



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report

Office of the CFO

● **Swap Quarterly Report**

Summary

The attached quarterly 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.

Attachment 1: Swap Quarterly Report, September 2012



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: October 8, 2012
To: Finance and Insurance Committee
From: Gary Breaux, Assistant General Manager/Chief Financial Officer
Subject: Swap Quarterly Report, September 2012

This letter provides a summary of the interest rate swaps outstanding as of September 30, 2012. 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 \$1.06 billion in outstanding interest rate swaps. These transactions and their associated bonds have resulted in \$86.9 million in savings through the date of this report. The mark-to-market value and accrued interest of the swap portfolio is a negative \$168.4 million, reflecting interest rates as of September 30, 2012, which was significantly lower than when these swaps were executed. Net exposure to all counterparties is within board-approved guidelines. As of September 30, 2012, Metropolitan had \$21.5 million of collateral posted with Morgan Stanley and \$4.8 million with JP Morgan Chase Bank.

As discussed at the July 2012 Finance and Insurance Committee meeting, on June 20, 2012, Metropolitan fully terminated two fixed payor interest rate swaps and partially terminated five such swaps, with termination payments of \$47.2 million. The swap terminations were done in conjunction with the issuance of the \$319.6 million 2012 Series C, D, and E Water Revenue Refunding Bonds, whereby a portion of the proceeds funded the termination payments. Total present value savings from the refunding are estimated at \$1.1 million. The transaction closed on June 28, 2012.

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 Breaux", is written over a light blue horizontal line.

Gary Breaux

Outstanding Swaps By Counterparty

<u>Swap</u>	<u>Amount Outstanding</u>	<u>Swap Counterparty</u>
2004C (3)	\$ 47,236,500	Citigroup Financial Products Inc.
July 2005	\$ 58,547,500	Citigroup Financial Products Inc.
2002B (1)	\$ 33,180,300	JPMorgan Chase Bank
2004 Basis (1)	\$125,000,000	JPMorgan Chase Bank
2003	\$163,987,500	JPMorgan Chase Bank
2004 Basis-Amended	\$125,000,000	JPMorgan Chase Bank
2006 (2)(3)	\$ 20,697,500	JPMorgan Chase Bank
July 2005	\$ 58,547,500	JPMorgan Chase Bank
2002A	\$ 88,694,700	Morgan Stanley Capital Services Inc.
2004A (3)	\$ 94,530,000	Morgan Stanley Capital Services Inc.
2004C (3)	\$ 57,733,500	Morgan Stanley Capital Services Inc.
2003 (2)	\$163,987,500	Deutsche Bank AG
2006 (2)(3)	<u>\$ 20,697,500</u>	Deutsche Bank AG
Total	\$1,057,840,000	

(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.

(3) Partially terminated effective June 28, 2012.

Summary of Counterparty Exposure and Notional Amount
(\$ in Millions)
September 30, 2012

<u>Swap Counterparty</u>	<u>Notional Amount Outstanding (1)</u>	<u>Net Exposure (2)</u>
Citigroup Financial Products Inc.	\$105.8	\$(19.8)
JPMorgan Chase Bank (3)	526.4	(60.4)
Morgan Stanley Capital Services Inc.	240.9	(45.7)
Deutsche Bank AG (4)	<u>184.7</u>	<u>(42.5)</u>
Total	\$ 1,057.8	\$(168.4)

- (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 September 30, 2012, Metropolitan's total revenue bond indebtedness was \$4.50 billion. No swap counterparty currently exceeds the limitation of \$1.13 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. Includes mark-to-market fair value and accrued interest.
- (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 September 30, 2012

<u>Swap Counterparty</u>	<u>Credit Rating S&P/Moody's/Fitch</u>
Citigroup Financial Products Inc.	A-/Baa2/A
JPMorgan Chase Bank	A+/Aa3/A+
Morgan Stanley Capital Services Inc.	A-/Baa1/A
Deutsche Bank AG	A+/A2/A+

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+
A	A2	A
A-	A3	A-

**Debt Service Savings
As of September 30, 2012**

<u>Swap Transactions</u>	<u>Projected Savings To-Date</u>	<u>Actual Savings To-Date</u>
2001 Series B	\$15.8 Million	\$ 8.7 Million
2002 Series A-B	7.3 Million	10.2 Million
2003 Series	11.2 Million	15.9 Million
2004 Series	10.9 Million	13.1 Million
2004 Series C	6.3 Million	8.0 Million
2006 Series	3.5 Million	4.6 Million
2006 Series A	<u>1.0 Million</u>	<u>1.2 Million</u>
Total	\$56.0 Million	\$61.7 Million
2002 Receiver Swap	NA	\$15.4 Million
2004 Basis Swap	NA	5.9 Million ⁽¹⁾
2006 CMS Swap	NA	0.3 Million ⁽²⁾
2005 Basis Swap	NA	<u>3.6 Million ⁽³⁾</u>
Total		\$25.2 Million
Total Savings To-Date		\$86.9 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 1/11/07.

The Metropolitan Water District of Southern California- Swap Summary as of September 30, 2012

Purpose of Swap (1)	Swap	Notional Amount Outstanding	Counterparty	S&P/Moody's/Fitch	Effective Date	Maturity Date	Type of Swap	Metropolitan Pays	Metropolitan Receives	Mark-to-Market Value and Accrued Interest	Change in Mark-to-Market (2)(3)	Remaining Average Life	Collateral Posting
(A)	2001 B	\$-0-	Deutsche Bank AG	A+/A2/A+	9/6/2001	7/1/2020	Floating to Fixed	4.219%	SIFMA minus 35 basis points	\$-0-	\$-0-	-	
	2001 B	-0-	JPMorgan Chase Bank	A+/Aa3/A+	9/6/2001	7/1/2020	Floating to Fixed	4.219%	SIFMA minus 35 basis points	-0-	-0-	-	
(B)	2002 A	88,694,700	Morgan Stanley Capital Services Inc.	A-/Baa1/A	9/12/2002	7/1/2025	Floating to Fixed	3.300%	57.74% of One Month LIBOR	(19,287,100)	3,885,000	9.2 Years	Yes
	2002 B	33,180,300	JPMorgan Chase Bank	A+/Aa3/A+	9/12/2002	7/1/2025	Floating to Fixed	3.300%	57.74% of One Month LIBOR	(7,153,100)	1,477,000	9.2 Years	No
(C)	2003	163,987,500	Deutsche Bank AG	A+/A2/A+	12/18/2003	7/1/2030	Floating to Fixed	3.257%	61.20% of One Month LIBOR	(38,840,400)	9,391,000	12.5 Years	No
	2003	163,987,500	JPMorgan Chase Bank	A+/Aa3/A+	12/18/2003	7/1/2030	Floating to Fixed	3.257%	61.20% of One Month LIBOR	(38,840,400)	9,391,000	12.5 Years	Yes
(D)	2004 A	94,530,000	Morgan Stanley Capital Services Inc.	A-/Baa1/A	2/19/2004	7/1/2023	Floating to Fixed	2.917%	61.20% of One Month LIBOR	(16,818,400)	4,218,000	9.3 Years	Yes
(E)	2004 C	57,733,500	Morgan Stanley Capital Services Inc.	A-/Baa1/A	11/16/2004	10/1/2029	Floating to Fixed	2.980%	61.55% of One Month LIBOR	(9,598,600)	2,208,000	8.0 Years	Yes
	2004 C	47,236,500	Citigroup Financial Products Inc.	A-/Baa2/A	11/16/2004	10/1/2029	Floating to Fixed	2.980%	61.55% of One Month LIBOR	(7,853,400)	1,807,000	8.0 Years	No
(F)	2005	58,547,500	JPMorgan Chase Bank	A+/Aa3/A+	7/6/2005	7/1/2030	Floating to Fixed	3.360%	70.0% of Three Month LIBOR	(11,971,200)	2,955,000	11.0 Years	Yes
	2005	58,547,500	Citigroup Financial Products Inc.	A-/Baa2/A	7/6/2005	7/1/2030	Floating to Fixed	3.360%	70.0% of Three Month LIBOR	(11,971,200)	2,955,000	11.0 Years	No
(G)	2006	20,697,500	Deutsche Bank AG	A+/A2/A+	4/4/2006	7/1/2021	Floating to Fixed	3.210%	63.00% of Three Month LIBOR	(3,690,100)	784,000	7.8 Years	No
	2006	20,697,500	JPMorgan Chase Bank	A+/Aa3/A+	4/4/2006	7/1/2021	Floating to Fixed	3.210%	63.00% of Three Month LIBOR	(3,690,100)	784,000	7.8 Years	Yes
(H)	2006 A	-0-	Deutsche Bank AG	A+/A2/A+	4/4/2006	6/29/2012	Floating to Fixed	2.911%	63.00% of Three Month LIBOR	-0-	-0-	-	
	2006 A	-0-	JPMorgan Chase Bank	A+/Aa3/A+	4/4/2006	6/29/2012	Floating to Fixed	2.911%	63.00% of Three Month LIBOR	-0-	-0-	-	
(I)	2004 Basis	250,000,000	JPMorgan Chase Bank	A+/Aa3/A+	5/19/2004	7/1/2014	Floating to Floating	SIFMA	70% of One Month LIBOR plus 31.5 basis points	1,336,000	16,000	1.8 Years	No
Total		\$1,057,840,000								\$(168,378,000)			

- (1) See footnotes on Attachment 1, page 7
- (2) For payor swaps-change in mark-to-market as the result of a 50 basis point change in interest rates.
- (3) For 2004 Basis swap-change in mark-to-market as the result of a one ratio change in the SIFMA/LIBOR ratio.

Purpose of the Swap Transactions:

- A. The 2001B swap was executed in conjunction with the issuance of the 2001 Series B variable rate bonds, to provide funds to refund portions of the 1992 Water Revenue Bond issue and the 1993 Series B Water Revenue Bonds. The transaction was expected to achieve debt service savings of \$25.7 million and net present value savings of \$15.0 million. On June 28, 2012 the entire 2001B swap was terminated with a payment \$36.2 million, representing the fair market value of the terminated 2001 swap. Debt service savings of \$8.7 million were realized, versus projected savings of \$15.8 million.
- B. The 2002A and 2002B swaps were executed in conjunction with the issuance of 2002 Series A and Series B Variable Rate Demand Bonds, to provide funds to refund portions of the 1992 Water Revenue Bonds, the 1995 Series A Water Revenue bonds and the 1999 Series A Water Revenue Bonds. The transaction was expected to achieve debt service savings of \$15.6 million and net present value savings of \$9.7 million.
- C. The 2003 swap was executed in conjunction with the issuance of the 2003 Series C1- C3 variable rate bonds, sold on December 18, 2003, were issued to provide funds to refund a portion of the 1996 Series C Water Revenue Bonds and the 1997 Series A Water Revenue bonds. The transaction was expected to achieve debt service savings of \$33.3 million and net present value savings of \$21.1 million.
- D. The 2004 swap was executed in conjunction with the issuance of 2004 Series A variable rate bonds, sold on February 19, 2004, were issued to provide funds to refund a portion of the 1996 Series C Water Revenue Bonds, the 1997 Series A Water Revenue bonds and the 1999 Series A Water Revenue Bonds. The transaction was expected to achieve debt service savings of \$29.3 million and net present value savings of \$11.4 million. On June 28, 2012, \$60.43 million of the 2004 swap was partially terminated (maturities from 7/1/2013-7/1/2018) with a payment of \$ 6.3 million, representing the fair market value of the terminated 2004 swap.
- E. The 2004C swap was executed in conjunction with the issuance of the 2004 Series C variable rate bonds were sold on November 16, 2004. Proceeds were used to refund a portion of the 1996 Series B Water Revenue Bonds, the 1996 Series C Water Revenue Bonds and the 1997 Series A Water Revenue bonds. The transaction was expected to achieve debt service savings of \$14.4 million and net present value savings of \$11.0 million. On June 28, 2012, \$26.35 million of the 2004 C swap was partially terminated (maturities from 10/1/2013-10/1/2017) with a payment of \$ 3.1 million, representing the fair market value of the terminated 2004 C swap.
- F. The 2005 swap was executed to lock-in a fixed rate of 3.36% for approximately \$117.1 million of Metropolitan's variable rate debt.
- G. The 2006 swap was executed with the issuance of the 2006 Series A1 and A2 variable rate bonds to provide funds to refund a portion of the 1996 Series B Water Revenue Bonds. The transaction was expected to achieve debt service savings of \$8.3 million and net present value savings of \$4.8 million. On June 28, 2012, \$20.49 million of the 2006 swap was terminated (maturities from 7/1/2013-7/1/2018) with a payment of \$1.6 million, representing the fair market value of the terminated 2006 swap.
- H. The 2006A swap was executed with the issuance of the 2006 Series A1 and A2 variable rate bonds to provide funds to refund a portion of the 1996 Series B Water Revenue Bonds. The transaction was expected to achieve debt service savings of \$1.0 million and net present value savings of \$610,000. The 2006A swap matured, matured as scheduled, on June 29, 2012. Total debt service savings from the 2006 swap transaction was \$1.22 million.
- I. The 2004 basis swap was executed to achieve debt service savings, estimated to be \$400,000 to \$1.1 million per year, depending on actual tax-exempt to taxable ratios.