North Slope

Interest Rate Swap Information
Presented to

Colorado Springs Urban Renewal Authority

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Transaction Overview

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- 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

Regulatory Requirements

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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

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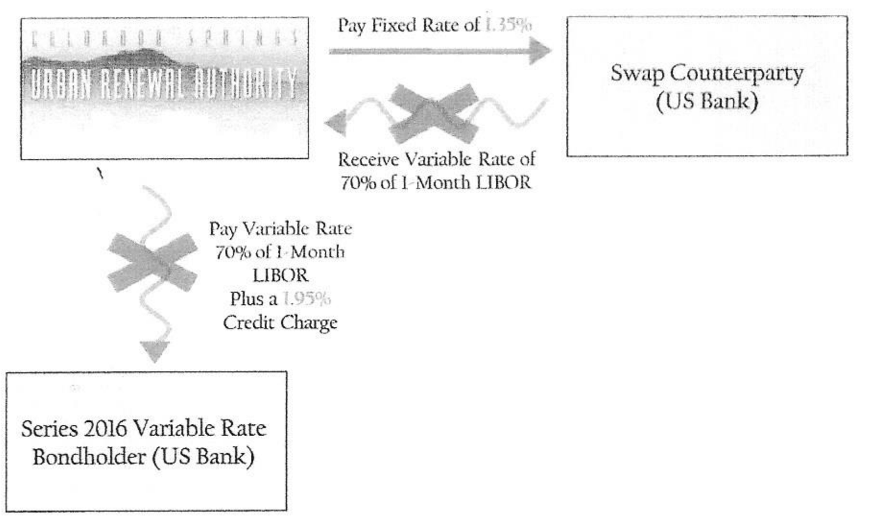
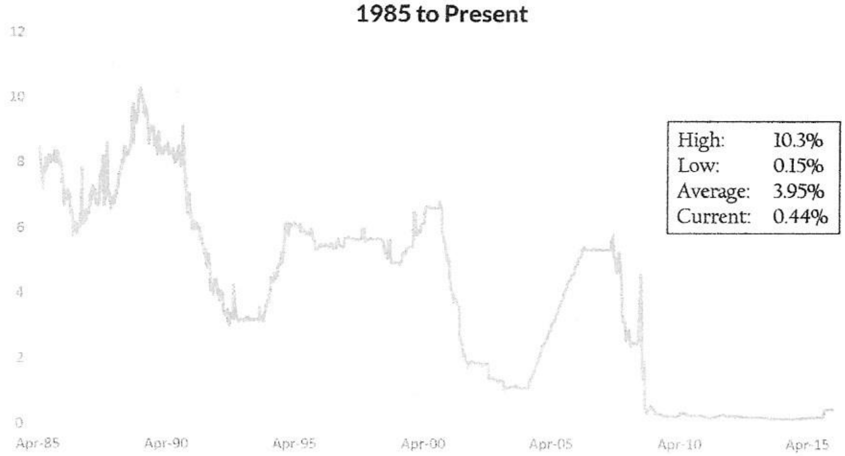


Variable Rate History – 1-Month LIBOR

1-Month LIBOR (London Interbank Offering Rate)
1985 to Present



Impact of Variable Rate Market Moves Under Current Tax Code

Example 1: LIBOR at 0.15%

Pay Fixed Rate	1.35%
Receive Variable	<0.11%>
Pay Variable	0.11%
Credit Charge	1.95%
Effective Rate	3.30%

Example 2: LIBOR at 3.95%

Pay Fixed Rate	1.35%
Receive Variable	<2.77%>
Pay Variable	2.77%
Credit Charge	1.95%
Effective Rate	3.30%

Example 3: LIBOR at 10.3%

Pay Fixed Rate	1.35%
Receive Variable	<7.21%>
Pay Variable	7.21%
Credit Charge	1.95%
Effective Rate	3.30%

Colorado Issuers/Borrowers with Current or Past Swaps

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- 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

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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

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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

Impact of Variable Rate Market Moves -

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Example 1: LIBOR at 0.15%

Pay Fixed Rate	1.35%
Receive Variable	<0.11%>
Pay Variable	0.15%
Credit Charge	1.95%
Effective Rate	3.34%

Example 2: LIBOR at 3.95%

Pay Fixed Rate	1.35%
Receive Variable	<2.77%>
Pay Variable	3.95%
Credit Charge	1.95%
Effective Rate	5.63%

Example 3: LIBOR at 10.3%

Pay Fixed Rate	1.35%
Receive Variable	<7.21%>
Pay Variable	10.3%
Credit Charge	1.95%
Effective Rate	6.39%

Interest Rate Swap Risks and Mitigants

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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

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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