RESOLUTION NO. 3180
ADOPTING THE CITY OF STAMFORD
SWAP POLICY

WHEREAS, the City of Stamford is authorized to enter into interest rate swap and other transactions to manage interest rate risk ("Swaps") pursuant to Section 7-370b of the General Statutes of Connecticut, Revision of 1958, as amended, and

WHEREAS, the City of Stamford in 2007 exercised its right to utilize an interest rate swap in its financing and wishes to consider use of Swaps in the future, and

WHEREAS, the Office of Administration in consultation with the City's Financial Advisor and Bond Counsel has developed a policy (the "City of Stamford Swap Policy") to guide the City in its use of such agreements, and

WHEREAS, the Board of Representatives is cognizant of their right of approval of any transaction undertaken by the City of Stamford in advance of its exercise of such transaction,

NOW THEREFORE BE IT RESOLVED, BY THE CITY OF STAMFORD BOARD OF REPRESENTATIVES:

THAT the Board of Representatives approves the City of Stamford Swap Policy to better manage interest rate risk associated with bonds; to provide the City with the opportunity to reduce exposure to changes in interest rates on a particular bond issues or in the context of the management of interest rate risk derived from the City's overall bond portfolio; lower the net cost of borrowing with respect to the City's debt; manage variable interest rate exposure consistent with prudent debt practices; manage exposure to changing market conditions in advance of anticipated bond issues (through the use of anticipatory hedging instruments such as an interest rate lock); and to achieve more flexibility in meeting overall financial objectives than that which can be achieved in conventional markets.

This resolution was approved by unanimous voice vote at the regular monthly meeting of the 27th Board of Representatives held on Monday, October 1, 2007.

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CITY OF STAMFORD, CONNECTICUT
SWAP POLICY (dated August 2007)

I. AUTHORITY

The City of Stamford (the "City") is authorized to enter into interest rate swap transactions from time to time in connection with the issuance or carrying of bonds, notes or other obligations ("bonds") to better manage interest rate risk pursuant to Section 7-370b of the General Statutes of Connecticut, Revision of 1958, as amended ("Connecticut General Statutes" or "CGS"). For purposes of this Swap Policy, "interest rate swap transactions" include interest rate swap agreements, interest rate locks, interest rate floors or caps, options, puts, calls, contracts providing for payments based on changes in interest rates or market indices and similar arrangements authorized by the Connecticut General Statutes.

This Swap Policy sets forth the manner of execution of swaps and related agreements, provides for security and payment provisions, and sets forth certain other provisions related to swap agreements between the City and qualified swap counterparties.

II. PURPOSE

The issuance of bonds by the City obligates the City to make interest rate payments and incur other risks that a variety of financial instruments are available to offset, hedge, or reduce. It is the policy of the City to utilize interest rate swap transactions to better manage its interest rate risk associated with bonds. The City may enter into interest rate swap transactions if the transaction can be expected to result in one of, but not limited to, the following:

- Reduce exposure to changes in interest rates on a particular bond issue or in the context of the management of interest rate risk derived from the City's overall bond portfolio.
- Result in a lower net cost of borrowing with respect to the City's debt.
- Manage variable interest rate exposure consistent with prudent debt practices.
- Manage exposure to changing market conditions in advance of anticipated bond issues (through the use of anticipatory hedging instruments such as an interest rate lock).

III. NON SPECULATION

Each interest rate swap transaction will be entered into not for the purpose of speculation, but solely in connection with the financing activities of the City. Reasons for entering into an interest rate swap transaction may include, but are not limited to, (1) reducing the risk of higher interest rates by locking in current interest rates in an historically low rate environment in anticipation of a future refunding or new debt issuance, (2) converting interest on all or a portion of certain of the City's debt from a fixed rate to a floating rate, or from a floating rate to a fixed rate, or from one floating rate to a different floating rate, (3) reducing the cost of borrowing on outstanding debt by optimizing the City's relative amounts of fixed and floating rate obligations, (4) reducing the risk of variations in its variable rate debt service costs, and (5) more closely matching interest rate costs with earnings on invested funds and thereby improving the City's ability to manage its funds and revenues.

IV. Senior Management Oversight

The Director of Administration, pursuant to the authority vested in her or him by the Board of Representatives in Resolution [_____] and by the Board of Finance in Resolution [_____], has approved this Swap Policy relating to the management of interest rate risk. The Director of Administration shall review this Swap Policy periodically (not less than annually) to take into account business and market changes and shall be responsible for insuring the implementation of this Swap Policy and requiring that proposals to undertake derivative transactions include, as applicable:

- The resources required to establish sound and effective risk management systems and to attract and retain professionals with specific expertise in derivative transactions;
- An analysis of the reasonableness of the proposed activities in relation to the organization's overall financial condition and capital levels;
- An analysis of the risks that may arise from the activities;
- The relevant accounting guidelines;
- The relevant tax treatment; and
- An analysis of any legal restrictions including review of authority of authorized individuals.

Any swap transaction is subject to the approval of both the City's Board of Representatives and Board of Finance.

Any amendment to this Policy must be approved by both the City's Board of Representatives and Board of Finance.

Consistent with this Swap Policy, the Director of Administration shall take into account risk management, control and senior management functions to insure that management is sufficiently independent of the performance of trading activities, thereby avoiding a potential incentive for excessive risk-taking, e.g., when salaries are tied too closely to performance or profitability.

The City shall retain professionals with necessary expertise to assist in monitoring the City's risk management position on a periodic basis and to advise the City regarding effective risk management strategies.

V. Risk Management: Exposure Associated with Swaps

Before entering into an interest rate swap transaction, the City shall evaluate all the risks inherent in the transaction. These risks to be evaluated should include amortization risk, basis risk, tax risk, counterparty risk, termination risk, and liquidity risk.

Type of Risk	Description	Evaluation Methodology
Amortization (or Rollover) Risk	The cost to the City of serving debt or honoring swap payments due to a mismatch between bond principal amortization and the swap notional amount amortization.	The City will evaluate the amortization schedule for any debt amortization that is involved in any interest rate swap transaction.
Basis risk	The mismatch between actual variable rate debt service and variable rate indices used to determine Swap payments.	The City will review historical trading differentials between the variable rate bonds and the index.
Tax risk	The risk created by potential tax events that could affect basis risk.	The City will review the tax events in proposed agreements in concert with counsel.
Counterparty risk	The failure of the Counterparty to make required payments.	The City will monitor exposure levels, creditworthiness, ratings thresholds, and collateralization requirements.
Termination risk	Premature termination of a hedge position requiring the City to make an unanticipated termination payment.	The City will compute its termination exposure for all existing and proposed Swaps at market value and under a worst-case scenario.
Liquidity risk	The inability to access or renew a liquidity facility when required.	The City will evaluate the expected availability of liquidity support for swapped and unhedged variable rate debt.

The City shall endeavor to diversify its exposure to counterparties. To that end, before entering into a transaction, it should determine (a) that the counterparty meets the statutory rating requirements pursuant to CGS Section 7-370b and (b) its exposure to the relevant Counterparty or counterparties and determine how the proposed transaction would affect the exposure.

The City should base the maximum exposure on the net value of all outstanding derivative transactions. The City may also elect to take into account the exposure to all related entities to a particular Counterparty. Limits will be established for each Counterparty as well as the relative level of risk associated with each existing and projected interest rate swap transaction.

The guidelines below provide general exposure guidelines with respect to whether the City should enter into an additional transaction with an existing Counterparty. The City may make exceptions to the guidelines at any time to the extent that the execution of an interest rate swap transaction provides benefits to the City. These limits shall only apply as of the time a transaction is entered into, and thus may be exceeded during the term of a swap or swaps with the same Counterparty. A summary table is provided below:

Credit Rating	**Maximum Uncollateralized Exposure**
AAA	5.00% (a)
AA	2.50% (a)
Below AA– or Aa3	None

(a) Percentage of outstanding debt backed by the direct obligation of the City as shown on Exhibit I, Summary of Bonded Debt Outstanding in the Annual Report of Bonded Indebtedness.

The Director of Administration shall determine the appropriate term for an interest rate swap transaction on a case-by-case basis. The slope of the swap curve, the marginal change in swap rates from year to year along the swap curve, and the impact that the term of the interest rate swap transaction has on the overall exposure of the City shall be considered in determining the appropriate term of any transaction.

VI. Long-Term Implications

In evaluating a particular transaction, the City shall review long-term implications associated with entering into an interest rate swap transaction, including costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, opportunities to refund related debt obligations and other similar considerations.

VII. Form of Swap Agreements

Each interest rate swap transaction executed by the City shall contain terms and conditions as set forth in an International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement, including any Schedules to the Master Agreement, Confirmations and Credit Support Annexes, or other comparable agreements widely used by recognized derivatives dealers. The agreements between the City and each qualified swap Counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions and provisions as the Director of Administration deems necessary or desirable.

The City may use law firms and financial advisory firm(s) with recognized experience in interest rate swap transactions to assist in preparation of such documents.

VIII. Qualified Swap Counterparties

The City shall be authorized to enter into interest rate swap transactions with qualified swap counterparties rated at least "Aa2" or "AA" or equivalent by any two of the nationally recognized rating agencies (e.g., Moody's Investor Service ("Moody's"), Standard and Poor's Ratings Services, A Division of the McGraw-Hill Companies, Inc. ("S&P")); or a "AAA" subsidiary as rated by at least one nationally recognized credit rating agency. In addition, the Counterparty must be a recognized derivatives dealer and have minimum capitalization of at least $150 million.

The City shall be authorized to enter into interest rate swap transactions with qualified swap counterparties rated below "Aa2" or "AA" (but not lower than "A"); provided such swap counterparty shall:

1. provide (i) contingent credit support or enhancement in the form of a guarantee by a guarantor rated at least "Aa2" or "AA" or equivalent by any two of the nationally recognized rating agencies; (ii) a letter of credit issued by a bank (A) rated at least "Aa2" or "AA" or equivalent by any two of the nationally recognized rating agencies, and (B) having at least $10 billion in assets; or (iii) provide collateral consistent with the policies contained herein; and

2. be a "qualified public depository" as defined under Connecticut General Statutes.

IX. Termination Events and Events of Default

Optional Termination by the City.

The City shall, to the extent possible, include in all interest rate swap transactions the right of the City to optionally terminate a swap agreement at any time over the term of the agreement. The Director of Administration shall determine if it is financially advantageous for the City to terminate a swap agreement.

An optional termination event is deemed to occur should the Counterparty (or its credit support provider) fail to maintain either:

1. A credit rating of at least A3 from Moody's;

2. A credit rating of at least A- from S&P; or

3. An equivalent rating determined by a nationally recognized ratings service acceptable to both parties; and

4. The Counterparty has not delivered collateral as required under the Credit Support Annex with the City.

Other Termination Events Affecting Either Party.

Other termination events (allowing termination of the swap agreement at the option of the party not affected by the event) shall include, but are not limited to the following:

1. Illegality due to a change in law;
2. Credit Event Upon Merger (credit downgrade or similar result from a party's merger);
3. Tax Event (adverse tax consequences due to a change in law); and
4. Ratings Downgrade. Should the City or Counterparty (or its credit support providers) have one or more outstanding issues rated as unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody's, or (ii) BBB- or higher as determined by S&P, or (iii) an equivalent investment grade rating determined by a nationally-recognized rating service acceptable to both parties.

Events of Default.

Events of Default of a Party allowing the non-defaulting party to terminate the swap agreement shall include, but are not limited to the following:

1. Failure to pay or deliver;
2. Breach of agreement;
3. Credit support default;
4. Misrepresentation;
5. Failure to comply with required collateral provisions;
6. Failure to comply with any other provisions of the agreement after a specified notice period; and
7. Merger without Assumption.

Payments on Termination.

A termination payment to or from the City may be required in the event of termination of a swap agreement due to a termination event or an event of default. For payments on early termination, Market Quotation and the Second Method will apply, allowing for two-way mark-to-market breakage (assuming the swaps are documented under the ISDA Master Agreement). The City may pledge its full faith and credit to its payment obligations, including termination payments, pursuant to CGS Section 7-370b.

Notwithstanding the foregoing, it is the intent of the City not to make a termination payment to a Counterparty that has defaulted under the agreement. Prior to making any such termination payment, the Director of Administration shall evaluate whether it is financially advantageous for the City to obtain a replacement Counterparty to avoid making such termination payment, to finance the termination payment through a long-term financing product or not to make the payment.

X. Collateral Requirements

As part of any interest rate swap transaction, the City may require its Counterparty, or itself (if the Director of Administration deems necessary), to post collateral or other credit enhancement to secure any or all swap payment obligations. As appropriate, the Director of Administration may require collateral or other credit enhancement to be posted by each swap Counterparty under the following circumstances:

- Either the City or the Counterparty may be required to post collateral if the credit rating of the City or the Counterparty, or its credit support provider, falls below the "Aa3 or AA-" category. Additional collateral for further decreases in credit ratings of the City or the Counterparty shall be posted in accordance with the provisions contained in the collateral support agreement to each swap agreement between the City and the Counterparty.
- Collateral shall consist of cash, U.S. Treasury securities and U.S. Agency securities.
- Collateral shall be deposited with a third party trustee, or as mutually agreed upon between the City and each Counterparty.
- A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the credit support agreement with each swap Counterparty.
- The market value of the collateral shall be determined on at least a monthly basis.
- The City will determine reasonable threshold limits for increments of collateral posting.
- The Director of Administration shall determine on a case-by-case basis whether other forms of credit enhancement are more beneficial to the City.
- Any posting of collateral by the City shall be subject to appropriation.

XI. Security and Source of Repayment

The City may use the same security and source of repayment (full faith and credit or pledged revenues) for an interest rate swap transaction as is used for the City's bonds that are hedged by the transaction, but shall consider the economic costs and benefits of subordinating the City's regular payments and/or termination payments under the transaction. The City shall consult with Bond Counsel regarding the legal requirements associated with making the payments under the interest rate swap transaction on a parity or non-parity basis with the applicable City bonds hedged.

XII. Specified Indebtedness

The specified indebtedness related to credit events in any interest rate swap transaction should be narrowly defined and refer only to indebtedness of the City that could have a materially adverse effect on the City's ability to perform its obligations under the transaction. Debt should typically only include obligations within the same lien as the interest rate swap transaction.

XIII. Other Criteria

The City shall negotiate or competitively bid the price and terms of an interest rate swap transaction at the Director of Administration's discretion.

For a competitive bid, the number of firms solicited shall be no fewer than three. For a negotiated transaction, the City may use a financial advisory firm(s) to assist in the price negotiation. The City may obtain an opinion from an independent party with recognized experience in the valuation of derivative transactions that the terms and conditions of any interest rate swap transaction entered into reflect a fair market value of such transaction as of the execution date.

XIV. ONGOING REPORTING REQUIREMENTS

Written records noting the status of all interest rate swap transactions will be maintained by the Director of Administration and shall include the following information:

- Highlights of all material changes to agreements and new agreements entered into by the City since the last report.
- Market value of each of the City's transactions.
- For each Counterparty, the City shall provide the total notional amount position, Maximum Net Termination Exposure and the exposure to or from each Counterparty, the average life of each agreement and the remaining term of each swap agreement.
- The credit rating of each Counterparty and credit enhancer insuring swap payments.
- Actual collateral posting by any Counterparty, if any, per agreement and in total by Counterparty.
- A summary of each agreement, including but not limited to the type of swap, the rates paid by the City and received by the City, indices, and other key terms.
- Information concerning any default by a Counterparty to the City, and the results of the default, including but not limited to the financial impact to the City, if any.
- A summary of any agreements that were terminated.

The City may hire a financial firm to monitor its swaps on a daily basis and to look for ways to reduce the cost of interest rate swap transactions or the financial exposure therefrom.

The City shall reflect the use of derivatives on its financial statements in accordance with GASB Technical Bulletin No. 2003-1. The disclosure requirements include:

1. Objective of the Derivative
2. Significant Terms
3. Fair Value
4. Associated Debt
5. Risks

GLOSSARY OF TERMS

AMORTIZATION RISK- The risk to the City of serving debt or honoring swap payments due to a mismatch between bond principal amortization and the swap notional amount amortization.

BASIS RISK – Basis risk refers to a mismatch between the interest rate received from the swap contract and the interest actually owed on the City's bonds. The risk, for example, in a floating to fixed rate swap is that the variable rate interest payments will be less than the variable interest payments actually owed on the hedged bonds.

CREDIT SUPPORT ANNEX – Covers the mutual posting of collateral, if required under the ISDA, to cover exposures of the counterparties to one another based on the net mark-to-market values of all swaps under the agreement.

THE CONFIRMATION – is executed for a specific derivative transaction and details the specific terms and conditions applicable to that transaction (fixed rate, floating rate index, payment dates, calculation methodology, amortization, maturity date, etc.).

COUNTERPARTY – A principal to a swap or other derivative instrument, as opposed to an agent such as a broker.

COUNTERPARTY RISK – The risk that the swap counterparty will not fulfill its obligations as specified by the terms of the contract. Under a fixed payer swap, for example, if the counterparty defaults, the City would be exposed to an unhedged variable rate bond position. The creditworthiness of the counterparty is indicated by its credit rating. The City has established minimum rating criteria for swap counterparties.

HEDGE – A position taken in order to offset the risk associated with some other position. Most often, the initial position is a cash position and the hedge position involves a risk management instrument such as a swap.

INTEREST RATE CAP – An instrument that pays off on each settlement date based on the market value of a reference rate (i.e. BMA or LIBOR) and a specified contract rate; effectively establishes a maximum on a variable rate.

INTEREST RATE FLOOR - An instrument that pays off on each settlement date based on the market value of a reference rate (i.e. BMA or LIBOR) and a specified contract rate; effectively establishes a minimum on a variable rate.

INTEREST RATE RISK – The risk that a change in interest rates will cause an increase in relative or absolute debt service costs and negatively impact cash flow margins.

INTEREST RATE SWAP – An interest rate swap is a contract between two parties to exchange cash flows over a predetermined length of time. Cash flows are typically calculated periodically based on a fixed or variable interest rate against a set "notional" amount (amount used only for calculation of interest payments). Principal is not exchanged.

ISDA – The International Swaps and Derivatives Association. The global trade association whose members are dealers in the derivatives industry. Most swap transactions are traded under standard documentation created by ISDA.

ISDA MASTER AGREEMENT – The primary document for the terms and conditions governing the swaps market. The ISDA Master Agreement contains the terms for events of default, termination events, representations and covenants, early termination provisions and payment calculations.

LIBOR – The London InterBank Offered Rate. The interest rate that the banks charge each other for loans. This rate is applicable to the short-term international interbank market, and applies to very large loans borrowed for anywhere from one day to five years. The LIBOR is officially fixed once a day by a small group of large London banks, but the rate changes throughout the day.

NOTIONAL AMOUNT – The stipulated principal amount for a swap transaction. There is no transfer of ownership in the principal for a swap; but there is an exchange in the cash flows for the designated coupons.

ROLLOVER RISK – The risk that the term of the swap contract does not match the term of the related bonds being hedged. Upon the maturity of the swap, the risk may need to be rehedged, causing the City to incur re-hedging costs.

TAX RISK – Risks associated with changes in tax laws. All issuers who issue tax-exempt variable rate debt inherently accept risk stemming from changes in marginal income tax rates. This is a result of the tax code's impact on the trading value of tax-exempt bonds. As marginal tax rates decline, the after tax value of tax-exempt income declines, forcing the tax-exempt rates to increase. This risk is also known as "tax event" risk, a form of basis risk under swap contracts. Percentage of LIBOR swaps and certain BMA swaps with tax event triggers, which can change the basis under the swap to a LIBOR basis from BMA, can expose issuers to tax event risk. Also changes in law that result in the payment of withholding taxes and a gross-up of a payment to take into account such tax.

TERMINATION RISK – The risk that the swap could be terminated as a result of any of several events, which may include a ratings downgrade for the City or the swap counterparty, misrepresentation, covenant violation by either party, bankruptcy of either party, swap payment default by either party, tax events, illegality, and default events under a bond indenture. The City could owe a termination payment to the counterparty or receive a termination payment from the counterparty, depending on how interest rates at the time of termination compare with the fixed rate on the swap. The City will make reasonable efforts to ensure that remedies available to a swap counterparty resulting from the City defaulting on its swap obligation should not infringe on bondholders' rights. These remedies should not be written into the bond indenture. Termination payments shall always be subordinate to debt service on City bonds.

SCHEDULE TO THE ISDA MASTER AGREEMENT – specifies what options for the various terms in the Master Agreement have been selected to govern the derivative transactions executed under the agreement.

SWAPTION – A swaption is an option on a swap. The swaption purchaser has the right to enter a specific swap for a defined period of time. This option can be exercised on a specific exercise date or series of exercise dates. It usually requires a payment by the party receiving the option.

SWAP CURVE – The name given to the swap's equivalent of a yield curve. The swap curve identifies the relationship between swap rates at varying maturities. Used in similar manner as a bond yield curve, the swap curve helps to identify different characteristics of the swap rate versus time.