SUMMARY STATEMENT

ITEM NO.: DRPA-14-116  SUBJECT:  Authorization to Terminate and Replace Existing UBS Swaps with New Swap Counterparty(ies), Adoption of Written Swap Policy and Execution of Swap Protocols

COMMITTEE: Finance

COMMITTEE MEETING DATE: September 12, 2014

BOARD ACTION DATE: September 18, 2014

PROPOSAL: That the Board authorizes Authority's staff to terminate two (2) interest rate swap agreements entered into by the Authority with UBS AG in order to provide an interest rate hedge for the Authority's variable rate 2008 Revenue Bonds and 2010 Revenue Bonds (Series A, B and C) and to replace such swaps with a new swap counterparty in order reduce interest rate swap exposure and to provide more favorable contract terms for the Authority. In connection with such termination and replacement, and as part of the use, termination and/or modification of any and all interest rate swap agreements of the Authority that the Board adopts formal written policies and executes certain protocols with respect to such interest rate swap agreements in order to comply with the applicable provisions of the Dodd-Frank Act.

PURPOSE: To terminate two (2) existing interest rate swap agreements with UBS AG and to replace such interest rate swap agreements with a new swap counterparty in order to reduce Authority swap exposure and to provide more favorable terms to the Authority and to adopt formal written policies and execute certain swap protocols related to the use, termination and/or modification of any and all interest rate swaps agreements of the Authority in order to comply with the applicable provisions of the Dodd-Frank Act.

BACKGROUND: During 2000 and 2001, the Authority entered into seven interest rate swap agreements to provide hedges against interest rate risk for certain of the Authority's variable rate Revenue and Port District Project Bonds. Of the seven interest rate swap agreements, three have subsequently been terminated by the Authority, leaving four remaining interest rate swap agreements outstanding; two with UBS AG as counterparty (collectively, the "UBS Swaps") and two with Bank of America, N.A. as counterparty (collectively, the "BofA Swaps"); together with the UBS Swaps, the "Outstanding Swaps"). As of the date of this resolution, each of the four remaining Outstanding Swaps has a negative value to the Authority, meaning that if such agreements were terminated as of this date, the
Authority would have to pay certain amounts to the respective counterparties of such agreements. However, as of the date of this resolution, only the UBS Swaps require the monthly transfer of net swap payments between the Authority and UBS AG ("UBS"), which related to the Authority's outstanding Revenue Bonds, Series 2008, Revenue Bonds, Series 2010A, Revenue Bonds, Series 2010B and Revenue Bonds, Series 2010C.

On December 28, 2009, the Board approved Resolution DRPA-09-099 (entitled "Use Debt-Related Swap Agreements") which, among other things, declared that the staff of the Authority take all steps necessary to immediately begin the process of recommending to the Board whether, when and how to terminate the Authority's current interest rate swap agreements, with all such terminations, if determined to be advisable, to occur in a methodical and careful manner which avoids, to the fullest extent possible, additional costs or risks that may be associated with termination.

With such direction, the Authority's Finance Committee, together with staff and appropriate professional advisors, has carefully reviewed the terms and provisions of the Outstanding Swaps and has determined that certain terms and provisions of the UBS Swaps pose unnecessary financial risk to the Authority based upon, among other things, unfavorable termination rights thereunder and the diminished credit quality of both the counterparty (UBS) and the insurer of such swaps (Ambac Assurance Corp.).

As a result of such determination, the Finance Committee has recommended to the Board that the UBS Swaps be terminated and replaced with one or more new interest rate swap agreements containing more favorable terms to the Authority to be executed with a counterparty with a specific minimum credit quality.

In particular, the Finance Committee has recommended to the Board that the UBS Swaps be replaced with a new interest rate swap agreement in lieu of outright termination thereof based upon the fact that the UBS Swaps may not be terminated by the Authority without a significant termination payment being made by the Authority to UBS, which would not serve the purpose or intent of the Authority's specific policy directive provided by Resolution DRPA-09-099 related to avoidance of costs or expense to the Authority for termination of existing swaps.
Based upon a review of the interest rate swap market, the Finance Committee has advised that the possibility now exists for the Authority to terminate and replace the UBS Swaps with an interest rate swap agreement written by a new counterparty who shall agree to, among other things: (i) provide payment in an amount equaling or exceeding the termination payment due and owing by the Authority to UBS upon termination of the UBS Swaps; (ii) pay any and all expenses incurred by the Authority (including the fees of financial advisors, co-bond counsel, qualified independent swap representatives and other professional advisors and counsel) in connection with the termination and replacement of the UBS Swaps with new interest rate swap agreements; and (iii) enter into replacement interest rate swap agreements with terms and provisions more favorable to those now provided in the UBS Swaps.

The Board is now desirous of authorizing appropriate staff to effectuate the termination of the UBS Swaps and the procurement of a new, higher credit quality interest rate swap counterparty to enter into a replacement interest rate swap agreement with the Authority upon the terms and provisions most favorable to the Authority.

As a result of the recent passage of the Dodd–Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111–203, H.R. 4173) (commonly known as the "Dodd-Frank Act"), the Authority will be precluded from engaging in any discussions with swap and derivative dealers, major swap and derivative participants, and commercial entities who enter into swap and derivatives agreements unless and until the Authority has adopted written policies related to the use of interest rate swaps, caps, collars, floors and other derivative financial products. As a result, in order to effectuate the completion of the swap termination and replacement of the UBS Swaps described above and to permit the Authority to further the directive of Resolution DRPA-09-099 related to the termination, replacement and/or modification of the other Outstanding Swaps and any other derivative products of the Authority, the Authority is desirous of adopting specific written policies and executing certain protocols related to the use of interest rate swaps and derivative products in accordance with the Dodd-Frank Act.
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<th>SUMMARY:</th>
<th>Amount:</th>
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<td>Source of Funds:</td>
<td>General Fund, if any, to be reimbursed by Replacement Swap Counterparty</td>
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<td>Capital Project #:</td>
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<td>Duration of Contract:</td>
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<td>Other Parties Involved:</td>
<td>UBS AG, Bank of America, N.A. and any Replacement Swap Counterparty</td>
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RESOLUTION

RESOLVED: That the Board authorizes the Chief Executive Officer, with the advice of the Authority's Chief Financial Officer, Financial Advisors and Co-Bond Counsel, to provide to and evaluate requests for qualifications from qualified swap dealers and swap market participants in order to evaluate the merits of the termination and replacement of the Authority's existing interest rate swap agreements executed with UBS AG (collectively, the "UBS Swaps") with a new interest rate swap counterparty.

RESOLVED: That, upon review by DRPA of qualification proposals provided to the DRPA and the determination of the merits of the termination and replacement of the UBS Swaps, the Board authorizes the Chief Executive Officer, either by invitation to bid to qualified providers or by negotiation with one or more qualified providers, with the advice of the Authority's Chief Financial Officer, Financial Advisors and Co-Bond Counsel, in order to execute and deliver a replacement interest rate swap agreement or agreements, together with any related agreements, confirmations, annexes and instruments (collectively, the "Replacement Swap"), with a qualified provider or providers (collectively, the "Replacement Swap Provider") in order to terminate and replace the UBS Swaps; provided, however, that such any Replacement Swap Provider shall, among other things: (i) have a minimum credit rating of at least "AA-" from Standard & Poor's, "Aa-" from Moody's Investors Service or "AA-" from Fitch Ratings; (ii) agree to pay an amount sufficient to induce UBS AG to terminate the UBS Swaps; (iii) agree to pay to or reimburse the DRPA for any and all costs and expenses incurred by the DRPA (including the fees of financial advisors, co-bond counsel, qualified independent swap representatives and other professional advisors and counsel) in connection with the termination and replacement of the UBS Swaps and the execution and delivery of the Replacement Swap; and (iv) agree to enter into one or more Replacement Swaps with DRPA substantially upon the terms and provisions determined by the DRPA and its professional advisors, but in any event upon terms no less favorable than the terms and provisions set forth in the UBS Swaps.
RESOLVED: That, in the event that a Replacement Swap Provider has been identified and obtained in accordance with the procedures set forth in this Resolution, and that, based upon the proposal provided by the Replacement Swap Provider, the termination and replacement of the UBS Swaps has been determined advantageous by the Chief Executive Officer, with the advice of the Authority’s Chief Financial Officer, Financial Advisors and Co-Bond Counsel, the Chief Executive Officer is hereby authorized to execute and deliver any and all agreements, certificates, instruments and documents necessary or required to terminate the UBS Swaps; provided, however, that such termination shall not occur unless and until a written agreement has been entered into between the DRPA and the Replacement Swap Provider evidencing satisfaction of the minimum requirements set forth in this resolution related to: (i) the credit quality of the Replacement Swap Provider; (ii) the payment of any termination owed to UBS AG upon termination of the UBS Swaps by the Replacement Swap Provider; (iii) the payment to or reimbursement of costs and expenses incurred by DRPA in connection with the UBS Swaps termination and execution and delivery of the Replacement Swap; and (iv) the terms and provisions of the Replacement Swap; provided further, however, that the termination of the UBS Swaps shall satisfy the specific swap policy directives provided by Resolution DRPA-09-099. If the Chief Executive Officer is absent or unavailable, and if it is necessary to execute the said document(s) while the Chief Executive Officer is absent or unavailable, then the Chief Financial Officer shall execute such documents on behalf of DRPA.

RESOLVED: That, the Chief Executive Officer, with the advice of the Chief Financial Officer, Financial Advisors and Co-Bond Counsel, is hereby authorized to approve, execute and deliver the documents and instruments necessary to evidence any Replacement Swap provided that such Replacement Swap satisfy the minimum requirements set forth in this Resolution and shall further the specific swap policy directives provided by Resolution DRPA-09-099. If the Chief Executive Officer is absent or unavailable, and if it is necessary to execute the said document(s) while the Chief Executive Officer is absent or unavailable, then the Chief Financial Officer shall execute such documents on behalf of DRPA.

RESOLVED: That, pursuant to and in accordance with the Dodd–Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111–203, H.R. 4173) (commonly known as the "Dodd-Frank Act"), in order for the DRPA to hereafter engage in any discussions and enter into agreements with swap and derivative dealers, major swap and derivative participants, and commercial entities who enter into swap and derivatives agreements, for the purpose of terminating, replacing and/or otherwise modifying any of the DRPA's existing interest rate swaps, caps, collars, floors and other derivative financial products (including, but not limited to, the UBS
Swaps and the Replacement Swap), the Board hereby authorizes and approves the adoption of the written swap policy substantially in the form attached to this Resolution as Exhibit "A ("Swap Policy"), with such changes as shall be .

RESOLVED: That, in addition to the adoption of the Swap Policy, the Board hereby authorizes, approves and directs the Chief Executive Officer, the Chief Financial Officer and other necessary or required DRPA officers and officials to execute and deliver, with the advice of the DRPA's Financial Advisors and Co-Bond Counsel, any other certificates, documents, agreements and instruments necessary or required to comply with any of the protocols set forth in the Dodd-Frank Act as applied to the DRPA, including, but not limited to certain protocols provided by the Dodd-Frank Act.

SUMMARY: Amount: TBD
Source of Funds: General Fund, if any, to be reimbursed by Replacement Swap Counterparty
Capital Project #: N/A
Operating Budget: N/A
Master Plan Status: N/A
Other Fund Sources: N/A
Duration of Contract: N/A
Other Parties Involved: UBS AG, Bank of America, N.A. and any Replacement Swap Counterparty
EXHIBIT "A"

SWAP POLICY