



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Board Report

Chief Financial Office Group

- **Quarterly Swap Report**

Summary

This letter provides a summary of the interest rate swaps outstanding as of September 30, 2024. 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, as of September 30, 2024, Metropolitan had \$272.9 million in outstanding interest rate swaps. These transactions in connection with their associated bonds have resulted in \$128.6 million in savings through the date of this report, including \$3.8 million, net present debt service savings, on the three swap termination transactions. The mark-to-market (“MTM”) value plus the accrued interest of the swap portfolio is a negative \$6.8 million, (a decrease of 88.9% from June 30, 2024), reflecting interest rates, as of September 30, 2024, which were lower than when these swaps were executed. The large decrease in the MTM from June 30, 2024 to September 30, 2024, was due to the sharp decline in short-term interest rates over this period. The MTM value represents an estimate of the swap obligations *if they were terminated at the time of the valuation*. A negative MTM valuation amount means that Metropolitan would pay the counterparty upon termination of all transactions. A positive MTM valuation amount means that the counterparty would pay Metropolitan upon termination of all transactions. Net exposure to all counterparties is within board-approved guidelines. As of September 30, 2024, Metropolitan had no collateral posted with any counterparties.

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

Purpose

Informational

Attachments

Attachment 1: Swap Quarterly Report, September 2024

Outstanding Swaps By Counterparty

<u>Swap</u>	<u>Swap Counterparty</u>	<u>Amount Outstanding</u>
2003	JPMorgan Chase Bank	\$97,777,500
2003	Wells Fargo Bank N.A.	97,777,500
2002A	Morgan Stanley Capital Services LLC.	12,270,000
July 2005	Citigroup Financial Products Inc.	25,980,000
July 2005	JPMorgan Chase Bank	25,980,000
2002B	JPMorgan Chase Bank	4,590,000
2004C	Morgan Stanley Capital Services LLC.	4,672,250
2004C	Citigroup Financial Products Inc.	3,822,750
Total		\$272,870,000

Summary of Counterparty Exposure and Notional Amount
(\$ in Millions)
September 30, 2024

<u>Swap Counterparty</u>	<u>Notional Amount Outstanding (1)</u>	<u>Net Exposure (2)</u>
JPMorgan Chase Bank	\$128.4	\$(3.2)
Wells Fargo Bank N.A.	97.8	(2.5)
Morgan Stanley Capital Services LLC.	16.9	(0.3)
Citigroup Financial Products Inc.	29.8	(0.8)
Total	\$272.9	\$(6.8)

- (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 September 30, 2024, Metropolitan's total revenue bond indebtedness was \$3.70 billion. No swap counterparty currently exceeds the limitation of \$925 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.

Swap Counterparty Credit Ratings

as of September 30, 2024

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. (Morgan Stanley Guarantor)	A-/A1/A+
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-

Debt Service Savings
As of September 30, 2024

	<u>Projected Savings to- Date</u>	<u>Actual Savings to-Date</u>
Payor Swap Transactions		
2001 Series B	\$15.8 Million	\$ 8.7 Million (1)
2002 Series A-B	15.3 Million	21.9 Million
2003 Series	26.1 Million	36.1 Million
2004 Series A	12.7 Million	14.8 Million (1)
2004 Series C	8.0 Million	10.3 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	\$82.9 Million	\$98.3 Million
Terminated Basis and Other Swaps		
Swap Termination Transactions		
	NA	\$ 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
Total Savings to Date		\$128.6 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 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 January 2, 2008 amendment of the JPMorgan 2004 Basis Swap.
- (4) Includes accumulated impact of negative cash-flow and the \$1.05 million termination receipt on December 17, 2007.
- (5) Accumulated cash-flow savings and the \$2.7 million termination receipt on January 11, 2007.

The Metropolitan Water District of Southern California- Swap Summary as of September 30, 2024

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	12,270,000	Morgan Stanley Capital Services LLC.	A-/A1/A+	9/12/2002	7/1/2025	Floating to Fixed	3.300%	57.74% of 1 Month Fallback SOFR*	(91,251)	0.8 Years	No	
	2002 B	4,590,000	JPMorgan Chase Bank	A+/Aa2/AA	9/12/2002	7/1/2025	Floating to Fixed	3.300%	57.74% of 1 Month Fallback SOFR*	(34,500)	0.8 Years	No	
(C)	2003	97,777,500	Wells Fargo Bank NA	A+/Aa2/AA-	12/18/2003	7/1/2030	Floating to Fixed	3.257%	61.20% of 1 Month Fallback SOFR*	(2,515,255)	2.4 Years	No	
	2003	97,777,500	JPMorgan Chase Bank	A+/Aa2/AA	12/18/2003	7/1/2030	Floating to Fixed	3.257%	61.20% of 1 Month Fallback SOFR*	(2,500,000)	2.4 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	4,672,250	Morgan Stanley Capital Services LLC.	A-/A1/A+	11/16/2004	10/1/2029	Floating to Fixed	2.980%	61.55% of 1 Month Fallback SOFR*	(155,700)	4.8 Years	No	
	2004 C	3,822,750	Citigroup Financial Products Inc.	BBB+/A3/A	11/16/2004	10/1/2029	Floating to Fixed	2.980%	61.55% of 1 Month Fallback SOFR*	(190,174)	4.8 Years	No	
(F)	2005	25,980,000	JPMorgan Chase Bank	A+/Aa2/AA	7/6/2005	7/1/2030	Floating to Fixed	3.360%	70.0% of 3 Month Fallback SOFR*	(664,300)	3.4 Years	No	
	2005	25,980,000	Citigroup Financial Products Inc.	BBB+/A3/A	7/6/2005	7/1/2030	Floating to Fixed	3.360%	70.0% of 3 Month Fallback SOFR*	(666,000)	3.4 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		\$ 272,870 ,000									\$(6,817,180)		

*Compounded SOFR + 0.11448% and compounded SOFR + 0.26161% for 1M LIBOR and 3M LIBOR, respectively.

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.