Interest Rate Swap Information
Presented to
Colorado Springs Urban Renewal Authority
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Transaction Overview

- Goals of the North Nevada refunding including curing the current default and reestablishing a plan for payment of outstanding obligations before the TIF expires
- The proposed refunding consists of several elements:
  - Approximately $56 million Series 2016A variable rate senior bonds to be purchased by US Bank
  - A $56 million interest rate swap with US Bank fixing the rate on the bonds (estimated at 3.3%) through 2030
  - Approximately $4 million Series 2016B fixed rate subordinate bonds
  - A restructured UCCS note with projected payments starting in 2029

Item 1
The U.S. Commodity Futures Trading Commission requires swap dealers to document that their swap counterparty (CSURA) has a Representative that:

- (i) Has sufficient knowledge to evaluate the transaction and risks;
- (ii) Is not subject to a statutory disqualification;
- (iii) Is independent of the swap dealer;
- (iv) Undertakes a duty to act in the best interests of the Authority;
- (v) Makes appropriate and timely disclosures to the Authority;
- (vi) Evaluates, consistent with any guidelines provided by the Authority, fair pricing and the appropriateness of the swap; and
- (vii) Is subject to restrictions on certain political contributions imposed by the Commission, the Securities and Exchange Commission, or a self-regulatory organization subject to the jurisdiction of the Commission or the Securities and Exchange Commission; provided however, that this paragraph (b)(1)(vii) of this section shall not apply if the representative is an employee of the Authority.

How Swaps Work

<table>
<thead>
<tr>
<th>Urban Renewal Authority</th>
<th>Swap Counterparty (US Bank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Fixed Rate of 1.15%</td>
<td></td>
</tr>
<tr>
<td>Receive Variable Rate of 70% of 1 Month LIBOR</td>
<td></td>
</tr>
<tr>
<td>Pay Variable Rate 70% of 1 Month LIBOR Plus a 0.95% Credit Charge</td>
<td></td>
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</tbody>
</table>

Series 2016 Variable Rate Bondholder (US Bank)
Colorado Issuers/Borrowers with Current or Past Swaps

- Denver International Airport
- Colorado Housing and Finance Authority
- Denver Urban Renewal Authority
- City and County of Denver
- Colorado School of Mines
- Colorado College
- E-470 Authority

Interest Rate Swap Risks and Mitigants

Counterparty Risk – The risk that the counterparty (bank or financial institution) is unable to meet its contractual obligation due to changes in financial or credit position.

RISK MITIGANTS

- Use only highly rated counterparties ("A" rated or better)
- Limit exposure to any single counterparty or structure
- Consider collateral posting requirements based on credit rating downgrade triggers (bilateral collateral posting not an option for North Nevada)
**Interest Rate Swap Risks and Mitigants**

**Tax Risk** – The risk that a tax code change will eliminate or modify the tax exemption of municipal debt.

**RISK MITIGANTS**

- Consider creation of a tax risk reserve
- Establish a sufficiently high percentage of a taxable variable rate index
- Evaluate the cost/benefit of using a tax-exempt variable rate index
- Monitor congressional proposals and legislation to modify municipal tax-exemption

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**Impact of Variable Rate Market Moves**

<table>
<thead>
<tr>
<th>Example 1: LIBOR at 0.15%</th>
<th>Example 2: LIBOR at 3.95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Fixed Rate</td>
<td>Pay Fixed Rate</td>
</tr>
<tr>
<td>1.35%</td>
<td>1.35%</td>
</tr>
<tr>
<td>Receive Variable</td>
<td>Receive Variable</td>
</tr>
<tr>
<td>-0.11%</td>
<td>-2.77%</td>
</tr>
<tr>
<td>Pay Variable</td>
<td>Pay Variable</td>
</tr>
<tr>
<td>0.19%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Credit Charge</td>
<td>Credit Charge</td>
</tr>
<tr>
<td>1.95%</td>
<td>1.95%</td>
</tr>
<tr>
<td>Effective Rate</td>
<td>Effective Rate</td>
</tr>
<tr>
<td>3.34%</td>
<td>5.63%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Example 3: LIBOR at 10.3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Fixed Rate</td>
</tr>
<tr>
<td>1.35%</td>
</tr>
<tr>
<td>Receive Variable</td>
</tr>
<tr>
<td>7.21%</td>
</tr>
<tr>
<td>Pay Variable</td>
</tr>
<tr>
<td>10.3%</td>
</tr>
<tr>
<td>Credit Charge</td>
</tr>
<tr>
<td>1.95%</td>
</tr>
<tr>
<td>Effective Rate</td>
</tr>
<tr>
<td>6.39%</td>
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</table>
**Interest Rate Swap Risks and Mitigants**

**Market Access (Rollover) Risk** – The risk that the University Village Project will not be able to reissue variable rate debt when the US Bank loan comes due in 2026.

**RISK MITIGANTS**
- Comply with all financial and reporting covenants in 2016 bond documents
- Regularly monitor the bond and swap markets for an opportunity to (i) extend the maturity of bond financing and/or (ii) unwind swap and fix out the Series 2016A Bonds to 2030
- Structure a swap redemption feature to match the final maturity of the bond financing

**Interest Rate Swap Risks and Mitigants**

**Other Swap Risks**
- Amortization Mismatch Risk: risk that the bond and swap principal amounts don’t match
- Basis Risk: risk that the interest rate received on the swap and paid on the bond issue don’t match
- Flexibility Risk (N/A due to 10-year swap call)
- Management Complexity Risk – synthetic fixed rate debt must be more actively managed than traditional fixed rate debt
- Termination Risk – risk either counterparty causes or suffers a Termination Event
- Mark-to-Market – market value of the swap will be reflected on CSURA balance sheet

**RISK MITIGANTS**
- Size swap to match maximum annual bond principal payments (potentially leaving unhedged variable rate debt versus excess swapped “notional” (principal))
- Structure variable rate swap leg to match variable rate index on the bonds
- Structure swap with a redemption feature in 2026 at stated bond maturity
- Follow guidelines for implementation and ongoing monitoring set forth in Authority’s Interest Rate Management Plan