



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: August 16, 2021
To: Finance and Insurance Committee
From: Katano Kasaine, Assistant General Manager/Chief Financial Officer
Subject: Swap Quarterly Report for the period ending June 30, 2021

This letter provides a summary of the interest rate swap obligations outstanding as of June 30, 2021. These transactions are consistent with board policy and Section 5922 of the California Government code. Broadly, these transactions have been executed to reduce District debt service costs as well as reduce duration and interest rate risk.

Metropolitan has \$438.7 million in outstanding interest rate swaps as of June 30, 2021. In aggregate, the swap portfolio has resulted in \$125.8 million in savings through the date of this report, including \$3.8 million, net present value savings, from multiple fixed-payor swap termination transactions. The mark-to-market (MTM) value plus the accrued interest of the swap portfolio is a negative \$51.8 million, reflecting interest rates, as of June 30, 2021, which were significantly lower than when these swaps were executed. The MTM value represents an estimated value of the swap obligations *if they were terminated at the time of valuation*. Negative MTM valuation amounts mean that Metropolitan would pay the counterparty upon termination of all transactions. Positive MTM valuation amounts mean that the counterparty would pay Metropolitan. Net exposure to all counterparties is within board-approved guidelines. As of June 30, 2021, Metropolitan had no collateral required to be posted with any counterparties.

Staff will continue to monitor the market for opportunities to de-risk and work with the committee on transactions that meet Metropolitan's policies and financial objectives.

Katano Kasaine
Assistant General Manager/
Chief Financial Officer

Outstanding Swap Obligations June 30, 2021		
Swap	Swap Counterparty	Amount Outstanding
2003	JPMorgan Chase Bank	\$150,047,500
2003	Wells Fargo Bank NA	150,047,500
2002A	Morgan Stanley Capital Services LLC	48,282,000
July 2005	Citigroup Financial Products Inc.	29,057,500
July 2005	JPMorgan Chase Bank	29,057,500
2002B	JPMorgan Chase Bank	18,063,000
2004C	Morgan Stanley Capital Services LLC	7,760,500
2004C	Citigroup Financial Products Inc.	6,349,500
Total		\$438,665,000

Summary of Swap Counterparty Notional Amount and Exposure

(\$ in Millions)
June 30, 2021

Swap Counterparty	Notional Amount Outstanding (1)	Net Exposure (2)
JP Morgan Chase Bank	\$197.2	\$(23.8)
Wells Fargo Bank NA	150.1	(17.9)
Morgan Stanley Capital Services LLC	56.0	(5.1)
Citigroup Financial Products Inc.	35.4	(5.0)
Total	\$438.7	\$(51.8)

- (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 June 30, 2021, Metropolitan's total revenue bond indebtedness was \$3.99 billion. No swap counterparty currently exceeds the limitation of \$999 million.
- (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 as of June 30, 2021.

Swap Counterparty Credit Ratings	
as of June 30, 2021	
Swap Counterparty	S&P/Moody's/Fitch
Citigroup Financial Products Inc.	BBB+/A3/A
JPMorgan Chase Bank	A+/Aa2/AA
Morgan Stanley Capital Services LLC	A+/Aa3/NR (not rated)
Wells Fargo Bank, NA	A+/Aa2/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 an "AAA" subsidiary as rated by at least one nationally recognized credit rating agency.

Rating Agency Investment Grade Credit Ratings		
Standard & Poor's	Moody's	Fitch
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-

<u>Net Present Value Savings</u> <u>As of June 30, 2021</u>		
Swap Transactions	Projected Savings to-Date	Actual Savings to-Date
<u>Fixed-Payor Swap Refundings</u>		
2001 Series B	\$15.8 Million	\$ 8.7 Million (1)
2002 Series A-B	13.1 Million	20.1 Million
2003 Series	22.1 Million	35.3 Million
2004 Series A	12.7 Million	14.8 Million (1)
2004 Series C	7.7 Million	10.1 Million
2006 Series	4.0 Million	5.3 Million (1)
2006 Series A	<u>1.0 Million</u>	<u>1.2 Million (1)</u>
Total	\$76.4 Million	\$95.5 Million
<u>Terminated or Expired Swaps</u>		
Fixed-Payor Swap Terminations		\$ 3.8 Million (2)
2002 Receiver Swap	NA	15.4 Million
2004 Basis Swap	NA	7.2 Million (3)
2006 CMS Swap	NA	0.3 Million (4)
2005 Basis Swap	NA	<u>3.6 Million (5)</u>
Total		\$30.3 Million
Grand Total	\$76.4 Million	\$125.8 Million

- (1) The 2001 Series B, 2004 Series A, 2006 Series, and 2006 Series A swaps were terminated or matured as scheduled and are no longer outstanding. The projected and actual savings are as of the date the swaps were terminated or matured.
- (2) Projected net present value savings from multiple swap termination transactions in June 2012, March 2014, and August 2014.
- (3) 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.
- (4) Includes accumulated impact of negative cash-flow and the \$1.05 million termination receipt of 12/17/07.
- (5) 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 June 30, 2021

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	Remaining Average Life	Collateral Posting
(A)	2001 B	\$-0-	Deutsche Bank AG	NA	9/6/2001	7/1/2020	Floating to Fixed	4.219%	SIFMA minus 35 basis points	\$-0-		
	2001 B	-0-	JPMorgan Chase Bank	NA	9/6/2001	7/1/2020	Floating to Fixed	4.219%	SIFMA minus 35 basis points	-0-		
(B)	2002 A	48,282,000	Morgan Stanley Capital Services LLC.	A+/Aa3/-	9/12/2002	7/1/2025	Floating to Fixed	3.300%	57.74% of One Month LIBOR	(4,222,000)	2.4 Years	No
	2002 B	18,063,000	JPMorgan Chase Bank	A+/Aa2/AA	9/12/2002	7/1/2025	Floating to Fixed	3.300%	57.74% of One Month LIBOR	(1,579,400)	2.4 Years	No
(C)	2003	150,047,500	Wells Fargo Bank NA	A+/Aa2/AA-	12/18/2003	7/1/2030	Floating to Fixed	3.257%	61.20% of One Month LIBOR	(17,903,900)	4.4 Years	No
	2003	150,047,500	JPMorgan Chase Bank	A+/Aa2/AA	12/18/2003	7/1/2030	Floating to Fixed	3.257%	61.20% of One Month LIBOR	(17,903,900)	4.4 Years	No
(D)	2004 A	-0-	Morgan Stanley Capital Services LLC.	NA	2/19/2004	7/1/2023	Floating to Fixed	2.917%	61.20% of One Month LIBOR	-0-		
(E)	2004 C	7,760,500	Morgan Stanley Capital Services LLC.	A+/Aa3/-	11/16/2004	10/1/2029	Floating to Fixed	2.980%	61.55% of One Month LIBOR	(860,800)	5.0 Years	No
	2004 C	6,349,500	Citigroup Financial Products Inc.	BBB+/A3/A	11/16/2004	10/1/2029	Floating to Fixed	2.980%	61.55% of One Month LIBOR	(704,300)	5.0 Years	No
(F)	2005	29,057,500	JPMorgan Chase Bank	A+/Aa2/AA	7/6/2005	7/1/2030	Floating to Fixed	3.360%	70.0% of Three Month LIBOR	(4,327,400)	6.0 Years	No
	2005	29,057,500	Citigroup Financial Products Inc.	BBB+/A3/A	7/6/2005	7/1/2030	Floating to Fixed	3.360%	70.0% of Three Month LIBOR	(4,327,400)	6.0 Years	No
(G)	2006	-0-	Deutsche Bank AG	NA	4/4/2006	7/1/2021	Floating to Fixed	3.210%	63.00% of Three Month LIBOR	-0-		
	2006	-0-	JPMorgan Chase Bank	NA	4/4/2006	7/1/2021	Floating to Fixed	3.210%	63.00% of Three Month LIBOR	-0-		
(H)	2006 A	-0-	Deutsche Bank AG	NA	4/4/2006	6/29/2012	Floating to Fixed	2.911%	63.00% of Three Month LIBOR	-0-		
	2006 A	-0-	JPMorgan Chase Bank	NA	4/4/2006	6/29/2012	Floating to Fixed	2.911%	63.00% of Three Month LIBOR	-0-		
(I)	2004 Basis	-0-	JPMorgan Chase Bank	NA	5/19/2004	7/1/2014	Floating to Floating	SIFMA	0% of One Month LIBOR plus 31.5 basis points	-0-		
	Total	\$ 438,666,000								\$(51,829,100)		

(1) See footnotes on Attachment 1, page 7

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. On July 28, 2014, \$16.56 million of the 2002A and 2002B swaps were partially terminated (maturities from 7/1/2015-7/1/2019) with a payment of \$1.4 million, representing the fair market value of the terminated 2002A and 2002B swaps.
- C. The 2003 swaps were executed in conjunction with the issuance of the 2003 Series C1- C3 variable rate bonds, sold on December 18, 2003, 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. On July 28, 2014, \$7.97 million of the 2003 swaps were partially terminated (maturities from 7/1/2015-7/1/2019) with a payment of \$596,500, representing the fair market value of the terminated 2003 swaps.
- D. The 2004A swap was executed in conjunction with the issuance of 2004 Series A variable rate bonds, sold on February 19, 2004, 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 2004A 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 2004A swap. On February 12, 2014, \$15.3 million of the 2004A swap was partially terminated (maturities from 7/1/2019-7/1/2020) with a payment of \$ 1.5 million, representing the fair market value of the terminated 2004A swap. On July 28, 2014, the remaining \$79.185 million of the 2004 swap was terminated, with a payment of \$9.1 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 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. On February 12, 2014, \$90.1 million of the 2004C swaps were terminated (maturities from 10/1/2018-10/1/2020) with a payment of \$9.3 million, representing the fair market value of the terminated 2004 C swaps.
- F. The 2005 swaps were executed to lock-in a fixed rate of 3.36% for approximately \$117.1 million of Metropolitan's variable rate debt. On July 28, 2014, \$58.98 million of the 2005 swaps were partially terminated (maturities from 7/1/2015-7/1/2024) with a payment of \$5.1million, representing the fair market value of the terminated 2005 swaps.
- 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. On February 12, 2014, the remaining \$41.4 million of the 2006 swaps were terminated, with a payment of \$.7 million, representing the fair market value of the terminated 2006 swaps.
- 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 as scheduled, on June 29, 2012. Total debt service savings from the 2006A 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. The 2004 basis swap matured, as scheduled, on July 1, 2014.