WESTERN MUNICIPAL WATER DISTRICT

INTEREST RATE & FINANCIAL RISK MANAGEMENT POLICY

Adopted February 18, 2009

I. INTRODUCTION

The purpose of this Interest Rate Swap and Hedge Agreement Policy ("Policy") of the Western Municipal Water District ("the District") is to establish guidelines for the use and management of all interest rate and risk management agreements, including, but not limited to, interest rate and other financial risk management swaps, swaptions, rate locks, caps, collars, floors and other similar products (collectively "Swaps" or "Agreements") incurred in connection with the expected issuance of new bonds, notes, and other obligations (collectively the "Bonds"), or to accompany Bonds already issued, or to manage other risks of the District.

This Policy sets forth the manner of execution of swaps, provides for security and payment provisions, risk considerations and certain other relevant provisions in the context of being responsive to the 2003 Recommended Practices of the Government Finance Officers Association (GFOA) regarding the contents of an interest rate swap and financial risk management policy. The failure by the District to comply with any provision of this Policy shall not invalidate or impair any Agreement.

II. AUTHORITY

The District is authorized to issue Bonds and to enter into Swaps from time to time to: (1) better manage assets and liabilities; (2) take advantage of market conditions to lower overall costs and reduce interest rate risk; (3) achieve product diversification; (4) manage its risk exposures; and/or (5) achieve an objective not available with traditional products.

The District has promulgated this Policy to provide guidance as to how the District intends to use and manage Swaps. While it is the intention of the District to adhere to this Policy in applicable circumstances, the District recognizes that changes in the capital markets and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy which will require modifications or exceptions to achieve policy goals.

The General Manager and Chief Financial Officer and their authorized designee(s) (the "Authorized Representative") are the designated administrators of this Policy. The Board of Directors of the District (the "Board") shall have "oversight" on the approval of each Agreement. However, the Authorized Representative, subject to Board approval, shall have the authority to enter into each Swap. Each Agreement shall be structured by staff and members of the financing team. The Authorized Representative shall have the day-to-day responsibility for implementing and managing the Agreements.

The District shall be authorized to enter into Swaps only with qualified counterparties (each a "Counterparty"). Counterparties shall be selected pursuant to the criteria set forth in this Policy.

This Policy shall be reviewed on an annual basis by the Authorized Representative. Any recommended changes shall be presented to the Board of Directors/Finance Committee for consideration.

III. PURPOSE

The issuance of Bonds involves a variety of interest payment obligations and risks that a variety of financial instruments are available to reduce, offset, or insulate. The structure of the District's debt is often designed to manage the assets and liabilities on its balance sheet or to achieve desired risk parameters. It is the policy of the District to also consider the use of Swaps and other financial instruments to better manage its assets and liabilities and manage its risk exposures. The District may execute a Swap if the transaction can be expected to result in one or more of the following or any similar type of benefit:

- Reduce exposure to changes in interest rates on a particular financial transaction or in the context of the management of interest rate risk derived from the District's overall asset/liability balance.
- Result in a lower net expected cost of borrowing with respect to Bonds.
- Manage variable interest rate exposure consistent with prudent debt practices.
- Manage exposure to changing market conditions in advance of anticipated issuance of Bonds (through the use of anticipatory financial instruments).
- Achieve more flexibility in meeting overall financial objectives that cannot be achieved in conventional markets. For example, entering into a swaption with an upfront payment.
- Provide customized cash flows to match required payment obligations or revenue projections.
- Manage the District exposure to risks in its portfolio, such as financial risks (interest rates, costs) or event risks (credit enhancer downgrades, market dislocations).

The District will not use Agreements that:

- Are speculative or create extraordinary leverage;
- Lack adequate liquidity to terminate without incurring a significant bid/ask spread;
- Provide insufficient price transparency to allow reasonable valuation;
- Provide exposure to currency risk, sovereignty risk, or the use of credit derivatives – unless directly linked to the District's or the Counterparty's credit.

IV. ASPECTS OF RISK EXPOSURE ASSOCIATED WITH SWAPS

Before entering into a Swap, the District shall evaluate all the risks inherent in the Agreement. These risks to be evaluated should include basis risk, yield curve/maturity mismatch, tax risk, Counterparty risk, termination risk, rollover risk, liquidity risk, and the inherent credit risk.

TYPE OF RISK	DESCRIPTION	EVALUATION METHODOLOGY
Basis risk	The mismatch between actual variable rate debt service and variable rate indices used to determine Swap cashflows. Defines the risk that the normal relationship between indices or prices might change.	The District will review and consider based on the historical trading differentials between the indices relevant to the Swap agreement.
Yield Curve / Maturity Mismatch	This type of position is typically to take advantage of the shape of the yield curve. The risk created when swap payments are based on indices that lie along different parts of the yield curve (e.g. 7-day rates vs. 30-year rates)	The District will evaluate historical trading relationships, and make sure to have adequate reserves or a hedging mechanism to offset unexpected movements.
Tax risk	The risk created by potential tax events that could affect the economic substance of a particular transaction.	The District will review the tax events in proposed Agreements. The District will evaluate the impact of potential changes in tax law on LIBOR indexed Swaps.
Counterparty risk	The failure of the Counterparty to make timely required payments; maintain ratings at acceptable level; and post collateral timely.	The District will monitor exposure levels, ratings thresholds, and collateralization requirements.
Termination risk	The need to terminate the Agreement in a market that dictates a termination payment by the issuer. The need to terminate the Agreement when the counterparty may be unable to make a payment to the District.	The District will compute its termination exposure for all existing and proposed Swaps at market value and under adverse economic conditions.
Rollover /	The mismatch of the maturity of the	The District will determine its capacity

Mismatch risk	Swap and the maturity of the underlying Bonds.	to tolerate the residual position should the Swap not be extended.
Liquidity risk	The inability to continue or renew a liquidity facility; and the ratings downgrade of the liquidity provider.	The District will evaluate the expected availability of liquidity support for swapped and unhedged variable rate debt (and/or products that do not require liquidity).
Credit risk	The occurrence of an event modifying the credit rating of the Issuer or its Counterparty or its credit enhancer.	The District will monitor the ratings of its Counterparties and guarantors.

Risk exposure should not be measured solely in terms of notional amount, but rather in terms of how changes in interest rates or other market factors/indices would affect the District's exposure on all of its Swaps (as measured by mark-to-market and termination risk exposure, and measured on a net basis, e.g. taking into account offsetting transactions).

The mark-to-market and termination value of the entire swap portfolio should be measured at least annually by an independent third party. In addition, the District should measure the termination risk for the respective Counterparty each time it enters into a new Agreement.

Termination Value Risk Limit

The aggregate termination payment risk for all existing and projected Swaps shall equal that amount that would be paid by an individual Counterparty based on the reasonably expected termination payment to the proposed Counterparty for the existing swaps and the proposed swap.

Maximum Portfolio Termination Value

The District shall measure the mark-to-market termination payment for all Counterparties, collectively, the Maximum Portfolio Termination Value.

The District's goal is to limit entering into swaps when the Maximum Portfolio Termination Value is equal to approximately 50% of the District's Available Reserves. The District may enter into additional agreements to unwind or offset any existing agreements, even if the Maximum Portfolio Termination Value exceeds 50% of the District's Available Reserves. The District shall not include in such calculations commodity Swaps that are designed to manage cost exposure for budgetary purposes.

The District will attempt to maintain liquidity approximately equal to the mark-to-market value of its swap portfolio taking into account the value of any collateral pledged by the District to any counterparty.

Maximum Counterparty Termination Value

The District shall endeavor to diversify its exposure to Counterparties. To that end, before entering into an Agreement, it should determine its exposure to the relevant

Counterparty and determine how the proposed Agreement would affect the District's additional risk to termination.

Maximum Counterparty Termination Exposure refers to the aggregate mark-to-market exposure to a counterparty net of the mark-to-market value of any collateral pledged to the District by such counterparty.

The District's goal is to limit its Maximum Counterparty Termination Exposure attributable to a single swap counterparty, based on a three tier structure.

- The District shall establish a minimum mark to market termination value to one counterparty equal to 25% of the District's Available Reserves. The District shall not seek to diversify counterparties if its Maximum Portfolio Termination Value is below this level.
- The District shall seek to diversify its counterparty termination exposure, once this minimum value has been met, as set forth in the table below. In the event of split ratings, the District shall use the lower of the ratings if only two ratings are assigned. In the event that the counterparty has three ratings, the District shall use the rating assigned more frequently without regard to "+" and "-"nomenclature.

CREDIT RATING OF COUNTERPARTY	MAXIMUM COUNTERPARTY TERMINATION EXPOSURE *
AAA Category	Equal to **75%** of the District's Maximum Portfolio Termination Value
AA Category	Equal to **65%** of the District's Maximum Portfolio Termination Value
A Category	Equal to **50%** of the District's Maximum Portfolio Termination Value

* The table above provides general exposure guidelines with respect to whether the District should enter into an additional agreement with an existing Counterparty. The District may make exceptions to the guidelines at any time to the extent that the execution of a Swap achieves one or more of the outlined benefits in this Policy or provides other benefits to the District. These limits shall only apply as of the time a Swap or related transaction, such as a cap, collar, etc. is entered into, and thus may be exceeded during the term of a Swap or Swaps with the same Counterparty.

- The District shall seek to limit its aggregate exposure to all counterparties, or the Maximum Portfolio Termination Value, equal to 50% of the District's Available Reserves.

Additional limits may be established for each Counterparty as well as the relative level of risk associated with each existing and projected Swap.

The District will enter into no further Swaps with any Counterparty within the above rating categories once the threshold is reached for such specific category.

Case-by-Case Analysis

The District also should take into account the District's financial position and overall asset/liability management strategy when evaluating its termination exposure for each transaction. The District may choose a swap for a limited term if such a structure is deemed a prudent strategy or approach, recognizing the potential rollout mismatch risk.

The Authorized Representative shall determine the appropriate term for a Swap on a case-by-case basis. The slope of the swap curve, the marginal change in swap rates from year to year along the swap curve, and the impact that the term of the swap has on the overall exposure of the District in connection with its Bonds shall be considered in determining the appropriate term of any Swap. In connection with the issuance of Bonds, the term of a Swap shall not extend beyond the expected final maturity date of the applicable issue of Bonds, or in the case of a refunding transaction, beyond the expected final maturity date of the refunding Bonds.

The total net notional amount of all Swaps related to an issue of Bonds should not exceed the amount of the related outstanding Bonds. For purposes of calculating the net notional amount, credit shall be given to any Swaps that offset (or augment other Swaps) for a specific bond transaction.

V. LONG-TERM IMPLICATIONS

In evaluating a particular transaction involving the use of swaps, the District shall review long-term implications associated with entering into each agreement, including costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, liquidity capacity, opportunities to refund related debt obligations, exposure to the counterparty, and other similar considerations.

Impact of use of Liquidity

The District shall consider the impact of any variable rate bonds issued in combination with a Swap on the availability and cost of liquidity support (if required) and the risk of a liquidity provider's rating downgrade.

Call Option Value Considerations

When considering the relative advantage of variable rate bonds issued in combination with a Swap versus fixed rate Bonds, the District will take into consideration the value of any call option on fixed rate Bonds. When comparing potential cost savings by utilizing a swap, the District should take into consideration, among other things, that a synthetic fixed-rate swap does not usually have an optional call provision; and therefore, should evaluate the potential impact on future cost savings and flexibility. The District shall evaluate the cost of adding call options on Swaps at the time of execution.

Qualified Financial Risk Management Products

The District understands that, (1) if payments on and receipts from the Agreement are to be taken into account in computing the yield on the related Bonds, the Agreement must meet the requirements for a "qualified hedge" under federal tax law (sometimes referred to as an "integrated" Swap); and (2) if one of the goals of entering into the Agreement is to convert variable yield bonds into fixed yield bonds (sometimes referred to as a "super integrated swap"), then certain additional requirements must be met. In both of these situations, the terms of the Agreement and the process for entering into the Agreement must be reviewed and approved in advance by tax counsel.

VI. QUALIFIED SWAP COUNTERPARTIES

Unless approved by the Board, the District will work with qualified Swap Counterparties or their guarantors that, at the time of execution of swap documentation, have a general credit rating of: (i) at least "A1" or "A+" by two of the nationally recognized rating agencies **and not rated lower than "A2" or "A" by any** nationally recognized rating agency, or (ii) at least "A1" or "A+" by two of the nationally recognized rating agencies and has a continuing "AAA" subsidiary as rated by at least two nationally recognized credit rating agencies. The nationally recognized rating agencies are Moody's Investors Services, Inc., Standard and Poor's Rating Services, and Fitch Ratings.

Swap Counterparties or other guarantors must have a demonstrated record of successfully executing Swap agreements as well as minimum capitalization of at least $500 million.

Swap counterparties should serve as principal on each transaction, not as "agent" in order to assure most efficient pricing and direct responsibility.

In addition to the rating criteria specified herein, the District will seek additional credit enhancement and safeguards in the form of:

Contingent credit support or enhancement;

Collateral consistent with the policies contained herein;

Ratings downgrade triggers;

Guaranty of parent, if any.

VII. FORM OF SWAP AGREEMENT

It is the District's intention to have a form of Swap Agreement to be used in all Swap Agreements, modified as necessary to meet the needs of a particular transaction. The form of the Agreement executed by the District shall contain terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, including any schedules, credit support documents and confirmations. All Agreements shall be subject to the approval of the Authorized Representative. The Agreements shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions and provisions as the Authorized Representative deems necessary or desirable.

The District must use legal counsel and/or outside professional advisors to assist in preparation of the swap documents.

VIII. TERMINATION PROVISIONS

The District shall consider including in all Agreements provisions granting the District the right to optionally terminate an Agreement at any time over the term of the Agreement. Any termination of an Agreement shall be made by the Authorized Representative.

A termination event is deemed to occur should the Swap Counterparty (or its credit support provider) <u>fail to maintain the ratings below and the Swap Counterparty has not delivered any collateral</u> as required under the Credit Support Annex with the District:

Credit Rating of at least "A3" from Moody's; or

Credit Rating of at least "A-" from S&P; or,

Credit Rating of at least "A-" from Fitch

An equivalent rating determined by a nationally recognized ratings service acceptable to both parties.

Furthermore, an additional termination event is deemed to occur should the Swap Counterparty (or its credit support providers) have one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody's Investors Service, Inc., or (ii) BBB- or higher as determined by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. or (iii) an equivalent investment grade rating determined by a nationally-recognized rating service acceptable to both parties.

A termination payment to or from the District may be required in the event of termination of an Agreement due to a default or a decrease in credit rating of either the District or the Swap Counterparty.

It is the intent of the District to avoid making a termination payment out of available District funds to a Counterparty that does not meet its contractual obligations. Prior to making any such termination payment, the Authorized Representative shall evaluate whether it is financially advantageous for the District to obtain a replacement Counterparty to avoid making such termination payment or finance the termination payment through a long-term financing product.

For payments on early termination and optional termination, Market Quotation and the Second Method, as defined in the 1992 Form of the ISDA will apply.

IX. SECURITY AND SOURCE OF REPAYMENT

While the District has a preference to subordinate swap payments to debt service payments, the District may use the same security and source of repayment (pari pasu) for the Swap as is used for the underlying Bonds. The District shall subordinate the termination payment under the swap to the debt service on its senior lien bonds. The District shall consult with Bond Counsel regarding the legal requirements and compliance with the District's Master Resolution associated with making the payments under the Swap on a parity or non-parity basis with the applicable outstanding Bonds.

X. SPECIFIED INDEBTEDNESS

The specified indebtedness related to credit events in any Agreement should be narrowly defined and should refer only to indebtedness of the District that could have a materially adverse effect on the District's ability to perform its obligations under the Swap. Debt typically only should include obligations within the same, or higher, lien as the Swap obligation.

XI. GOVERNING LAW

The District prefers the governing law for Swaps to be New York or California, but will consult with its legal counsel for each transaction. The capacity, power and authority of the District to enter into a Swap shall be governed by and construed in accordance with the law of the State of California.

XII. EVENTS OF DEFAULT

Events of default of a Swap Counterparty shall include, but are not limited to the following:

1. Failure to make payments when due
2. Breach of representations and warranties
3. Illegality

4. Failure to comply with downgrade provisions and/or provide collateral as required
5. Failure to comply with any other provisions of the Agreement after a specified notice period

XIII. COLLATERAL REQUIREMENTS

As part of any Agreement, the District may require, or be required to post collateral or other credit enhancement to secure any or all Swap payment obligations. As appropriate, the Authorized Representative may require collateral or other credit enhancement to be posted by each Swap Counterparty under the following circumstances:

- Each Swap Counterparty may be required to post collateral if the credit rating of the Swap Counterparty or parent falls below the “A- or A3”. Collateral for further decreases in credit ratings of each Swap Counterparty shall be posted by each Swap Counterparty in accordance with the provisions contained in the credit support annex to each Agreement.
- Collateral shall consist of cash, U.S. Treasury Securities, or Agency Securities
- Collateral shall be deposited with a third party trustee, or as mutually agreed upon between the District and each Swap Counterparty.
- A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the Agreement.
- The market value of the collateral shall be determined on at least a monthly basis.
- The District will determine reasonable threshold limits for increments of collateral posting based on a sliding scale reflective of credit ratings.
- The Authorized Representative shall determine on a case-by-case basis whether other forms of credit enhancement are more beneficial to the District.

XIV. OTHER CRITERIA

The District may select a Swap Counterparty through either a competitive or negotiated process. The selection of a Swap Counterparty shall be done on a case-by-case basis. The conditions to be considered in determining the process shall include:

- Traditional swap or financial products such as synthetic fixed-rate swaps, reverse swaps, caps, floors, collars, and swaptions without significant deviations from standard ISDA contract.
- The proposed structure does not require customized features.
- Several counterparties are eligible and willing to provide bid(s).
- Terms of the swap match the underlying bond structure (i.e. same or shorter maturity, payment dates, amortization schedule).
- Marketing of the Swap will require complex explanations about the security for repayment or credit quality.
- Demand is limited among Swap Counterparties.
- Coordination of multiple components of the financing is required.
- The Swap has non-standard features, such as one way collateral.
- Bond insurance is not available or not offered.
- Counterparty risk (termination exposure) to other providers is limited.
- Counterparties are likely to demand individual changes in bid documents.
- A Swap Counterparty has provided a structure or concept that is unique.
- The timing and facilitation benefit to the District of using a Swap Counterparty that is also managing an accompanying bond issue.
- The transaction structure or financing structure has been developed for the District by a Counterparty and the District has determined that it is in its best interest to proceed with proposed transaction or a similar structure.

The District shall use outside professional advisors to assist in the price negotiation. The District shall obtain an opinion from an independent party that the terms and conditions of any financial product entered into reflect a fair market value as of the execution date.

XV. ONGOING REPORTING REQUIREMENTS

Written records noting the status of all Agreements will be maintained by the District and shall include the following information:

- Highlights of all material changes to Agreements or new Agreements entered into by the District since the last report, and a summary of any Agreements that were terminated.
- Basic term sheet containing trade date, effective date and termination date of each of the Agreement, as well as key terms such as: notional amount, rate

paid by each Counterparty, day count basis, payment dates, and amortization/accretion schedules. This term sheet will also contain Counterparty contact information.

- The District staff will report to the Board, from time to time, the following:
- Most recent (at least annually) mark-to-market valuation, performed by an independent third party advisor.
- For each Swap Counterparty, the total notional amount position, the average life of each Agreement, the available capacity to enter into a Swap, and the remaining term of each Agreement.
- The credit rating of each Swap Counterparty and credit enhancer insuring the Swap payments.
- Actual collateral posting by the Swap Counterparty, if any, per Agreement and in total by Swap Counterparty.
- Information concerning any default by a Swap Counterparty and the results of the default, including but not limited to, the financial impact to the District if any.

The District shall reflect the use of derivatives on its financial statements in accordance with generally accepted accounting principles. The disclosure requirements include:

1. Objective of the Derivative
2. Significant Terms
3. Fair Value
4. Associated Debt
5. Risks

GLOSSARY OF TERMS

Agency Security – Negotiable debt obligations which are issued and/or guaranteed as to both principal and Interest by the Federal Home Loan Mortgage Corporation (“FHLMC”), the Federal National Mortgage Association (“FNMA”), or the Government National Mortgage Association (“GNMA”) excluding interest only securities, principal only securities, residual interest, and Collateralized Mortgage Obligations (“CMO’s).

Amortization Risk – Amortization risk refers to the cost of servicing debt or making swap payments due to a mismatch between the bonds and the notional amount of the related outstanding Swap.

Available Reserves – Cash balances, assets and investments of the District established as Reserves pursuant to the District’s Reserves Policies. **Amounts on deposit in the following reserve funds will be considered Available Reserves:**

- Reserve for Asset Replacement and Major Maintenance
- Reserve for System Improvements
- Contingency Reserve
- Exposure Reserve
- Working Capital Reserve
- Unrestricted and Undesignated Reserves

Basis Risk – Basis risk refers to a mismatch between the payment received from the swap contract and the payment actually owed on the District’s bonds. The risk, for example, in a floating to fixed rate swap is that the variable rate interest payments will be less than the variable interest payments actually owed on the associated bonds.

Confirmation – A form that is executed for a specific swap or financial product transaction and details the specific terms and conditions applicable to that agreement (fixed rate, floating rate index, payment dates, calculation methodology, amortization, maturity date, etc.).

Continuing AAA subsidiary – A wholly owned subsidiary of a Bank or Broker/Dealer organized to transact business as a “AAA” Counterparty to eligible clients. Eligible clients are those clients acceptable to the rating agencies. To the extent a “Trigger Event” occurs, the entity will maintain all of its Agreements to their original maturity with the assistance of an independent derivatives portfolio manager. A Trigger Event is typically a downgrade of the parent company, a bankruptcy of the parent company, failure to make a payment and/or failure to deliver collateral.

Counterparty – A principal to a swap or other derivative agreement, as opposed to an agent such as a broker.

Counterparty Risk – The risk that the swap Counterparty will not fulfill its obligations as specified by the terms of an ISDA Master Agreement or other similar contract. Under a fixed payer swap, for example, if the Counterparty defaults, the District would be exposed to a variable rate bond position. The creditworthiness of the Counterparty is indicated by its credit rating. The District has established minimum rating criteria for swap counterparties.

Credit Risk – The occurrence of an event modifying the credit rating of the District or its Counterparty. Credit Events can trigger certain termination provisions or collateral provisions as outlined in the Agreements.

Credit Support Annex – An attachment to the ISDA that covers the mutual posting of collateral, if required. This schedule is based on the net mark-to-market values of the swap.

Forward Starting Swap – An interest rate swap in which the "swap coupon" and terms of the agreement are established today, but the start of the swap is delayed until some date in the future.

Hedge – A position taken in order to offset the risk associated with some other position. Most often, the initial position is a future anticipated bond issuance whose cash position and the hedge position involves a risk-management instrument such as a swap.

Interest Rate Cap – An instrument that pays off on each settlement date based on the market value of a reference rate (i.e. SIFMA or LIBOR) and a specified contract rate; effectively establishing a maximum on a variable rate.

Interest Rate Collar – An instrument that provides protection within a band of interest rates; a combination of purchasing an Interest Rate Cap and selling Interest Rate Floor. Generally, it is structured so that the net cost of the collar is zero or close to zero. This means that the expense for the interest rate cap premium is offset by the credit received for the interest rate floor.

Interest Rate Floor – An instrument that pays off on each settlement date based on the market reset of a reference rate (i.e. SIFMA or LIBOR) and a specified **strike** rate; effectively establishing a minimum on a variable rate.

Interest Rate Risk – The risks that (i) variable rates will increase and thereby cause an increase in variable rate debt service costs and negatively impact cash flow margins and (ii) long term rates will increase before a new issuance can be priced.

Interest Rate Swap – A contract between two parties to exchange cash flows over a predetermined length of time. Cash flows are calculated periodically based on a fixed or variable interest rate against a set notional amount (amount used only for calculation of interest payments). Principal is not exchanged.

The International Swap Dealers Association (ISDA) – The global trade association whose members are dealers in the derivatives industry. Most Swaps are executed under standard documentation created by ISDA.

ISDA Master Agreement – The primary document for the terms and conditions governing the swaps market. The ISDA Master Agreement contains the terms for events of default, termination events, representations and covenants, early termination provisions and payment calculations.

The London InterBank Offered Rate (LIBOR) – The rate at which banks will lend Eurodollars to each other over various length terms: (e.g., 1-month, 3-month, 6-month, 12-month etc.). The most active dollar-based taxable interest rate benchmark utilized globally.

Notional Amount – The stipulated principal amount for a swap transaction. There is no transfer of ownership of the principal for a swap; but there is an exchange of the cash flows for the designated interest rates based upon the notional amount.

Rollover Risk – The risk that the term of the swap contract ends before the term of the related bonds. Upon the maturity of the swap, the risk may need to be evaluated and a new financial risk product may need to be contracted, causing the District to incur additional costs.

SIFMA Index – Securities Industry & Financial Market Association (SIFMA) Index, formerly known as the Bond Market Association Municipal Swap Index, the principal benchmark for short-term, tax-exempt rates among municipal issuers. A market basket index of over 200 actively traded, highly rated, non-AMT tax-exempt variable rate issues that reset their rates every Wednesday.

Schedule to the ISDA Master Agreement – An attachment(s) to the ISDA Master Agreement that specifies what options for the various terms in the Master Agreement have been selected to govern the derivative transactions executed under the agreement.

Swap – A contractual agreement evidenced by a single document in which two or more parties agree to exchange / make periodic (net) payments for an agreed period of time based upon a notional amount of principal.

Swaption – An option on a swap. The swaption purchaser has the right to enter a specific swap for a defined period of time. This option can be exercised on a specific exercise date or series of exercise dates

Tax Risk – All issuers who issue tax-exempt variable rate debt inherently accept risk stemming from changes in marginal income tax rates. This is a result of the tax codes impact on the trading value of tax-exempt bonds. As marginal tax rates decline, the after tax value of tax-exempt income declines, forcing the tax-exempt rates to increase relative to their taxable equivalent. This risk is also known as a "tax event" risk, a form of basis risk under swap contracts. Percentage of LIBOR swaps and certain SIFMA swaps with tax event triggers, which can change the basis under the swap to a LIBOR basis from BMA, can expose issuers to tax event risk.

Termination Risk – The risk that the swap could be terminated as a result of any of several events, which may include a ratings downgrade for the District or the swap Counterparty, covenant violation by either party, bankruptcy of either party, swap payment default by either party, and default events under a bond indenture. The District could owe a termination payment to the Counterparty or receive a termination payment from the Counterparty, depending on how interest rates at the time of termination compare with the market conditions at execution, and the rate on the swap.

Yield Curve – Refers to the graphical or tabular representation of interest rates across different maturities. The presentation often starts with the shortest-term rates and extends towards longer maturities. It reflects the market's views about implied inflation/deflation, liquidity, economic and financial activity, and other market forces.