

**COLORADO SPRINGS URBAN RENEWAL AUTHORITY
INTEREST RATE MANAGEMENT PLAN**

I. Purpose

The purpose of the Interest Rate Management Plan (the “**Plan**”) of the Colorado Springs Urban Renewal Authority (the “**Authority**”) is to establish guidelines for the use and management of derivative products, in conjunction with the Authority’s management of its assets and liabilities under the direction of the Board of Commissioners of the Authority (the “**Board**”). The Authority may use derivative products to meet various financial objectives, such as increase financial flexibility, provide opportunities for interest rate savings, limit or hedge existing or future interest rate risk, alter the pattern of debt service payments or for asset and liability matching purposes.

While adherence to this Plan is required in applicable circumstances, the Board recognizes that changes in the capital markets and other unforeseen circumstances may from time to time produce situations that are not covered by the Plan and will require modifications or exceptions to achieve general policy goals. In these cases, deviation from this Plan is appropriate provided specific authorization from the Authority is obtained for such deviation.

Swaps must be entered into only in connection with the Authority’s debt instruments. Because of the increased risks associated with swaps, the Board will not consider swaps for refunding of the Authority’s existing debt unless the present value (PV) savings produced are in excess of ___ percent (___%). The Authority shall not enter into swap transactions for speculative purposes or to create extraordinary leverage or risk or to be used as investments.

Capitalized terms used and not defined herein have the meanings assigned to them in Section X of this Interest Rate Management Plan.

II. Authority

Title 11, Article 59.3 of Colorado Revised Statutes, as amended, authorizes the Authority to enter into interest rate swap transactions and related agreements.

III. Conditions for Use of Derivative Products

- A. General Usage. The Authority may use derivative products to hedge interest rate exposure. The Board may recommend to the Authority that the Authority authorize the use of derivative products, such as swaps, in connection with the issuance of new or outstanding bonds in order to enhance the relationship between risk and return.
- B. Approval/Legality. To enter into a Master Swap Agreement (which governs each swap transaction), the Authority must approve the swap transaction and the Master Swap Agreement and receive an opinion acceptable to the Board from bond counsel that the agreement relating to the swap transaction is a legal, valid, and binding obligation of the Authority and that entering into the transaction complies with applicable State and federal laws.

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C. Methods of Procuring Swaps. The Board will not have a fixed guideline with respect to swap procurement. Rather, the Board will assess the benefits of competitively bidding financial products versus negotiating such products considering, among other things, the following factors:

1. the then-existing market for the type of swap agreement expected to be entered into,
2. the availability of counterparties for the type of swap agreement expected to be entered into,
3. the size of the swap agreement,
4. the costs and expenses associated with a negotiated versus a competitive undertaking, and
5. the proprietary nature of the proposed transaction or application thereof.

In the event the Board determines that the swap agreement will be competitively bid, the Board reserves the right to limit (a) the number of qualified counterparties that may participate in a single swap agreement bid and (b) notional amount of swap agreements with any counterparty, either for any individual swap or in the aggregate.

D. Swap Advisor. The Board will consider retaining the services of an independent, knowledgeable individual or firm other than, and additional to, the Authority's current financial advisor, to serve as a swap advisor to the Authority regarding the use, procurement, management and termination of interest rate swaps. Furthermore, the Board may consider retaining the services of an independent firm to provide hedge accounting valuation, and/or reporting services, including assistance with the Governmental Accounting Standards Board ("GASB") derivative instruments financial reporting.

E. Swap Counterparty. The Authority shall enter into swaps with swap counterparties only if, at the time the transaction is entered into:

1. The long-term debt obligations of the counterparty are rated within one of the two highest rating categories (currently "AAA" or "AA") by two or more nationally recognized securities rating agencies which regularly rate such obligations. The nationally recognized rating agencies at the present time are Moody's Investors Service, Standard & Poor's Corporation and Fitch, Inc.; or
2. The obligations under the agreement of the counterparty are either:
 - a) Guaranteed by a party whose long-term debt obligations are rated in one of the two highest rating categories (currently "AAA" or "AA") by two or more nationally recognized securities rating agencies which regularly rate such obligations. The nationally recognized rating agencies at the present time are Moody's Investors Service, Standard & Poor's Corporation and Fitch, Inc.; or

- b) Collateralized by obligations, deposited with the Authority or an agent of the Authority, which are legal investments for the Authority and which maintain a market value of not less than one hundred percent of the principal amount upon which the exchange of interest rates is based.

F. Total Limit on Notional Amount of Swaps. The Board will take actions to limit the total notional amount of outstanding interest rate swaps based on criteria set forth in this Plan regarding the proper management of risks, calculation of termination exposure, and development of a contingency plan. The total “net notional amount” of all swaps related to a bond issue should not exceed the outstanding par amount of the related bonds. For purposes of calculating the net notional amount, credit shall be given to any fixed versus variable or variable versus fixed rate swaps that offset for a specific bond transaction, and for multiple swaps that have the net effect of a single transaction (including but not limited to swaps for the same bonds covering different periods of time or exchanging one variable rate for another). For the avoidance of doubt, the sole intent of this provision is to prevent the execution of swaps that cannot be assigned to a corresponding debt instrument or that extend beyond the final maturity of the related bonds; that is, to prevent an “overhedged” or speculative position.

IV. Swap Documentation

Each swap agreement shall contain terms and conditions as set forth in the ISDA Master Agreement and such other terms and conditions including schedules and confirmations as deemed necessary by the Board, subject to the following guidelines:

- A. Security and Sources of Payment. Regularly scheduled payments due under the agreement generally shall be payable from the same revenue sources as the obligations to which the swap relates, and may be subordinate to or on parity with such obligations. Termination payments due from the Authority to the counterparty shall be subordinate to the payment of debt service on outstanding and future senior bonds.
- B. Swap Integration. The Board should consider whether it would be beneficial to take the steps necessary to integrate a swap agreement with the corresponding debt for tax purposes, such that a termination payment, if any, may be financed with tax-exempt bond proceeds. For fixed payer (variable receiver) interest rate swaps, integration may result in a termination payment received by the Authority having to be applied to reduce the size of any related refunding issue, but may also result in a higher arbitrage yield and allow the Authority to reinvest tax-exempt proceeds at a higher yield.
- C. Authority’s Credit Rating Downgrade Provisions. Downgrade provisions triggering termination shall not be more onerous than those affecting the counterparty, nor more onerous than any such provisions in related debt instruments or credit agreements.
- D. Calculation of Termination Amount. The “market quotation” and the “second method” methodologies referenced in the 1992 ISDA Master Agreement should be

used to set the termination value and payment method, unless the Board deems an alternative (“loss” and “first method”) methodology more appropriate. If the 2002 ISDA Master Agreement is used, standard closeout provisions will apply.

- E. Payment of Termination Amount. The Board shall consider the merits of including a provision that permits it to optionally terminate a swap agreement at any time over the term of the agreement. The Board should evaluate the economic costs and benefits of incorporating a provision into the swap agreement that will allow the Authority to make termination payments over a reasonable period of time.
- F. Maturity of the Swap. The maturity of the swap shall not extend beyond the final maturity date of related bonds or debt instrument. The Board may also consider structuring a call option that coincides with the credit commitment term for bank facilities, including but not limited to, letters of credit or liquidity facilities and bank direct purchases, if the maturity of the swap extends beyond such commitment
- G. Collateral. If during the swap term, the ratings of the counterparty or its guarantor do not meet or fall below the ratings required by this Plan, the counterparty would be required to post collateral in an amount sufficient to maintain the required rating levels of the transaction or, with the Board’s prior written consent, the counterparty may transfer its obligations under its swap agreement(s) with the Authority to another counterparty which meets the requirements of this Plan. Collateral shall be held by an independent third party.

V. **Evaluation and Management of Swap Transaction Risks**

Because swaps, through a variety of intricacies and structures, may pose significant risks to the Authority if those risks are not addressed, it is therefore the Board’s desire to ensure that all possible attempts to mitigate those risks are made. Consideration of the potential economic benefit of using a swap requires an evaluation by the Board and Authority staff(s), their financial advisor and their swap advisor, of various associated risks and ways of managing such risks. The Board and Authority staff(s) should review at least the following areas of potential risks and shall utilize the following guidelines, and those included in “Appendix A” when appropriate, as mitigants for each risk category in order to manage the related risks:

- A. Counterparty Risk. To limit the counterparty risk and to monitor credit exposure to each counterparty, the Authority may enter into a swap transaction only with qualified counterparties which meet the requirements of Section III.D of this Plan.

If a counterparty’s credit rating is downgraded such that such counterparty does not meet the requirements of Section III.D of this Policy, the counterparty must promptly upon such downgrade, either (i) post collateral or provide other credit enhancement that is satisfactory to the Board and ensures compliance with this Plan, or (ii) with the Authority’s prior written consent, transfer its obligations under its swap agreement(s) with the Authority to another counterparty which meets the requirements of this Plan.

- B. Termination Risk.

1. Involuntary Termination. Termination risk is the risk that the swap could be terminated early by the counterparty due to any of several credit events, which may include the Authority's ratings downgrades, bankruptcy, covenant violation, swap payment default or default in payment of the Authority's obligations. These events give rise to involuntary termination. The Board shall attempt to limit such events of termination in the ISDA Master Agreement to only such events, the occurrence of which is remote.
 2. Voluntary Termination. The counterparty should not have the right to optionally terminate a swap agreement. The Board shall endeavor to obtain a provision that permits the Authority to optionally terminate a swap agreement at any time over the term of the agreement. In general, exercising the right to optionally terminate an agreement should produce a benefit to the Authority, either through receipt of a payment from a termination, or if a termination payment is made by the Authority, a conversion to a more beneficial debt instrument or credit relationship. If no other remedies are available, it is possible that a termination payment by the Authority may be required in the event of termination of a swap agreement due to a counterparty default or following a downgrade in the counterparty's credit rating.
- C. Market Access or Liquidity (Rollover) Risk. The rollover risk arises when the swap agreement is not coterminous with the related bonds, such as when the swap term expires prior to maturity of the related bonds. The Board shall evaluate the risk of mismatch of the maturity of the swap and the maturity of the related bonds, including the risk that the Authority cannot extend the existing swap prior to its expiration or find a new swap in a cost-effective way. The rollover risk can be fully avoided by entering into a swap which term matches the term of the related bonds. The Board shall also consider the loss of flexibility to the Authority when entering into a long-term swap (e.g. giving up some ability to refund the related bonds) and shall consider including an optional termination by the Authority provision in the swap agreement to address the loss of flexibility.
- D. Amortization Mismatch Risk. The principal and notional amortization schedules of the debt and associated swap transaction, respectively, should be closely matched for the duration of the swap. Mismatched amortization schedules can result in a less than satisfactory hedge and create unnecessary risk. In no circumstance may the term of a swap transaction extend beyond the final maturity date of the affected debt instrument, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds.
- E. Interest Rate (Basis) Risk. Basis risk arises as a result of movement in the underlying variable rate indices that may not be in tandem, creating a cost differential that could result in a net cash outflow from the Authority. Basis risk can also result from the use of floating, but different, indices. To mitigate basis risk, any index used as part of an interest rate swap agreement shall be a recognized market index, including but not limited to SIFMA Index or LIBOR.

- F. Tax Risk. Tax risk is the risk that tax laws will change, resulting in a change in the marginal tax rates on swaps and their underlying assets. Tax risk is also present in all variable rate tax-exempt debt issuances. The Board and Authority staff will need to understand and document tax risk for a contemplated swap transaction as part of the approval process.
- G. Collateral Risk. Collateral risk is the risk that in the event of a downgrade to the Authority's credit rating, a breach of a covenant, or other contractual trigger, the Authority may be forced to post collateral if the current market value of the swap at the time is negative. By setting appropriate credit triggers and proactively managing the Authority's credit ratings, the risk of having to post collateral may be minimized.
- H. Loss of Flexibility Risk. Loss of flexibility may result in a detrimental and diminished ability for the Authority to actively manage, refund, modify or terminate the underlying debt, especially if the market value of the swap is negative.
- I. Management Complexity Risk. Management Complexity Risk is inherent in the complex nature of swaps, and internal expertise to manage and analyze these agreements may make the difference between economically beneficial outcomes and potentially large losses for the Authority. It is therefore imperative that the Board and Authority staff(s) maintain competent expertise in the evolving swap market, regularly monitor and update the swap portfolio, and, as needed, leverage the knowledge and expertise of the Authority's independent swap advisor.

The Authority acknowledges that derivative swaps may present risks to the Authority, and believes that as of the time of their approval of this Interest Rate Management Plan, the risks and appropriate mitigants in Section III.V, as well as "Appendix A" as may be revised and presented to the Authority for approval as appropriate, are sufficient to address the additional risks when the opportunity to enter into a favorable transaction becomes present.

- VI. **Swap Insurance.** If, after a cost/benefit analysis, the Board determines that it would be beneficial to insure the interest rate swap, the Board will pursue swap insurance.
- VII. **Annual Reporting.** The Board's annual financial report presented to the Authority will include a discussion of the status of all interest rate swaps. The report, at a minimum, shall include:
- a. a list of all outstanding swaps, including related bond series, types of swaps, rates received and paid by the Authority, existing notional amounts, and average life and remaining term of each swap agreement;
 - b. the credit rating(s) of each swap counterparty, parent, guarantor and credit enhancer insuring the swap payments, if any;
 - c. the periodic mark-to-market value of each swap agreement;

- d. actual collateral posting by each swap counterparty or the Authority, if any, for each swap agreement and in total by each swap counterparty; and
- e. information concerning any material event involving outstanding swap agreements, including a default by a swap counterparty, counterparty downgrade or termination.

VIII. Disclosure and Financial Reporting. The Board will take steps to ensure that there is full and complete disclosure of all interest rate swaps to the Authority, the rating agencies and in disclosure documents. With respect to its financial statements, the Authority will adhere to the guidelines for the financial reporting of interest rate swaps as set forth by the Government Accounting Standards Board.

IX. Amendments to the Plan. The Board, together with the Authority's bond counsel and swap and financial advisors, shall review the Plan annually and shall recommend to the Authority appropriate changes and updates as needed.

X. Definitions

Board – The Board of Commissioners of the Authority.

Counterparty – a participant in a swap or other derivatives agreement who exchanges payments based on interest rates or other criteria with another counterparty.

Hedge – a transaction entered into to reduce exposure to market fluctuations.

Interest Rate Swap – a transaction in which two parties agree to exchange future net cash flows based on predetermined interest rate indices calculated on an agreed notional amount. The swap is not a debt instrument and there is no exchange of principal.

ISDA Master Agreement – the International Swaps and Derivatives Association, Inc, is the global trade association for the derivatives industry. The 1992 ISDA Master Agreement is the basic governing document that serves as a framework for all interest rate swap, swap enhancement, and derivative transactions between two counterparties. It is a standard form used throughout the industry. It is typically negotiated once, prior to the first transaction with counterparty, and remains in force for all subsequent transactions.

London Interbank Offered Rate (LIBOR) – the rate of interest at which banks borrow funds from other banks in the London interbank market. It is a commonly used benchmark for interest rate transactions.

Mark-to-Market – calculation of the value of a financial instrument (like an interest rate swap) based on the current market rates or prices of the underlying indices.

Notional Amount – the size of the interest rate swap and the dollar amount used to calculate interest payments.

SIFMA Index – index produced by Municipal Market Data and published by the Securities Industry and Financial Market Association, the principal benchmark for the floating rate payments for tax-exempt issuers. The index is a national rate based on a market basket of high-grade, seven-day, tax-exempt variable rate bond issues.

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Appendix A

Summary of Interest Rate Swap Risks and Mitigants

Risk Type	Risk Mitigants
<p><u>Counterparty Risk</u></p> <p>The risk that the counterparty fails to perform, or its credit quality erodes to the point where there is uncertainty about its ability to perform, leaving the issuer's position unhedged.</p>	<ul style="list-style-type: none"> • Using only highly rated counterparties • Diversifying counterparties • Including termination provisions in swap agreement
<p><u>Termination Risk</u></p> <p>The risk that the Authority will have to make a payment based upon the market value of the swap as a result of the termination of the swap at a time when the market value of the swap is negative.</p>	<ul style="list-style-type: none"> • Setting appropriate credit triggers • Utilizing highly rated counterparties • Defining methodology for calculating termination value with a bias towards the Authority
<p><u>Market Access or Liquidity (Rollover) Risk</u></p> <p>The risk that the Authority will be unable to access additional hedging derivatives in the event of an early or scheduled termination of the original swap.</p>	<ul style="list-style-type: none"> • Matching issued debt and swap amortization schedules as closely as possible
<p><u>Amortization Mismatch Risk</u></p> <p>The risk that the notional amount of the swap, and the outstanding principal amount of the hedged debt will become unequal, whether as an intentional structuring, as a result of redemptions (calls) of bonds or as a result of swap termination prior to bond maturity.</p>	<ul style="list-style-type: none"> • Matching issued debt and swap amortization schedules as closely as possible • Sizing swap based on cash flow analysis • Reinvesting excess prepayments • Structuring swaps with optional cancellation rights

<p><u>Interest Rate (Basis) Risk</u></p> <p>The risk that the rate paid by the counterparty and the rate owed to bondholders will not have perfectly correlated ratios, with fluctuations resulting in the potential for excess gains or losses.</p>	<ul style="list-style-type: none"> • Receiving either, the actual rate on bonds; on an index that closely tracks the actual bond payment; or at a rate index that is anticipated to strongly correlate to the rate paid to the bondholders • Using earlier optional termination provisions in the swap agreement • Employing statistical analysis to quantify the risk/reward profile of the basis risk • Purchasing swap insurance
<p><u>Tax Risk</u></p> <p>The risk that changes in the U.S. tax code will cause a higher interest expense to the Authority as a result of reduced tax rates or modifications or eliminations of tax exemption to municipal debt.</p>	<ul style="list-style-type: none"> • Managing exposure by establishing appropriate pricing parameters • Structuring swaps with optional cancellation rights
<p><u>Collateral Risk</u></p> <p>The risk that the Authority will have to post collateral as a result of a rating downgrade (or other triggering event) at a time when the market value of the swap is negative.</p>	<ul style="list-style-type: none"> • Setting appropriate credit triggers and monitoring for those • Managing the Authority's credit profile to prevent downgrades
<p><u>Loss of Flexibility Risk</u></p> <p>The risk that the Authority will face limited liability management options as a result of the inability to modify or terminate the swap, particularly when the market value of the swap is negative.</p>	<ul style="list-style-type: none"> • Selecting issued debt to swap • Not relying on swap cash flows for revenue
<p><u>Management Complexity Risk</u></p> <p>The risk that swaps will require an ongoing commitment of intellectual and additional resources for adequate risk management.</p>	<ul style="list-style-type: none"> • Maintaining competency on swap issues, market conditions and new innovations through ongoing training and research • Utilizing outside consultants as may become necessary from time to time