PORT OF PORTLAND COMMISSION POLICY

INTEREST RATE EXCHANGE AGREEMENTS **Policy No. 6.1.14**

Approved Commission meeting of January 14, 2004

Background

In the course of exercising its powers, the Port uses its borrowing authority to finance various improvements and acquisitions, as permitted by law. Interest Rate Exchange Agreements are an additional tool that can be useful in debt management.

Purpose

The Port may utilize Interest Rate Exchange Agreements to manage payment, interest rate spread, or similar exposure undertaken in connection with existing, or anticipated, obligations made in the exercise of the borrowing powers of the Port.

Permitted Instruments

Interest Rate Exchange Agreements (Agreements) are a contract, an option, or a forward commitment to enter into a contract, that provides for payments based on levels of or changes in interest rates, or provisions to hedge payment, rate, spread or similar exposure, including but not limited to an interest rate floor, cap, or an option, put, or call.

Risk Analysis

The Executive Director, or the Chief Financial Officer, in consultation with the General Counsel, will ensure that the risks inherent in each Agreement are evaluated and understood before entering into the Agreement and that strategies are formulated to minimize the risks. These risks can include, but are not limited to:

Counterparty Risk – credit and/or performance exposure of the counterparty to the Agreement.

Rollover Risk – may arise if the Agreement and the underlying debt have different terms.

Basis Risk – the potential mismatch between the net interest payments received under the contract and the amount of interest due on the borrowing.

Tax Event Risk – payments on Agreements, based on a variable tax exempt index, can incur risk based on changes in marginal income tax rates, independent of changes in interest rates generally.

Amortization Risk – the cost of servicing debt, or paying on Agreements, resulting from a mismatch between the amount of bonds and the notional (or principle) amount of the Agreement.

Termination Risk – the risk that a material payment would be owed to the counterparty in certain market conditions if the Agreement was terminated by either the Port or the counterparty to the Agreement.

Counterparty Criteria

The Port shall enter into Agreements only with counterparties which have demonstrated experience in these types of financial instruments and are (1) rated in one of the top three rating categories by at least two nationally recognized rating agencies; or (2) will collateralize the Agreement in accordance with all statutory requirements.

At the time of adoption of this Policy, the statutory collateralization requirement are as follows:

- Cash or obligations rated in one of the top three rating categories, without gradation, by at least two nationally recognized rating agencies and
- The collateral is deposited with the Port or the State Treasurer, on behalf of the Port, or an agent of the Port, and
- The collateral has a market value to fully collateralize the Agreement, as determined at the discretion of the Port, and
- The collateral is marked to the market at least quarterly.

Documentation

Agreements will conform to International Swaps and Derivatives Association, Inc. (ISDA), standards, including any schedules, confirmations, or annexes, as required, and will include terms, as necessary or desirable, to facilitate the transaction.

The Port will receive any opinions, in form satisfactory to the General Counsel, as required by law or deemed prudent at the discretion of the General Counsel to protect the interest of the Port.

Accounting

Agreements will be accounted for in conformance with generally accepted accounting principles.

Reporting

An annual report, indicating payments made and received, the market value of security, and other information, as the Commission may request, will be presented to the Commission.