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Metro

APRIL 13, 2016

TO: BOARD OF DIRECTORS

THROUGH: PHILLIP A. WASHINGTON
CHIEF EXECUTIVE OFFICER

FROM: NALINI AHUJA
EXECUTIVE DIRECTOR, FINANCE AND BUDGET

SUBJECT: ANNUAL INTEREST RATE SWAP REPORT

ISSUE

The Interest Rate Swap Policy requires an annual review of outstanding interest rate swaps. The discussion below provides information on our interest rate swaps, our counterparties, and changes since the last report was presented to the Board.

DISCUSSION

As of June 30, 2015, we had two remaining swaps with Bank of Montreal ("BMO") and Deutsche Bank AG associated with the Proposition A 2008-A Variable Rate Demand Bonds. The swaps were issued to hedge the interest cost on the underlying variable rate debt to approximate a fixed rate. We paid each counterparty an amount based on a fixed rate and received an amount based on a variable rate index. The variable rate index was intended to closely approximate the variable interest rate we paid on the hedged bonds. Both of our remaining swaps used a variable rate index based on a percentage of the one-month London Interbank Offer Rate, commonly referred to as "LIBOR." On July 1, 2015, both of the remaining swaps were terminated at no cost and Metro has no interest rate swaps outstanding.

Information on the associated bond series, type, rate paid, notional amount, average life, remaining term, and termination value for each of our interest rate swaps outstanding on June 30, 2015 is provided in the table below.

SUMMARY OF OUTSTANDING INTEREST RATE SWAPS
AS OF JUNE 30, 2015

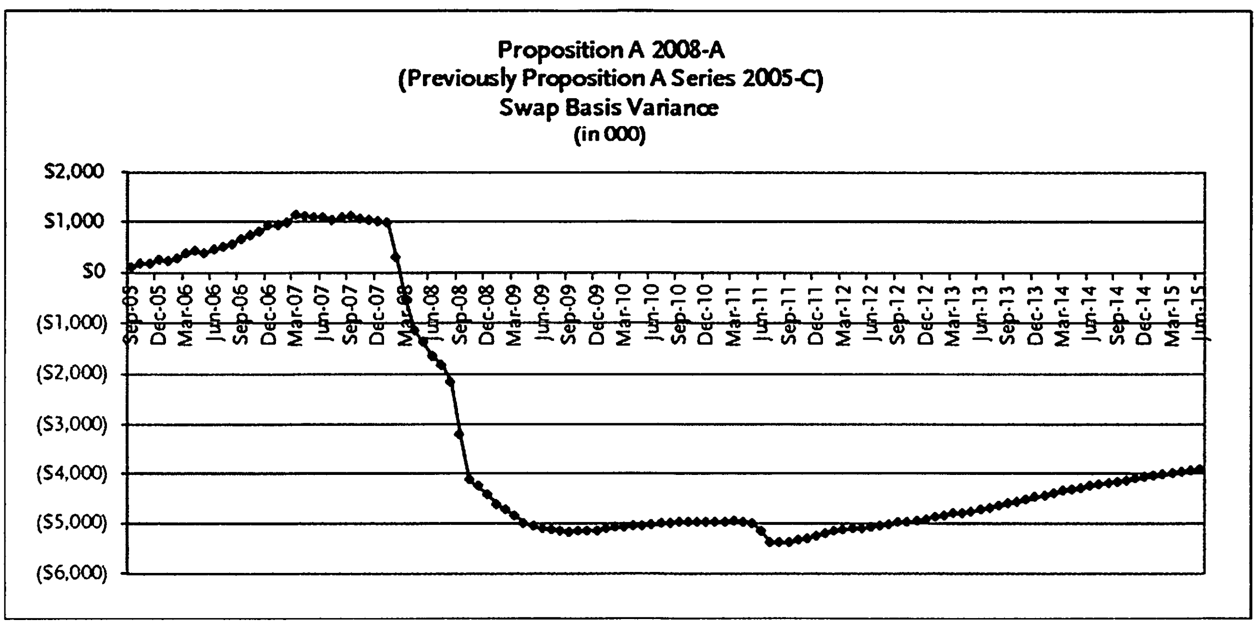
BOND SERIES	RATE RECEIVED	RATE PAID	COUNTERPARTY	NOTIONAL AMOUNT	AVERAGE LIFE	REMAINING TERM	TERM. VALUE ($ in thousands) (a)
Prop A Series 2008 A1&A2	63% 1-month LIBOR+0.14%	3.373%	Bank of Montreal	$123,425,000	7.2 Years	16 years	($10)
Prop A Series 2008 A3&A4	63% 1-month LIBOR+0.14%	3.358%	Deutsche Bank AG	$123.600,000	7.2 Years	16 years	($10)
TOTAL				**$247,025,000**			**($20)**

(a) Represents accrued interest for one day.

Beginning in February 2008, the interest rates we paid on our variable rate bonds were adversely affected by the sub-prime related problems our bond insurers experienced. The increased weekly interest rates on our Auction Rate Securities ("ARS") resulted in an increased cost that was not offset by our swaps. As shown on the graph below, prior to 2008, the basis variances were favorable. The negative cumulative basis variance represents decreased savings relative to the initial expectations for the refunding transaction in 2005. The Prop A 2005-C ARS were restructured in 2008 with Variable Rate Demand Bonds ("VRDBs"), resulting in a much more favorable basis variance for those swaps.

As of June 30, 2015 the balance for the basis variance was an unfavorable $3.9 million, resulting in a decrease in projected savings of the 2005-C refunding transaction by that amount. The savings from the 2005-C refunding were originally projected to be more than $46 million on a cash basis and $29 million on a present value basis through June 30, 2031. Due to the unfavorable basis variance between the swap receipts and the interest paid on the bonds, actual cash savings through June 30, 2015 are lower than originally projected although still more than $14.3 million. The Prop A 2005-C bonds were refunded with the Prop A 2008-A bonds and the swaps with BMO and Deutsche Bank AG were associated with the Prop A 2008-A bonds.

The chart below shows the history for the cumulative variance between swap receipts and bond interest paid. The dramatic unfavorable shift in the swap basis variance was a result of the higher interest rates on the bonds beginning in 2008 when the auction rate market was severely disrupted.



The credit ratings for our swap counterparties as of June 30, 2015, are shown in the table below.

LONG TERM RATINGS
OUTSTANDING INTEREST RATE SWAPS
AS OF June 30, 2015

Counterparty	Associated Bond Issue(s)	Long Term Ratings	
		Moody's	S&P
Bank of Montreal	Proposition A Series 2008-A1& A2	Aa3	A+
Deutsche Bank AG - New York Branch	Proposition A Series 2008-A3 & A4	A3	BBB+[1]

Collateral Posting

As of June 30, 2015, we were not required to post collateral for any of our swaps and no swap counterparties were required to post collateral related to any of the swaps.

Material Events

1) The Proposition A Series 2008-A1 and A2 swaps with Bank of Montreal were terminated at no cost on July 1, 2015.

2) The Proposition A Series 2008-A3 and A4 swaps with Deutsche Bank AG – New York Branch were terminated at no cost on July 1, 2015.

3) The Proposition A Series 2008-A variable rate bonds have been refunded with the $185,605,000 Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds, Series 2016-A fixed rate bonds.

Contingency Plan

Because all of our swaps have been terminated as of July 1, 2015, no contingency plan is necessary.

Status of Liquidity Support

In August 2014, $247 million in direct purchase bank agreements with Bank of America and U.S. Bank were put into place to provide liquidity until August 2016. The cost of the liquidity was based on a percentage of LIBOR plus a spread and could be terminated with no penalty beginning August 1, 2015. The associated swaps could be terminated at no cost on July 1, 2015. We terminated the two swaps on July 1, 2015 and refunded the Prop A Series 2008-A variable rate debt in February 2016 with fixed rate debt, removing the need for any liquidity support.

[1] Deutsche Bank AG – New York Branch was downgraded from A to BBB+ on June 9, 2015.

NEXT STEPS

Because Metro's two remaining swaps were terminated as of July 1, 2015, no further action is needed.

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