

# **Public Utility District No. 1 of Chelan County**

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## **Interest Rate Swap Results April 17, 2006**



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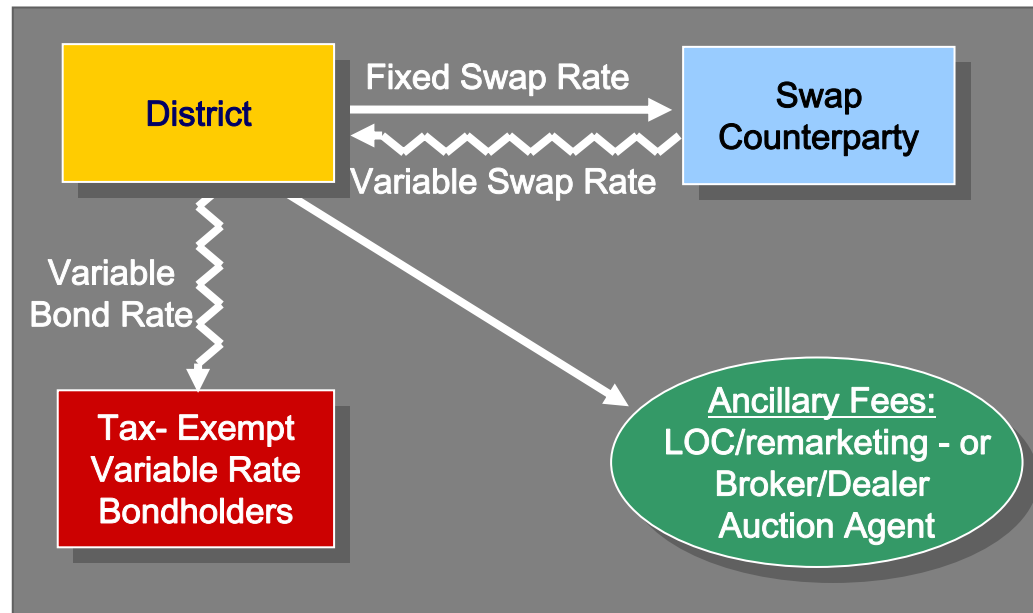
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# Outline

- Refresher on swap mechanics
- Identify bonds utilized in swap transactions
- Present final results of swap transactions
- Discuss risks and risk mitigation strategies

# Refresher on Mechanics Of A Swap

- A floating-to-fixed interest rate swap allows the District to structure “synthetic” fixed rate debt.
- The District becomes a “fixed rate payer,” receiving a floating rate payment from a counterparty and paying a fixed rate.
- If the variable rate received by the District offsets the variable rate paid to bondholders, the District’s debt cost equals the fixed swap rate plus any fees.



# Bond Candidates Chosen For Swap

<b>Bond Series</b>	<b>Maturity</b>	<b>Par Amount</b>	<b>Coupon</b>	<b>Call Date</b>	<b>Gross Savings</b>	<b>PV Savings</b>	<b>% Savings</b>
1999AB	7/1/2034	30,355,000	6.20%	7/1/2009	16,368,322	8,359,718	27.5%
2001B	1/1/2036	78,375,000	5.40% / 5.60%	7/1/2011	27,511,487	13,340,873	17.0%
2003A	7/1/2032	28,815,000	6.05%	7/1/2013	12,200,082	5,810,240	20.2%
Total Par		<u>\$ 137,545,000</u>		Total Savings	<u>\$56,079,891</u>	<u>\$ 27,510,831</u>	

- Used competitive bidding process on April 13, 2006 among 5 counterparties.
- Executed three swaps with counterparties rated AA and above.
  - JP Morgan 2009 swap
  - Goldman Sachs 2011 and 2013 swaps
- Purchased swap insurance to help mitigate risks.

# Risks Associated with a Swap

<b>What are the major risks in the swap?</b>	<b>How will the District mitigate these risks?</b>
Tax Risk – tax law changes could increase the interest rate on the variable rate bonds without an offsetting increase in the swap rate.	Set aside a portion of the “gain” from the lower swap rate to hedge against tax law changes or keep a like amount in reserve.
Basis Risk – the variable swap rate (% of LIBOR) may not match the tax-exempt variable rate on the refunding Bonds.	Use a LIBOR rate that is based on the actual and expected future trading levels of comparable variable rate bonds.
Termination Risk – the Counterparty could terminate the swap under circumstances that would result in a payment due by the District.	Use swap insurance, if cost effective. Craft swap documents to limit termination events to credit factors.
Counterparty (Credit) Risk – the District could be left with an unhedged variable rate bonds if the Counterparty defaults.	Use a highly rated Counterparty. Use a Credit Support Annex with collateral provisions.
Remarketing Risk – there may be a failed auction or remarketing which could force acceleration or amplify Basis Risk.	Use an experienced remarketing agent or broker/dealer. Anticipate events that could cause a remarketing failure.

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# District Swap Capacity

- District has a comprehensive Swap Policy, under which the amount of swaps cannot exceed 50% of the District's outstanding bonds.
- Maximum authority under the policy: \$478 million
- Total currently in interest rate swaps: \$232 million
- Remaining swap capacity: \$246 million

# Maximum Termination Values

- Also included in the District's swap policy are limits for Counterparty Termination Exposure.
- Aggregate Maximum Net Termination Exposure shall not exceed \$50 million.
  - 2011 & 2013 Goldman Sachs (AAA/Aaa) - \$10.826 million
  - 2009 JP Morgan (Aa2/AA-/AA-) - \$3.835 million
  - 2007 Bear Sterns (A1/A/A+) - \$9.048 million
  - 2007 Lehman Brothers (A1/A+/A+) - \$3.878 million
  - **Total = \$27.587 million**
- Diversifying counterparty credit risk.
- Highly rated counterparties, with collateral provisions

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# Next Steps

- Swap Closing Documents – April 18, 2006
  
- Weekly monitoring of market value
  - Semi-annual reporting to the Board
  
- Issuance of variable rate refunding bonds
  - For swaps executed 8/2005 in 2007
  - For swaps executed 4/2006 in 2009, 2011 and 2013

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# Questions?