
Metropolitan Transportation Authority

Derivatives Portfolio Report



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October 24, 2011



MTA's Derivatives Program Consists of Two types of Hedges.

- **Interest Rate Hedges:** To protect against the potential of rising *interest rates*, to achieve a lower net cost of borrowing, to reduce exposure to changing interest rates, or to achieve debt service savings.

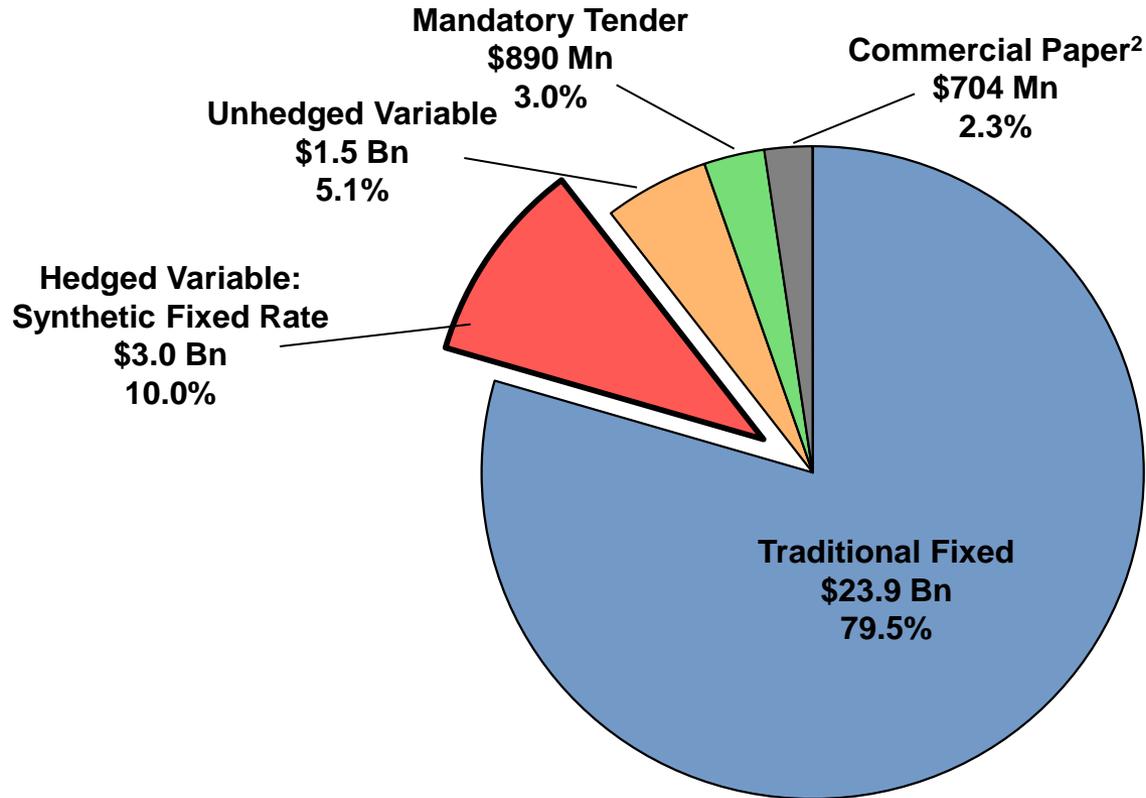
- **Fuel Hedges:** To establish more certainty and stability in budgeting the future price of *commodities* used by MTA.

Speculative Interest Rate and/or Fuel Hedges are ***not*** permitted.



Current MTA Debt Structure¹

Total \$30.1 Billion Outstanding



As of September 30, 2011

Notes:

¹Excludes Service Contract Bonds

²Includes only \$703.5 Mn of CP-2 notes issued as of September 30, 2011; the total size of CP-2 Program is \$900 Mn



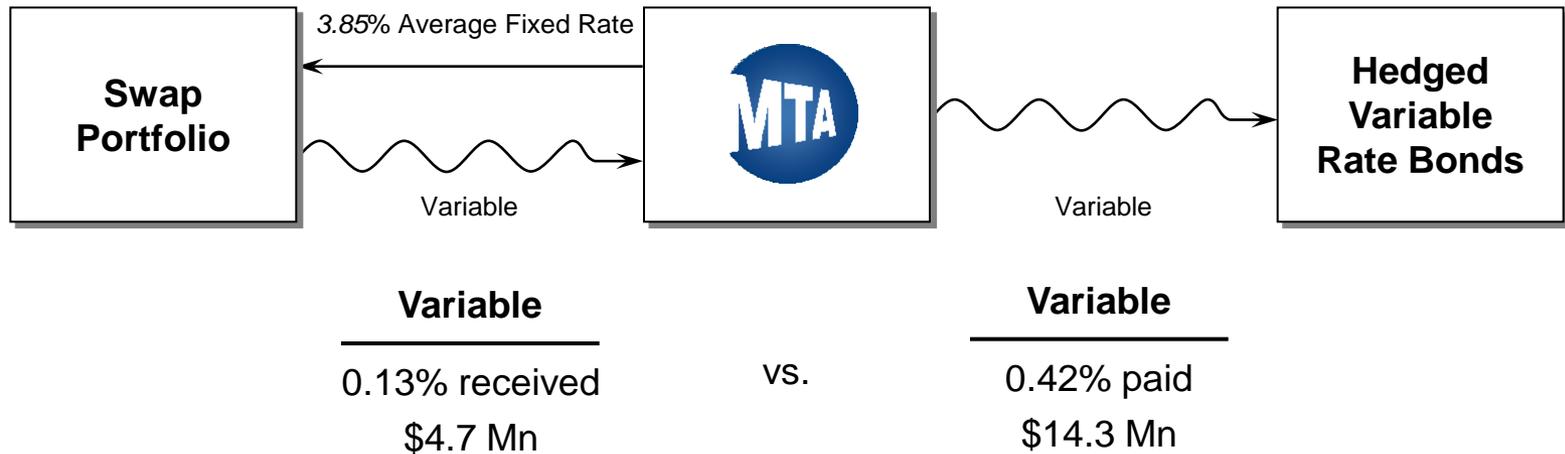
MTA's Portfolio of Interest Rate Swaps

- MTA's existing portfolio of outstanding indebtedness contains approximately \$5.2 billion in variable rate debt, of which \$3.0 billion is in synthetic fixed-rate mode achieved through interest rate swaps.
- Synthetic fixed rate debt has proven to be a cost effective source of capital – costing less than fixed-rate bonds at the time of issuance.
- MTA limits its risk associated with interest rate swaps by adhering to ratings and diversification standards contained in the board approved swap policy.
- MTA has 17 swap transactions outstanding –15 of which meet the GASB 53 rule for accounting treatment as “effective hedges”.



Swap Portfolio Performance

(Last 12 months)



- On annual basis, MTA swap portfolio savings are estimated at approximately \$19.6 million, relative to the cost of fixed rate bonds, at the time of issuance.
- This year, the \$(9.6) million difference between variable rates paid versus received is fully offset by these estimated savings.
- This shortfall is primarily caused by the poor trading performance of variable rate debt obligations (VRDOs) that have Dexia as the liquidity provider as well as the continued weakness in the auction rate securities market for the 2004A Certificates of Participation.



Derivative Contracts by Credit

	Notional (\$Mn)	Mark-to-Market Value (\$Mn)		
		09/30/2010	09/30/2011	Change
Transportation Revenue	\$ 959.450	\$ (215.40)	\$ (286.70)	\$ (71.30)
Dedicated Tax Fund	780.250	(101.88)	(105.26)	(3.38)
Bridges and Tunnels – General Revenue ^(a)	1,834.550	(170.77)	(203.31)	(32.54)
Bridges and Tunnels – Subordinate	247.050	(57.89)	(49.69)	8.20
2 Broadway	347.800	(60.26)	(69.31)	(9.05)
Total	\$ 4,169.100	\$ (606.21)	\$ (714.27)	\$ (108.07)

Considering current mark-to-market values:

- Mark-to-market values represent a “theoretical” replacement cost of the transaction.
- The swap portfolio is performing as expected; portfolio negative mark-to-market is high because long-term rates are low.
- MTA has not been required to post collateral on any outstanding swaps.
- Limited P/L impact to the MTA, as 15 of the 17 transactions are “effective hedge swaps” in accordance with GASB 53.

Note: Totals may not add due to rounding.

(a) Includes a \$785.6 million basis swap which effectively converts TBTA’s \$785.6 million LIBOR-based basis swap into a SIFMA-based swap through 2012.



Outstanding Swaps Aggregated by Counterparty

Rank by Notional	Counterparty	Counterparty Ratings	Notional Amount (\$000)	% of Portfolio Based on Notional	Current Market Value (\$000)
1	UBS AG	Aa3/A+/A+	\$ 1,629,800	39.1%	\$ (190,084)
2	JPMorgan Chase Bank	Aa1/AA-/AA-	902,050	21.6	(251,390)
3	Citigroup Financial Products Inc.	A3/A/A+	663,750	15.9	(132,215)
4	Morgan Stanley Capital Services Inc.	A2/A/A	440,000	10.6	(31,800)
5	BNP Paribas North America, Inc.	Aa2/AA/AA-	196,400	4.7	(40,571)
5	Citibank, N.A.	A1/A+/A+	196,400	4.7	(40,571)
7	AIG Financial Products Corp.	Baa1/A-/BBB	100,000	2.4	(26,239)
8	Ambac Financial Services, L.P.	WR/NR/NR	40,700	1.0	(1,398)
	Total		\$4,169,100		\$(714,267)

Notes: Data as of September 30, 2011. Totals may not add due to rounding.



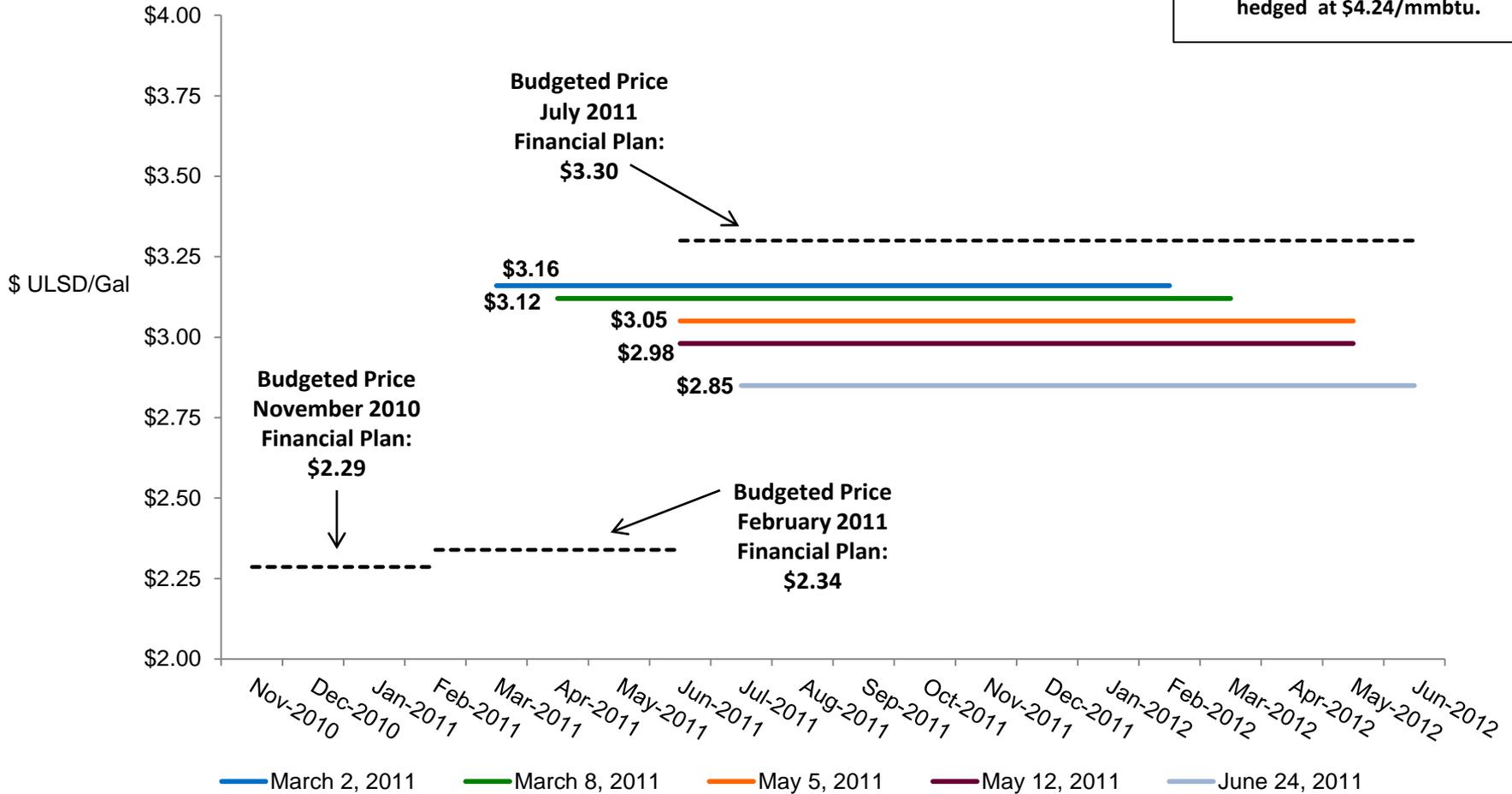
Fuel Hedge Program

- MTA has been hedging a portion of its fuel costs since 2008, to provide budgetary certainty in its fuel expense category.
- On December 15, 2010, MTA Board approved \$100 million fuel hedge program for FYs 2011-2012, which represents approximately 40% of MTA's revenue fleet fuel requirements.
- MTA currently hedges ultra-low sulfur diesel ("ULSD") and natural gas.
- Competitive method of sale using three approved counterparties: Bank of America/Merrill Lynch, Deutsche Bank, and Goldman Sachs & Co. (via J. Aron & Company).
- All transactions are structured as laddered 12-month strips that are cash settled monthly. The hedging capacity that is freed up as a result of monthly settlements is then available to maintain the hedging program at authorized levels.
- There is no physical exchange of fuel.
- MTA has 6 fuel hedge transactions outstanding – all meet the GASB 53 rule for accounting treatment as "effective hedges".



Fuel Hedge trades provide budgetary certainty relative to Financial Plans.

Natural Gas was budgeted at \$4.56/mmbtu and is currently hedged at \$4.24/mmbtu.





Current negative mark-to-market on portfolio reflects recent decline in market fuel costs.

Energy Type	Counterparty	Amount (000)	Fixed Price Paid	Termination Date	MTM Values (\$000)
Ultra-Low Sulfur Diesel					
	Deutsche Bank AG	6,329.11 gal	\$3.16	February 29, 2012	\$(1,136)
	Deutsche Bank AG	6,417.46 gal	3.12	March 31, 2012	(1,213)
	Deutsche Bank AG	6,557.38 gal	3.05	May 31, 2012	(1,339)
	Goldman Sachs & Co.	6,711.41 gal	2.98	May 31, 2012	(1,019)
	BofA Merrill Lynch	<u>3,506.31 gal</u>	2.85	June 30, 2012	<u>(228)</u>
	Total	29,521.67 gal			\$(4,935)
Natural Gas					
	Deutsche Bank AG	<u>2,829.18 Btus</u>	4.24	March 31, 2012	<u>\$(400)</u>
	Total	2,829.18 Btus			\$(400)

Notes: Data as of September 30, 2011. Totals may not add due to rounding.



Outstanding Fuel Hedges Aggregated by Counterparty

Rank by Notional	Counterparty	Counterparty Ratings	Notional Amount (\$000)	% of Portfolio Based on Notional	Current Market Value (\$000)
1	Deutsche Bank AG	Aa3/A+/AA-	\$ 72,000	70.6%	\$ (4,088)
2	Goldman Sachs & Co.	Aa1/AAA/NAF	20,000	19.6	(1,019)
3	Bank of America Merrill Lynch	A2/A/A+	10,000	9.8	(228)
Total			\$102,000		\$(5,335)

Notes: Data as of September 30, 2011. Totals may not add due to rounding.



Appendix



Derivative Contracts Specifics

Issue	Bond Series	Par Amount (\$Mn)	Fixed Rate Paid (%)	Variable Rate Index Received	Maturity Date	MTM Values (\$Mn)
Transportation Revenue						
	2002D-2	\$200.00	4.450%	69% 1-Month LIBOR	November 1, 2032	\$(87.384)
	2005D & 2005E	400.00	3.561	67% 1-Month LIBOR	November 1, 2035	(104.957)
	2012B	359.45	3.563	67% 1-Month LIBOR	November 1, 2032	(94.359)
	Total	\$959.45				\$(286.700)
Dedicated Tax Fund						
	2002B	\$440.00	4.060%	Actual to 4/30/10, then SIFMA	September 1, 2013	\$(31.800)
	2008A	340.25	3.316	67% 1-Month LIBOR	November 1, 2031	(73.460)
	Total	\$780.25				\$(105.260)
Bridges and Tunnels – General Revenue						
	2001B ^(a)	\$88.60	5.777%	Actual Bond Rate	January 1, 2019	\$(14.211)
	2001C ^(a)	88.70	5.777	SIFMA - 15bp	January 1, 2019	(14.661)
	2002F	40.70	5.404	SIFMA	January 1, 2013	(1.398)
	2002F	182.20	3.076	67% 1-Month LIBOR	January 1, 2032	(37.637)
	2003B	14.20	3.076	67% 1-Month LIBOR	January 1, 2032	(2.933)
	2003B	45.35	6.070	SIFMA – 15 bp	January 1, 2019	(9.269)
	2005B	589.20	3.076	67% 1M LBR	January 2, 2032	(121.712)
	2005B	785.60	0.437	(SIFMA - 10bp) - 67% 1-Month LIBOR	January 1, 2012	(1.491)
	Total	\$1,834.55				\$(203.313)
Bridges and Tunnels – Subordinate						
	2000AB ^(a)	\$146.20	6.080%	Actual Bond Rate	January 1, 2019	\$(29.076)
	2000CD ^(a)	100.85	6.070	SIFMA – 15 bp	January 1, 2019	(20.613)
	Total	\$247.05				\$(49.689)
2 Broadway						
	2004A	\$347.80	3.092%	Lesser of Actual Bond Rate or 67% 1-Month LIBOR - 45 bp	January 1, 2030	\$(69.305)
	Total	\$347.80				\$(69.305)

Notes: Data as of September 30, 2011. Totals may not add due to rounding.

(a) MTA's only "off-market" swaps were competitively bid in 1999 and generated over \$27 million in proceeds for the capital program.