$37,200,000 of the 1993 Series B Water Revenue Bonds SAVRS and RIBS, maturity 10/30/2020. The transaction is expected to achieve net present value savings of \$15.0 million. On June 7, 2007, Metropolitan issued \$218.4 million, 2007 Series A bonds (Auction Rate Securities) to refund the 2001 Series B bonds. Due to the severe market dislocation concerning auction rate securities, the 2007 Series A bonds and all other outstanding Metropolitan auction rate securities were refunded on March 25, 2008 by the proceeds of the \$501.6 million, 2008 Series A bonds. Deutsche Bank AG replaced UBS AG as counterparty effective July 22, 2010. To date, debt service reductions have been \$7.5 million compared to the forecasted reduction of \$15.0 million.

Counterparty:	Deutsche Bank AG	JPMorgan Chase Bank
Effective Date of Swap:	9/6/2001	9/6/2001
Counterparty Credit Rating:	A+/Aa3/AA-	AA-/Aa1/AA-
Maturity Date:	7/1/2020	7/1/2020
Remaining Average Life:	5.4 Years	5.4 Years
Notional Amount Outstanding:	\$107,500,000	\$107,500,000
Type of Swap:	Floating to Fixed	Floating to Fixed
Metropolitan Pays Fixed:	4.219%	4.219%
Metropolitan Receives:	SIFMA minus 35 basis points*	SIFMA minus 35 basis points*
Collateral Posting:	None required	None required
Estimated Termination Value:	(\$19.5) Million	(\$19.5) Million
Total Termination Receipt (Payment) Value:		(\$39.0) Million**

*The SIFMA Municipal Swap Index is a weekly high grade index comprised of 7-day tax-exempt variable rate demand notes produced by municipal market data. Active issues are selected from the Municipal Market Data's database of more than 10,000 active issues based on several specific criteria.

**With a 50 basis point movement of the swap curve Metropolitan's Termination Value, under the terms of these swap agreements would increase or decrease by approximately \$5.9 million from the current Termination Value.

Escrow period for bonds refunded with 2001 Series B1 and B2 proceeds, ended on 10/31/2003.

2002 SERIES A AND 2002 SERIES B BONDS & SWAP

Purpose of the Transaction

The 2002 Series A and Series B Bonds were issued to provide funds to refund \$33,700,000 of the 1992 Water Revenue Bond issue; \$46,995,000 of the 1995 Series A Water Revenue bonds and \$36,225,000 of the 1999 Series A Water Revenue Bonds. The transaction was expected to achieve net present value savings of \$9.7 million. To date, debt service reductions have been \$9.7 million compared to the forecasted reduction of \$6.6 million. The forecasted reduction assumed that the 2002 Series A and Series B variable rate bonds would trade at 70% of one-month LIBOR (10 year avg.).

Counterparty:	Morgan Stanley Capital Services Inc.	JPMorgan Chase Bank
Effective Date of Swap:	9/12/02	9/12/02
Counterparty Credit Rating:	A/A2/A	AA-/Aa1/AA-
Maturity Date:	7/1/2025	7/1/2025
Remaining Average Life:	10.1 Years	10.1 Years
Notional Amount Outstanding:	\$89,069,300	\$33,320,700
Type of Swap:	Floating to Fixed	Floating to Fixed
Metropolitan Pays Fixed:	3.30%	3.30%
Metropolitan Receives Floating:	USD-LIBOR* 57.74% of One Month LIBOR	USD-LIBOR* 57.74% of One Month LIBOR
Collateral Posting:	Collateral required	None required
Estimated Termination Value:	(\$17.5) Million	(\$6.4) Million
Total Termination Receipt (Payment) Value:		(\$23.9) Million**

*BBA LIBOR is the British Bankers' Association fixing of the London-Inter-Bank Offered Rate. It is based on offered inter-bank deposit rates contributed in accordance with the instruction to BBA LIBOR Contributor Banks.

**With a 50 basis point movement of the swap curve Metropolitan's Termination Value, under the terms of these swap agreements would increase or decrease by approximately \$5.8 million from the current Termination Value.

Escrow period for bonds refunded with the 2002 Series A & B proceeds ended on 07/01/2009.

2003 SWAP

Purpose of the Transaction

The 2003 Series C1- C3 Bonds, sold on December 18, 2003, were issued to provide funds to refund \$146,375,000 of the 1996 Series C Water Revenue Bonds and \$151,885,000 of the 1997 Series A Water Revenue bonds. The transaction was expected to achieve a net present value savings of \$21.1 million. On May 20, 2009, Metropolitan refunded the 2003 Series C1 and Series C2 bonds and, on June 10, 2009, Metropolitan refunded the 2003 Series C3 bonds. Due to the refunding of the 2003 C1-C3 bonds, the 2003 Swap will be used to hedge with other series of Metropolitan variable rate debt. Deutsche Bank AG replaced UBS AG as counterparty effective July 22, 2010. To date, debt service reductions have been \$13.3 million compared to the forecasted reduction of \$10.0 million. The forecasted reduction assumed that the 2003 Series C1-C3 variable rate bonds would trade at 70% of one-month LIBOR (10 year avg.).

Counterparty:	Deutsche Bank AG	JP Morgan Chase Bank
Effective Date of Swap:	12/18/03	12/18/03
Counterparty Credit Rating:	A+/Aa3/AA-	AA-/Aa1/AA-
Maturity Date:	7/1/2030	7/1/2030
Remaining Average Life:	13.4 Years	13.4 Years
Notional Amount Outstanding:	\$164,637,500	\$164,637,500
Type of Swap:	Floating to Fixed	Floating to Fixed
Metropolitan Pays Fixed:	3.257%	3.257%
Metropolitan Receives:	61.20% of One Month LIBOR*	61.20% of One Month LIBOR*
Collateral Posting:	None required	None required
Estimated Termination Value:	(\$32.7) Million	(\$32.7) Million
Total Termination Receipt (Payment) Value:		(\$65.4) Million**

*BBA LIBOR is the British Bankers' Association fixing of the London-Inter-Bank Offered Rate. It is based on offered inter-bank deposit rates contributed in accordance with the instruction to BBA LIBOR Contributor Banks.

**With a 50 basis point movement of the swap curve Metropolitan's Termination Value, under the terms of these swap agreements would increase or decrease by approximately \$19.5 million from the current Termination Value.

Escrow period for bonds refunded with 2003 Series C1-C3 proceeds ended on 01/01/2008.

2004 SERIES A BONDS & SWAP

Purpose of the Transaction:

The 2004 Series A Bonds, sold on February 19, 2004, were issued to provide funds to refund \$66,280,000 of the 1996 Series C Water Revenue Bonds, \$79,395,000 of the 1997 Series A Water Revenue bonds, and \$2,840,000 of the 1999 Series A Water Revenue Bonds. The transaction was expected to achieve net present value savings of \$11.4 million. To date, debt service reductions have been \$12.5 million compared to the forecasted reduction of \$9.9 million. The forecasted reduction assumed that the 2004 Series A1-A2 variable rate bonds would trade at 70% of one-month LIBOR (10 year avg.).

Counterparty:	Morgan Stanley Capital Services Inc.
Effective Date of Swap:	2/19/04
Counterparty Credit Rating:	A/A2/A
Maturity Date:	7/1/2023
Remaining Average Life:	8.1 Years
Outstanding:	\$155,930,000
Type of Swap:	Floating to Fixed
Metropolitan Pays Fixed:	2.917%
Metropolitan Receives:	61.20% of One Month LIBOR*

Collateral Posting: Collateral required

Total Termination Receipt (Payment) Value: (\$20.3) Million**

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**With a 50 basis point movement of the swap curve Metropolitan's Termination Value, under the terms of these swap agreements would increase or decrease by approximately \$6.0 million from the current Termination Value.

Escrow period for bonds refunded with 2004 Series A proceeds ended on 01/01/2009.

2004 BASIS SWAP

Purpose of the Transaction:

On May 17, 2004, Metropolitan entered into two identical basis swap transactions, in which Metropolitan pays the BMA index and receives 70% of the monthly LIBOR rate, plus 31.5 basis points. Depending on actual tax-exempt to taxable ratios, savings are estimated to be \$400,000 to \$1.1 million per year. To date, accrued savings of the two basis swaps is \$4.0 million.

Counterparty:	JPMorgan Chase Bank
Effective Date of Swap:	5/19/2004
Counterparty Credit Rating:	AA-/Aa1/AA-
Maturity Date:	7/01/2014
Remaining Average Life:	2.8 Years
Notional Amount Outstanding:*	\$250,000,000
Type of Swap:	Basis Swap
Metropolitan Pays Floating:	SIFMA**
Metropolitan Receives Floating:	70% of One Month LIBOR*** plus 31.5 basis points
Collateral Posting:	None required
Estimated Termination Value:	\$ 1.26 million ****

*Combined value of two identical swaps, one formerly with Bear Stearns Financial Products, Inc.

**The SIFMA Municipal Swap Index is a weekly high grade index comprised of 7-day tax-exempt variable rate demand notes produced by municipal market data.

***BBA LIBOR is the British Bankers' Association fixing of the London-Inter-Bank Offered Rate.

****Each one percent change in the SIFMA/LIBOR ratio will change the value of the swap by \$44,000.

2004 SERIES C BONDS & SWAP

Purpose of the Transaction:

The 2004 Series C Bonds were sold on November 16, 2004. Proceeds were used to refund \$31,060,000 of the 1996 Series B Water Revenue Bonds, \$4,890,000 of the 1996 Series C Water Revenue Bonds, and \$89,300,000 of the 1997 Series A Water Revenue bonds. The transaction is expected to achieve a net present value savings of \$10.98 million. The forecasted debt service reduction assumed that the 2004 Series C variable rate bonds would trade at 70% of one-month LIBOR* (10 year avg.). Due to the refunding of the 2004 Series C bonds, the 2004 Series C Swap will be used to hedge with other series of Metropolitan variable rate debt. To date, debt service reductions have been \$6.4 million compared to the forecasted reduction of \$5.5 million.

Counterparty:	Morgan Stanley Capital Services Inc.	Citigroup Financial Products Inc.
Trade Date of Swap:	09/27/04	09/27/04
Effective Date of Swap:	11/16/04	11/16/04
Counterparty Credit Rating:	A/A2/A	A/A3/A+
Maturity Date:	10/1/2029	10/1/2029
Remaining Average Life:	8.3 Years	8.3 Years
Notional Amount Outstanding:	\$72,226,000	\$59,094,000
Type of Swap:	Floating to Fixed	Floating to Fixed
Metropolitan Pays Fixed:	2.98%	2.98%
Metropolitan Receives:	61.55% of One Month LIBOR*	61.55% of One Month LIBOR*
Collateral Posting:	Collateral required	None required
Estimated Termination Value:	(\$10.0) Million	(\$8.1) Million
Total Termination Receipt (Payment) Value:		(\$18.1) Million**

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**With a 50 basis point movement of the swap curve Metropolitan's Termination Value, under the terms of these swap agreements would increase or decrease by approximately \$5.2 million from the current Termination Value.

Escrow period for bonds refunded with 2004 Series C proceeds ended on 01/01/2008.

APRIL 2006 FORWARD STARTING SWAP

Purpose of the Transaction

On April 13, 2005, Metropolitan entered into two identical swap transactions, in which Metropolitan pays a fixed rate of 3.21% and receives 63% of the three-month LIBOR rate. The swaps were effective on April 4, 2006. On May 25, 2006 Metropolitan issued \$62,085,000 variable rate bonds to provide funds to currently refund \$61,605,000 of the 1996 Series B Water Revenue Bonds. Deutsche Bank AG replaced UBS AG as counterparty effective July 22, 2010. The transaction is expected to achieve net present value savings of \$5.4 million. To date, accrued savings are \$4.6 million versus projected savings of \$3.3 million.

Counterparty:	Deutsche Bank AG	JP Morgan Chase Bank
Effective Date of Swap:	04/04/06	04/04/06
Counterparty Credit Rating:	A+/Aa3/AA-	AA-/Aa1/AA-
Maturity Date:	7/1/2021	7/1/2021
Remaining Average Life:	7.0 Years	7.0 Years
Notional Amount Outstanding:	\$30,990,000	\$30,990,000
Type of Swap:	Floating to Fixed	Floating to Fixed
Metropolitan Pays Fixed:	3.21%	3.21%
Metropolitan Receives:	63.00% of Three Month LIBOR*	63.00% of Three Month LIBOR*
Collateral Posting:	None required	None required
Estimated Termination Value:	(\$4.0) Million	(\$4.0) Million
Total Termination Receipt (Payment) Value:		(\$8.0) Million**

*BBA LIBOR is the British Bankers' Association fixing of the London-Inter-Bank Offered Rate. It is based on offered inter-bank deposit rates contributed in accordance with the instruction to BBA LIBOR Contributor Banks.

**With a 50 basis point movement of the swap curve Metropolitan's Termination Value, under the terms of these swap agreements would increase or decrease by approximately \$2.1 million from the current Termination Value.

Escrow period for bonds refunded with 1996 Series B proceeds ended on 07/01/2006.

APRIL 2006 FORWARD STARTING SWAP

Purpose of the Transaction

On April 29, 2005, Metropolitan entered into two identical swap transactions, in which Metropolitan pays a fixed rate of 2.911% and receives 63% of the three-month LIBOR rate. The swaps were effective on April 4, 2006. On May 25, 2006 Metropolitan issued \$12,055,000 variable rate bonds to provide funds to currently refund \$ 11,760,000 of the 1996 Series B Water Revenue Bonds. Deutsche Bank AG replaced UBS AG as counterparty effective July 22, 2010. The transaction is expected to achieve net present value savings of \$1.0 million. To date, accrued savings are \$1.17 million versus projected savings of \$929,000.

Counterparty:	Deutsche Bank AG	JP Morgan Chase Bank
Effective Date of Swap:	04/04/06	04/04/06
Counterparty Credit Rating:	A+/Aa3/AA-	AA-/Aa1/AA-
Maturity Date:	7/1/2012	7/1/2012
Remaining Average Life:	9 Months	9 Months
Notional Amount Outstanding:	\$6,027,500	\$6,027,500
Type of Swap:	Floating to Fixed	Floating to Fixed
Metropolitan Pays Fixed:	2.911%	2.911%
Metropolitan Receives:	63.00% of Three Month LIBOR*	63.00% of Three Month LIBOR*
Collateral Posting:	None required	None required
Estimated Termination Value:	(\$116,000)	(\$116,000)
Total Termination Receipt (Payment) Value:		(\$232,000) **

*BBA LIBOR is the British Bankers' Association fixing of the London-Inter-Bank Offered Rate. It is based on offered inter-bank deposit rates contributed in accordance with the instruction to BBA LIBOR Contributor Banks.

**With a 50 basis point movement of the swap curve Metropolitan's Termination Value, under the terms of these swap agreements would increase or decrease by approximately \$50,000 from the current Termination Value.

Escrow period for bonds refunded with 1996 Series B proceeds ended on 07/01/2006.

JULY 2005 FORWARD FIXED PAYOR SWAP

Purpose of the Transaction

On May 18, 2005, Metropolitan entered into two identical \$58,547,500 swap transactions, in which Metropolitan pays a fixed rate of 3.36% and receives 70% of the three-month LIBOR rate. The effective date of the swaps was July 6, 2005. The transactions locked-in a fixed rate of 3.36% for approximately \$117.1 million of Metropolitan's variable rate debt.

Counterparty:	JPMorgan Chase Bank, N.A.	Citigroup Financial Products Inc.
Effective Date of Swap:	07/06/05	07/06/05
Counterparty Credit Rating:	AA-/Aa1/AA-	A/A3/A+
Maturity Date:	7/1/2030	7/1/2030
Remaining Average Life:	12.0 Years	12.0 Years
Notional Amount Outstanding:	\$58,547,500	\$58,547,500
Type of Swap:	Floating to Fixed	Floating to Fixed
Metropolitan Pays Fixed:	3.36%	3.36%
Metropolitan Receives:	70.00% of Three Month LIBOR*	70.00% of Three Month LIBOR*
Collateral Posting:	None required	None required
Estimated Termination Value:	(\$9.8) Million	(\$9.8) Million
Total Termination Receipt (Payment) Value:		(\$19.6) Million**

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**With a 50 basis point movement of the swap curve Metropolitan's Termination Value, under the terms of these swap agreements would increase or decrease by approximately \$6.2 million from the current Termination Value.

Recent Swap Activity

At the August 2010 board meeting, the Board approved \$500 million of interest rate swap authority for the next two years. Staff will continue to monitor the market and work with the Ad Hoc Committee to determine if there are opportunities to reduce interest rate risk and debt service costs.

Collateral Posting

As of October 31, 2011, Metropolitan had \$20.0 million collateral posted with Morgan Stanley.

**SUMMARY OF
COUNTERPARTY EXPOSURE
AND NOTIONAL AMOUNT
(\$ in Millions)
October 31, 2011**

<u>Swap Counterparty</u>	<u>Notional Amount Outstanding (1)</u>	<u>Net Exposure (2)</u>
Citigroup Financial Products Inc.	\$117.6	\$(17.9)
JPMorgan Chase Bank (3)	651.0	(71.3)
Morgan Stanley Capital Services Inc.	317.2	(47.8)
Deutsche Bank AG (4)	<u>309.2</u>	<u>(56.3)</u>
Total	\$ 1,395.0	\$(193.3)

(1) Metropolitan's Master Swap Policy adopted by the Board on September 11, 2001, states "*The sum total notional amount per swap counterparty may not exceed 25 percent of Metropolitan's total revenue bond indebtedness.*" As of October 31, 2011, Metropolitan's total revenue bond indebtedness was \$4.63 billion. No swap counterparty currently exceeds the limitation of \$1.16 billion.

(2) Shown from Metropolitan's perspective. Amounts in parenthesis (negative) mean that Metropolitan would pay the counterparty upon termination of all transactions. Positive amounts mean that the counterparty would pay Metropolitan.

(3) Effective May 26, 2009, JPMorgan Chase Bank merged with Bear Stearns Financial Products, Inc. (BSFP) and assumed the obligations of \$269.1 million of Metropolitan's interest rate swaps with BSFP.

(4) Deutsche Bank AG replaced UBS AG as counterparty effective July 22, 2010.

COUNTERPARTY CREDIT RATINGS
As of October 31, 2011

<u>Swap Counterparty</u>	<u>Credit Rating S&P/Moody's/Fitch</u>	<u>Credit Ratings From Prior Month</u>
Citigroup Financial Products Inc.	A/A3/A+	
JPMorgan Chase Bank	AA-/Aa1/AA-	
Morgan Stanley Capital Services Inc.	A/A2/A	
Deutsche Bank AG	A+/Aa3/AA-	

Metropolitan is authorized to enter into interest rate swap transactions with qualified swap counterparties as outlined in its Master Swap Policy. Qualified swap counterparties must be rated at least "Aa3," or "AA-," or equivalent by any two of the nationally recognized rating agencies (Moody's, Standard and Poor's, and Fitch); or have a "AAA" subsidiary as rated by at least one nationally recognized credit rating agency.

Rating Agency Ratings

<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Fitch</u>
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+

NR = Not Rated by that credit agency.

Debt Service Savings **As of October 31, 2011**

<u>Swap Transactions</u>	<u>Projected Savings To-Date</u>	<u>Actual Savings To-Date</u>
2001 Series B	\$15.0 Million	\$ 7.5 Million
2002 Series A-B	\$ 6.6 Million	\$ 9.7 Million
2003 Series C	\$10.0Million	\$ 13.3 Million
2004 Series A	\$ 9.9 Million	\$ 12.5 Million
2004 Series C	\$ 5.5 Million	\$ 6.4 Million
2006 Forward Starting	\$ 3.3 Million	\$ 4.6 Million
2006 Forward Starting	<u>\$ 0.9 Million</u>	<u>\$ 1.2 Million</u>
Total	\$51.2 Million	\$55.2 Million
2002 Receiver Swap	NA	\$15.4 Million
2004 Basis Swap	NA	\$ 5.1 Million ⁽¹⁾
2006 CMS Swap	NA	\$ 0.3 Million ⁽²⁾
2005 Basis Swap	NA	<u>\$ 3.6 Million ⁽³⁾</u>
Total		\$ 24.4 Million
Total Savings To-Date		\$79.6 Million

- (1) Includes impact of accumulated cash-flow savings and the \$1.05 million receipt for the 01/02/08 amendment of the JPMorgan 2004 Basis Swap.
- (2) Includes accumulated impact of negative cash-flow and the \$1.05 million termination receipt of 12/17/07.
- (3) Accumulated cash-flow savings and the \$2.7 million termination receipt of 01/11/07.