

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

Lancaster, Pennsylvania

OVERVIEW OF SWAP AGREEMENTS

January 26, 2017



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Overview of Interest Rate Swaps

- A swap is an exchange of periodic payments between counterparties.
- No principal or loan proceeds are exchanged, therefore it is not a loan.
- The notional amount is the hypothetical principal amount, which is used as the basis for calculating the periodic payments. The notional amount may amortize (reduce) over time.
- The contractual agreement between the counterparties is known as the swap agreement. The swap agreement details the economic terms agreed upon by the counterparties (rates exchanged, maturity, notional amount, etc.) as well as noneconomic terms specifying the legal and credit relationship between the counterparties.
- The counterparties typically consist of a tax-exempt/taxable entity (issuer) and a major broker-dealer/bank.
- In general, the issuer has the right at any time prior to maturity to terminate the swap agreement at the market value, which would produce a gain or loss. The amount of any gain or loss payable upon termination is a function of current market interest rates at the time of termination and the remaining payment terms of the swap.
- Applications of interest rate swaps: i.) hedge an asset or liability, ii.) modify an existing cash flow, iii.) decrease borrowing cost, iv.) increase investment yield, and v.) access markets not otherwise available.
- Widely used by corporations and governments, the global market of over-the-counter interest rate derivatives (swaps) as of June 2016 was \$544 trillion.

Overview of the LCCCA Swaps

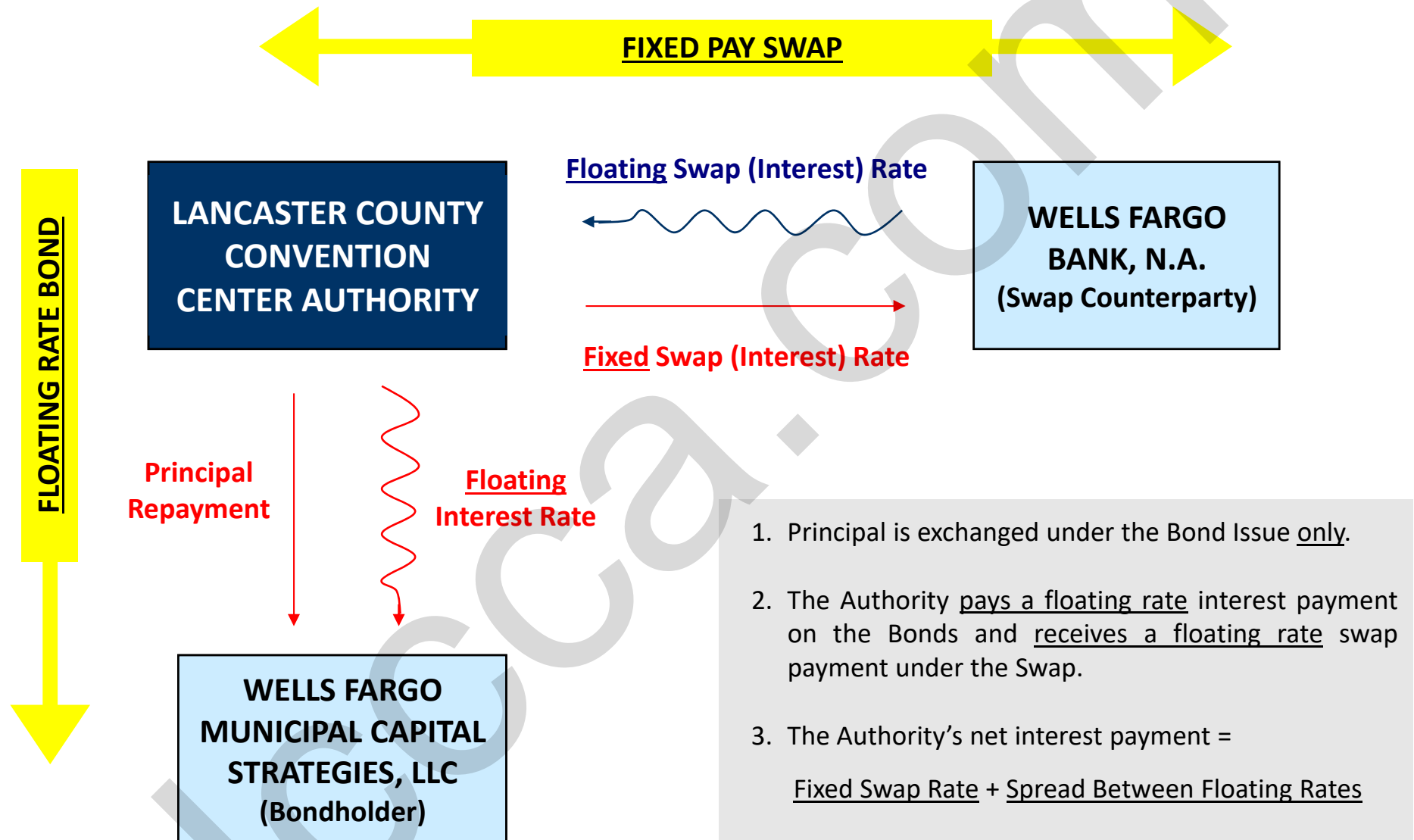
SWAP 1

- Original Trade Date: March 28, 2007
- Original Notional: \$40,000,000
- Current Notional: \$38,890,000
- Swap Counterparty: Wells Fargo Bank, N.A.
- Final Maturity: December 1, 2042
- LCCCA Pays: **3.662%**
(Fixed Rate)
Paid Monthly
- Wells Fargo Pays: 67% of 1-Mo. LIBOR
(Floating Rate)
Paid Monthly
Reset Weekly
- Related Debt Issue: Series of 2014 Bonds
- Termination Option:
 - LCCCA: Anytime, at MTM
 - Wells Fargo: On 12/1/33, at MTM

SWAP 2

- Original Trade Date: March 28, 2007
- Original Notional: \$23,920,000
- Current Notional: \$23,920,000
- Swap Counterparty: Wells Fargo Bank, N.A.
- Final Maturity: December 1, 2047
- LCCCA Pays: **3.570%**
(Fixed Rate)
Paid Monthly
- Wells Fargo Pays: 67% of 1-Mo. LIBOR
(Floating Rate)
Paid Monthly
Reset Weekly
- Related Debt Issue: Series of 2014 Bonds
- Termination Option:
 - LCCCA: Anytime, at MTM
 - Wells Fargo: On 4/1/30, at MTM

Swap Mechanics - Fixed Pay Swap



Key Risks Associated with Fixed Pay Swaps

- **Counterparty Risk** - the risk of default under the swap by the counterparty which results in an economic loss to the Authority.
- **Termination Risk** - the risk that the Authority would have to terminate the swap when the value of the swap is negative to the Authority and a payment would be owed to the counterparty to terminate.
- **Basis Risk** - the risk that there is a mismatch between a floating rate paid by the Authority and a floating rate received by the Authority.
- **Tax Risk** - the risk of a reduction in or elimination of the benefit of the tax-exemption of municipal bonds which results in an economic loss to the Authority.
- **Interest Rate Risk** - the risk that an adverse move in floating rates increases the overall cost of borrowing. Exists if the net debt position of the issuer includes any exposure to floating rates.
- **Market Access Risk** - the risk that the Authority is unable to maintain access to the debt markets in the future as may have been assumed when executing a swap.
- **Liquidity / Remarketing Risk** - the risk that the Authority cannot secure a cost-effective renewal of a loan, letter or line-of-credit or liquidity facility, or suffers a failed auction or remarketing with respect to a floating rate bond issue associated with an underlying a swap.

Overview of the 2014 Bonds

\$62,595,000

HOTEL ROOM RENTAL TAX REVENUE BONDS, SERIES OF 2014

- Issuance Date: August 1, 2014
- Purpose: Current Refundings of Hotel Room Rental Tax Revenue Bonds, Series of 2003 and Series of 2007
- Security: Hotel Tax Revenues
Guaranteed by Lancaster County, Pennsylvania
- Final Maturity Date: December 1, 2047
- Initial Principal: \$62,595,000
- Current Principal Outstanding: \$61,815,000
- Initial Period: 5 Years (through August 1, 2019)
- Initial Period Interest Rate: 70% of 1-Month LIBOR plus Applicable Spread (currently 0.75%)
(Floating Rate)
Paid Monthly

Net Interest Rate

SWAP 1

Net Interest Rate:

1. Fixed Swap Rate: 3.662%

Plus:

2. Floating Bond Rate: 70% of 1-Month LIBOR
plus 0.75%

Less:

3. Floating Swap Rate: 67% of 1-Month LIBOR

Net Interest Rate:

4.412% plus 3% of 1-Month LIBOR

** Over the past 20 years, 3% of 1-Month LIBOR has averaged 0.075%.*

SWAP 2

Net Interest Rate:

1. Fixed Swap Rate: 3.570%

Plus:

2. Floating Bond Rate: 70% of 1-Month LIBOR
plus 0.75%

Less:

3. Floating Swap Rate: 67% of 1-Month LIBOR

Net Interest Rate:

4.320% plus 3% of 1-Month LIBOR

** Over the past 20 years, 3% of 1-Month LIBOR has averaged 0.075%.*

Bond Principal & Swap Notional Amortization Schedules

Period Ending	2014 Bonds		Swap 1		Swap 2		Combined Notional Outstanding
	Principal Outstanding	Principal Amortization	Notional Outstanding	Notional Amortization	Notional Outstanding	Notional Amortization	
12/1/2017	61,815,000	460,000	38,890,000	460,000	23,920,000		62,810,000
12/1/2018	61,355,000	510,000	38,430,000	510,000	23,920,000		62,350,000
12/1/2019	60,845,000	570,000	37,920,000	570,000	23,920,000		61,840,000
12/1/2020	60,275,000	630,000	37,350,000	630,000	23,920,000		61,270,000
12/1/2021	59,645,000	655,000	36,720,000	690,000	23,920,000		60,640,000
12/1/2022	58,990,000	670,000	36,030,000	755,000	23,920,000		59,950,000
12/1/2023	58,320,000	670,000	35,275,000	830,000	23,920,000		59,195,000
12/1/2024	57,650,000	670,000	34,445,000	900,000	23,920,000		58,365,000
12/1/2025	56,980,000	670,000	33,545,000	980,000	23,920,000		57,465,000
12/1/2026	56,310,000	890,000	32,565,000	1,065,000	23,920,000		56,485,000
12/1/2027	55,420,000	1,150,000	31,500,000	1,150,000	23,920,000		55,420,000
12/1/2028	54,270,000	1,245,000	30,350,000	1,245,000	23,920,000		54,270,000
12/1/2029	53,025,000	1,340,000	29,105,000	1,340,000	23,920,000		53,025,000
12/1/2030	51,685,000	1,445,000	27,765,000	1,445,000	23,920,000		51,685,000
12/1/2031	50,240,000	1,555,000	26,320,000	1,555,000	23,920,000		50,240,000
12/1/2032	48,685,000	1,670,000	24,765,000	1,670,000	23,920,000		48,685,000
12/1/2033	47,015,000	1,790,000	23,095,000	1,790,000	23,920,000		47,015,000
12/1/2034	45,225,000	1,920,000	21,305,000	1,920,000	23,920,000		45,225,000
12/1/2035	43,305,000	2,055,000	19,385,000	2,055,000	23,920,000		43,305,000
12/1/2036	41,250,000	2,200,000	17,330,000	2,200,000	23,920,000		41,250,000
12/1/2037	39,050,000	2,350,000	15,130,000	2,350,000	23,920,000		39,050,000
12/1/2038	36,700,000	2,510,000	12,780,000	2,510,000	23,920,000		36,700,000
12/1/2039	34,190,000	2,645,000	10,270,000	2,645,000	23,920,000		34,190,000
12/1/2040	31,545,000	2,810,000	7,625,000	2,810,000	23,920,000		31,545,000
12/1/2041	28,735,000	2,685,000	4,815,000	2,315,000	23,920,000	370,000	28,735,000
12/1/2042	26,050,000	5,930,000	2,500,000	2,500,000	23,550,000	3,430,000	26,050,000
12/1/2043	20,120,000	3,275,000			20,120,000	3,275,000	20,120,000
12/1/2044	16,845,000	3,450,000			16,845,000	3,450,000	16,845,000
12/1/2045	13,395,000	3,660,000			13,395,000	3,660,000	13,395,000
12/1/2046	9,735,000	3,660,000			9,735,000	3,660,000	9,735,000
12/1/2047	6,075,000	6,075,000			6,075,000	6,075,000	6,075,000
		61,815,000		38,890,000		23,920,000	

Swap Termination Values

SWAP 1

Current Termination Value: -\$10,699,585

Estimated Termination Value (Today) Assuming:

Current Rates

- 0.50%:	-\$12,730,531
+ 0.50%	-\$8,569,470
+ 1.00%	-\$6,941,297
+ 2.00%	-\$3,831,794
+ 4.00%	+\$1,201,580

SWAP 2

Current Termination Value: -\$9,346,686

Estimated Termination Value (Today) Assuming:

Current Rates

- 0.50%:	-\$11,564,928
+ 0.50%	-\$7,431,854
+ 1.00%	-\$5,769,823
+ 2.00%	-\$3,032,298
+ 4.00%	+\$980,415

QUESTIONS