

Introduction to Interest Rate Swaps

City of Roseville



Roseville, CA

- **Incorporated in 1909 – Placer County**
- **Located 15 miles north of Sacramento**
- **Full Service City**
 - **Electric - Water**
 - **Wastewater – Garbage**
 - **Police – Fire – Parks – Library**
 - **Two City-owned Golf Courses**
- **Population: 104,655**
- **<http://www.roseville.ca.us>**





Summary of Debt

Type	Fixed	Variable	Synthetic Fixed
Electric	93,625,000	60,000,000	115,395,000
Gas Prepay	209,350,000		
Water	53,695,000		
Wastewater	11,430,000	70,000,000	93,525,000
Golf Course	7,310,000		
Public Facilities	16,490,000		
Redevelopment	36,405,000		
Mello-Roos	402,900,000		
Total	\$ 831,205,000	\$ 130,000,000	\$ 208,920,000

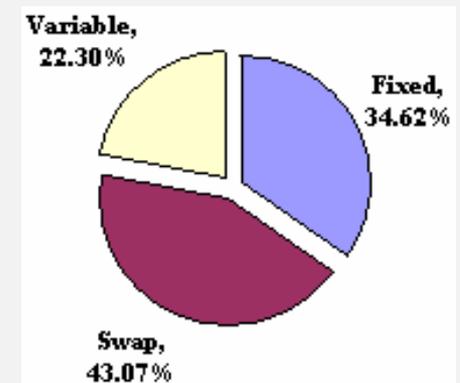


Use of Swaps

Electric Portfolio

- **Lower costs w/ synthetic product compared to fixed**
- **Diversify debt portfolio**

ELECTRIC COPs		BOND INFORMATION	
ISSUE			
Name	Type	Original Outstanding Par	Current Outstanding Par
1999 Electric	Fixed	21,630,000	570,000
2002 Electric	Swap	40,385,000	24,820,000
2004 Electric	Fixed	39,940,000	39,275,000
2005 Electric, Series A	Fixed	52,900,000	52,450,000
2005 Electric, Series B	Swap	90,000,000	90,000,000
2005 Electric, Series C	Variable	60,000,000	59,450,000
Total		304,855,000	266,565,000





Use of Swaps

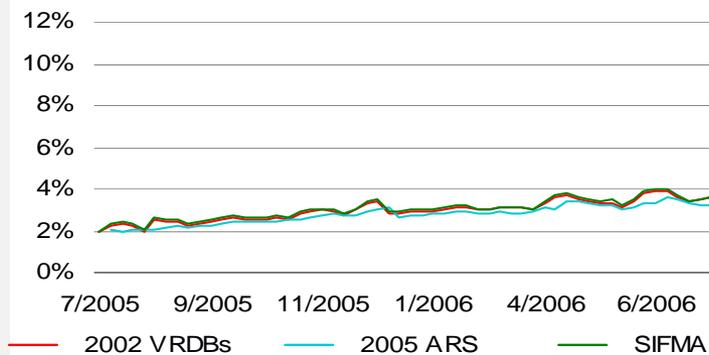
Diversified?

Issue	Type of Debt	Insurer	Counterparty	Most Recent Reset Rate
2002 Electric	VRDBs	FSA	Morgan Stanley	1.70%
2005 Electric	ARNs	FGIC	Morgan Stanley & Bear Stearns	6.11%
2005 Electric	ARNs	FGIC	n/a	6.47%
2000 Wastewater	VRDBs	FGIC	n/a	7.00% (Held by MS)
2003 Wastewater	ARNs	FGIC	Morgan Stanley	4.08%



Use of Swaps Lower Costs?

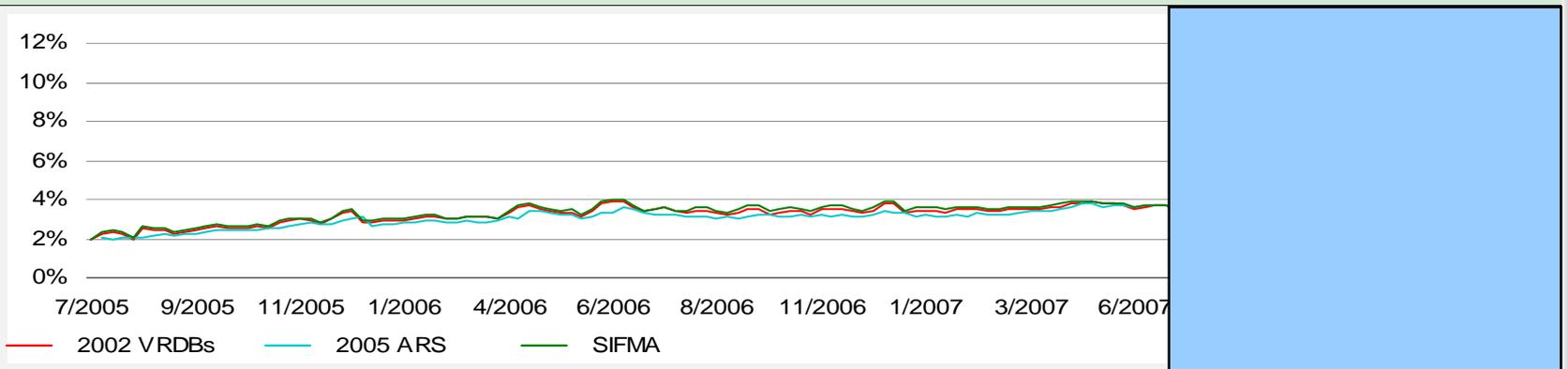
City of Roseville Electric System Variable Rate Debt





Use of Swaps Lower Costs?

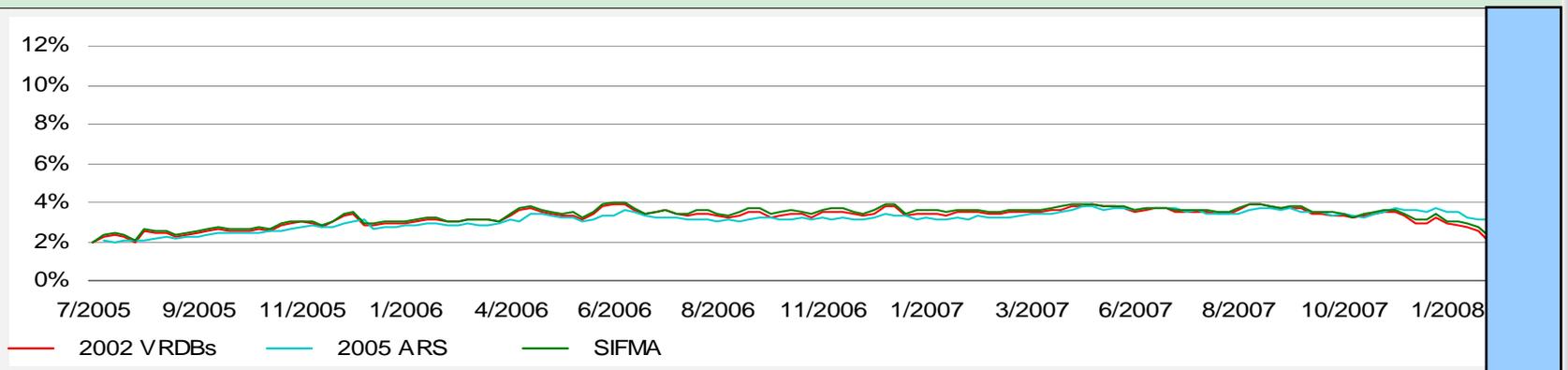
City of Roseville Electric System Variable Rate Debt





Use of Swaps Lower Costs?

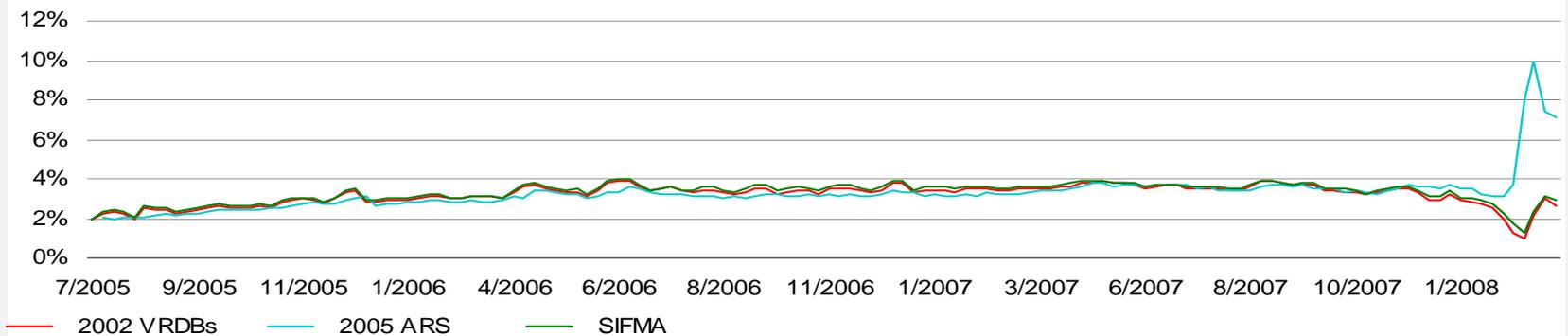
City of Roseville Electric System Variable Rate Debt





Use of Swaps Lower Costs?

City of Roseville Electric System Variable Rate Debt



Historical Rates

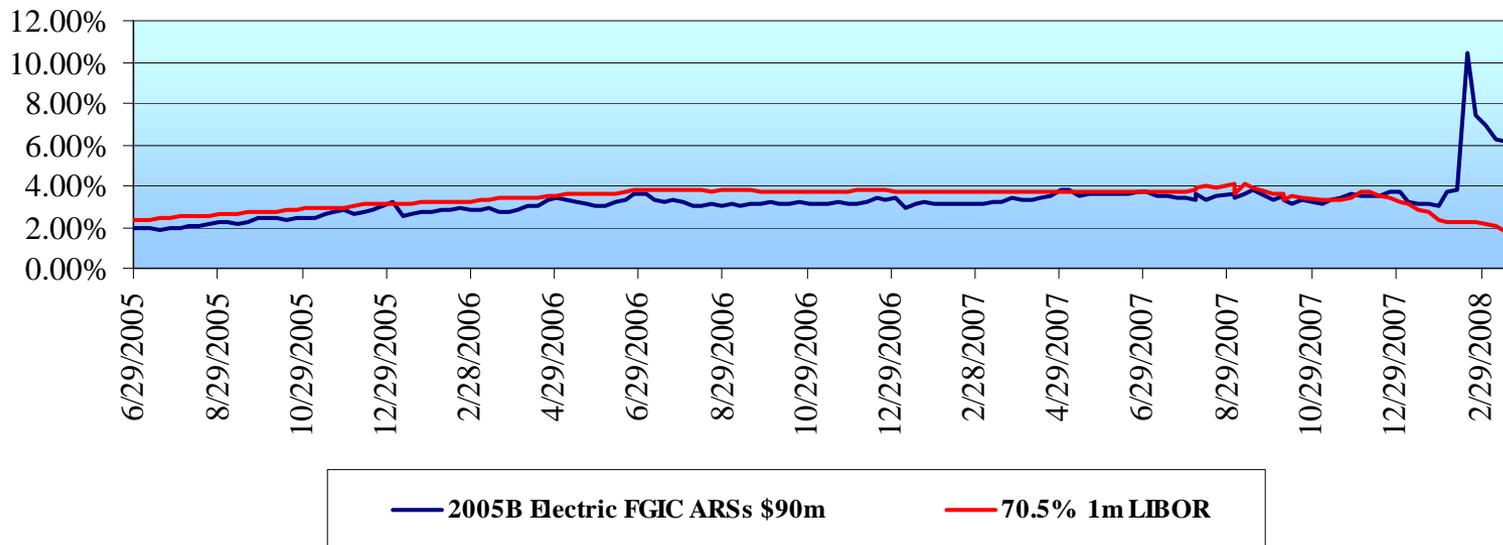
	2002 VRDBs		2005 ARS	
	Rate	Spread to SIFMA	Rate	Spread to SIFMA
Current	1.70	-0.63	6.12	3.79
3-Month Average	2.37	-0.28	4.87	2.22
1-Yr Average	3.31	-0.12	3.87	0.45
Average since 2005	3.21	-0.11	3.28	-0.03



Use of Swaps

Lower Costs?

2005 Electric, Series B
Variable Payment vs. Floating Leg Received





Risks & Rewards

- **Risks**
 - **Market disruption**
 - **Failed auctions**
 - **High rates**
- **Rewards**
 - **Lower rates = \$\$\$ in savings**
 - **Matching assets and liabilities**

Comparison of Actual vs Planned Interest Rate Swap Savings (Cost)

As of June 30, 2007

	2002 Elec	2005 Elec Series B		2002 Elec	2005 Elec Series B		Variance
	Planned Savings (Cost)	Planned Savings (Cost)	Total Planned	Actual Savings (Cost)	Actual Savings (Cost)	Total Actual	
FY2003	172,461		172,461	(26,816)		(26,816)	\$ (199,277)
FY2004	382,950		382,950	284,948		284,948	(98,002)
FY2005	393,360		393,360	240,500		240,500	(152,861)
FY2006	382,490	880,557	1,263,047	287,778	1,015,512	1,303,290	40,243
FY2007	360,204	976,409	1,336,613	273,657	1,423,920	1,697,577	360,964
Cumm.	1,691,465	1,856,966	3,548,431	\$ 1,060,066	\$ 2,439,432	\$ 3,499,498	\$ (48,933)
FY2008	357,191	977,679	1,334,870				
FY2009	350,425	977,044	1,327,469				
FY2010	349,328	977,044	1,326,372				
FY2011	345,071	972,599	1,317,670				
FY2012	338,568	977,679	1,316,247				
FY2013	330,724	977,044	1,307,768				
FY2014	319,809	977,044	1,296,853				
FY2015	303,160	977,044	1,280,204				
FY2016	277,523	972,599	1,250,122				
FY2017	251,035	977,679	1,228,714				
FY2018	223,696	976,409	1,200,105				
FY2019	195,389	977,044	1,172,433				
FY2020	166,085	977,679	1,143,764				
FY2021	135,540	977,044	1,112,584				
FY2022	104,262	972,599	1,076,861				
FY2035		67,178	67,178				
	5,844,126	23,873,579	29,717,705				
Variance	\$ (631,399)	\$ 582,466	\$ (48,933)				
Revised Savings	\$ 5,212,727	\$ 24,456,045	\$ 29,668,772				
Percent of Planned Savings	89.20%	102.44%	99.84%				

Notes

2002 Electric

1. Price date of 12/16/2002
2. Fixed swap rate of 2.98% (62% of 1-month LIBOR)
3. Assumption that Roseville Electric ARNs trade at 62% of LIBOR (no trading differential)
4. Conventional fixed rate estimated as of 12/16/2002 (arbitrage yield of 4.25%)

2005 Electric, Series B

1. Price date of 5/10/2005
2. Fixed swap rate of 3.613% (70.5% of 1-month LIBOR)
3. Assumption that Roseville Electric ARNs trade at 70.5% of LIBOR (no trading differential)
4. Conventional fixed rate estimated as of 5/10/2005 (arbitrage yield of 4.21%)



Critical Factors

- **More administrative burden**
 - **Monitor M-T-M Values**
 - **Monitor counterparty credit ratings**
 - **Debt service payments**
 - **Annual swap disclosure**
- **Refunding Issues**
 - **Can swap survive a refunding?**
 - **Possible increased costs**

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Questions?