COLLECTED BOARD POLICIES

OF THE

BI-STATE DEVELOPMENT AGENCY

OF THE

MISSOURI-ILLINOIS METROPOLITAN DISTRICT

Chapter 110. Swap and Derivative Policy

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Section 110.010 General

1) Introduction

The purpose of this Swap and Derivative Policy (the "Policy") for the Bi-State Development Agency of the Missouri-Illinois Metropolitan District (doing business from time to time as "Metro") (the "Issuer") is to establish guidelines for the Issuer to enter into various types of swaps and other Interest Rate Management Agreements (referred to herein as "Swaps" or "Agreements"), defined to better manage the Issuer's debt issuance and interest rate risk.

The Issuer is authorized under the laws of the United States of America and the States of Missouri and Illinois, including in particular an interstate compact between the states of Missouri and Illinois codified at §70.370 *et seq.,* of the Revised Statutes of Missouri, as amended, and §45 ILCS 100/1 *et seq.,* of the Illinois Compiled Statutes, as amended, respectively, and approved by the United States Congress in accordance with the Constitution of the United States of America (jointly, the "Compact"), to enter into interest rate swaps to reduce the amount and duration of rate, spread, or similar risk when used in combination with the issuance of bonds and outstanding bonds of the Issuer.

2) Scope and Authority

This Policy shall govern the Issuer's use and management of all Agreements. While adherence to this Policy is required in applicable circumstances, the Issuer recognizes that changes in the capital markets, agency programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate provided specific authorization by the Board of the Issuer is obtained.

The Issuer may enter into Agreements under which it is the Issuer's intent to manage interest rate risk, or other financing risks or to reduce the interest cost on any debt it is authorized to incur. Prior to entering into any Agreement, the Issuer will review the long-term implications associated with entering into such Agreement, including costs of borrowing, historic interest rate trends, variable rate capacity, credit enhancement capacity, impact on current and future bond ratings, opportunities to refund related debt obligations and other similar considerations. Examples of such Agreements include, but are not limited to: interest rate swaps and swaptions, interest rate caps, collars and floors.

In conjunction with the Issuer's Debt Policy, the Policy shall be reviewed and, if necessary, updated at least annually and presented to the Board for approval. The President & CEO, Chief Financial Officer, Director of Treasury Services and Debt Administrator are the designated administrators of the Issuer's Interest Rate Swap Policy. The Director of Treasury Services and the Debt Administrator shall have the day-to-day responsibility for managing interest rate swaps.

Approval by the Board of Commissioners shall be required for any transaction involving an Agreement. The Issuer shall enter into Agreements only with "Qualified Counterparties" as described in this Policy. The Board of Commissioners, through resolution, shall appoint a committee of the Board (the Parameters Committee) comprised of three board members of which two comprises a quorum, and the President & CEO, Chief Financial Officer to make other necessary business and structuring decisions associated with the Agreement on behalf of the Issuer, so long as the criteria set forth in the Policy are met. Investment Management Advisory Group, Inc. ("IMAGE") and TWG acted as advisor to the Issuer in developing the Policy. IMAGE and TWG or any other advisor subsequently engaged by the Issuer to assist in consideration and/or implementation of Swaps or Agreements is referred to herein as the "Swap Advisor".

3) Legality/Approval

To enter into any Agreement, the Agency must receive (i) approval from the Board of Commissioners, (ii) an opinion acceptable to the market from a nationally recognized law firm that the Agreement is a legal, valid and binding obligation of each party and (iii) an opinion of Swap Counsel that the Agreement is a legal valid and binding obligation of the Agency, and (iv) a "Fairness" opinion of the Agency's Swap Advisor that the Agreement is a market transaction.

4) Conditions for the Use of Agreements

The Issuer will use Agreements to either (i) lock-in a fixed rate on a variable rate debt, (ii) create synthetic variable rate exposure for the purpose of (A) producing interest rate savings, (B) limiting or hedging variable rate payments, (C) altering the pattern of debt service payments, (D) modifying its variable rate exposure within prudent guidelines, (iii) hedging risks in the context of a particular financing plan (iv) utilize a forward starting swap or swaption for refinancing purposes, or (V) for asset/liability matching purposes. Representatives of the Issuer along with the Swap Advisor shall make a finding that such authorized Agreements will be used to alter exposure to market risks, and when used in combination with new or outstanding bonds, will enhance the relationship between risk and return, or achieve other policy objectives of the Issuer. The Issuer shall not enter into any Swap for speculative purposes.

5) Qualified Hedges

The Issuer understands that, (1) if payments on and receipts from the Agreement are to be taken into account in computing the yield on the related bonds, the Agreement must meet the requirements for a "qualified hedge" under federal tax law (sometimes referred to as an "integrated" swap); and (2) if one of the goals of entering into the Agreement is to convert variable yield bonds into fixed yield bonds (sometimes referred to as a "super integrated swap"), then certain additional requirements must be met. In both of these situations, the terms of the Agreement and the process for entering into the Agreement must be reviewed and approved in advance by tax counsel.

Section 110.020 Features of the Agreements

1) Form of Agreements

The Agreement will use terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement. Any Agreement between the Issuer and each counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as the Issuer, in consultation with its Legal Counsel and Swap Advisor, deems necessary or desirable.

2) Terms of Agreements Relating to Interest Rate Swaps

Subject to the provisions contained herein, the terms of any interest rate Swap Agreement shall use the following guidelines:

(i) *Downgrade provisions* triggering terminations shall in no event be worse for the Issuer than those affecting the counterparty.

(ii) *Governing law* for Agreements will be New York, except that matters relating to the enforceability of the Agreement against the Issuer will be governed by the laws of Illinois and Missouri.

(iii) *The specified indebtedness related to credit events* in any Agreement should be narrowly defined and refer only to indebtedness of the Issuer that could have a materially adverse effect on the Issuer's ability to perform its obligations under the Swap. Debt should typically only include obligations within the same lien as the Agreement.

(iv) *Collateral thresholds* should be set on a sliding scale reflective of credit ratings, size and directional market risk of the transaction. Collateral requirements, including safekeeping requirements, should be established and based upon the credit ratings of the counterparty or guarantor.

(v) *Eligible collateral* should generally be limited to direct obligations of the United States and obligations of Federal Agencies unless otherwise specifically authorized by the Board for a particular Agreement.

(vi) The Issuer shall have the right to *optionally terminate* an Agreement at "market", at any time over the term of the Swap Agreement.

(vii) *Termination value* should be set by utilizing a Market Quotation Methodology, Second Method, unless the Issuer deems an alternate method as appropriate.

3) Qualified Counterparties

The Issuer may enter into Agreements with qualified counterparties that have credit ratings which are rated (1) at least "*A3" or "A-*" or equivalent by all the nationally recognized rating agencies (i.e., Moody's, Standard and Poor's, and Fitch), that provide a published rating on the counterparty, or (2) have an "*AAA*" subsidiary as the counterparty, as rated by all the nationally recognized rating agencies (i.e., Moody's, Standard and Poor's, and Fitch), that provide a published rating on the subsidiary.

In addition to the rating criteria specified herein, the Issuer will seek additional credit enhancement and safeguards in the form of:

Contingent credit support or enhancement;
Collateral consistent with the policies contained herein;
Ratings downgrade triggers; or
Guaranty of parent, if any.

4) Methods of Soliciting and Procuring Swaps

Agreements can be procured via competitive bids or on a negotiated basis as determined by the Issuer on a case-by-case basis. The competitive bid should include a minimum of three firms with counterparty ratings as set forth herein. The Issuer may allow a firm or firms not submitting the winning bid to match such bid and be awarded no greater than 50% of the notional amount of the Agreement.

The Issuer may procure Agreements on a negotiated basis when the Issuer makes a determination that:

(i) Due to the complexity of a particular financing, a negotiated transaction would result in the most favorable pricing; or

(ii) That in light of the facts and circumstances, doing so will promote the Issuer's interest by encouraging and rewarding innovation.

(iii) Marketing of the swap will require complex explanations about the security for repayment or credit quality.

(iv) Market timing is important, such as coordination of multiple components of the financing is required.

(v) Participation from DBE/WBE firms is enhanced

(vi) Based on the recommendation of the Swap Advisors, special circumstances exist such that a negotiated transaction would result in the most favorable pricing.

Regardless of the method of procurement, the Issuer shall obtain an independent finding that the terms and conditions of any derivative entered into reflect a fair market value of such derivative as of the date of its execution.

5) Counterparty Exposure

The Issuer shall endeavor to diversify its exposure to counterparties. To that end, before entering into an Agreement, it should determine its exposure to the relevant counterparty or counterparties and determine how the proposed transaction would affect the exposure. The exposure should be measured in terms of notional amount, mark to market valuation, volatility and where appropriate, a "Value at Risk" calculation. The Value at Risk should be based on all outstanding Agreements by the Issuer. The Issuer should also take into account the exposure of related agencies of the Issuer, any other related entities to a particular counterparty and other credit facilities outstanding between the Issuer and the counterparty, and the credit rating of the relevant counterparty and any guarantor and collateral requirements contained in the related Agreement(s).

Many derivative products create for the Issuer a continuing exposure to the creditworthiness of financial institutions that serve as the Issuer's counterparties on derivative transactions. To protect its interests in the event of a credit problem, the Issuer will take a three-tiered approach:

Use of highly rated and experienced counterparties: Standards of creditworthiness, as measured by the credit ratings, will determine eligible counterparties. Differing standards may be employed depending on the term, size and interest-rate sensitivity of a transaction, types of counterparty, and potential for impact on the Issuer's credit ratings. In addition, eligible counterparties should have demonstrated experience in successfully executing derivative transactions.

Collateralization on downgrade: If counterparty's credit rating is downgraded below a specified threshold, the Issuer will require that its exposure to the counterparty be collateralized as per an ISDA Credit Support Annex.

Termination: If counterparty's credit is downgraded below a second (lower) threshold, the Issuer may exercise a right to terminate the transaction prior to its scheduled termination date. The Issuer will seek to require, whenever possible, that terminations triggered by a counterparty credit downgrade will occur on the side of the bid-offered spread which is most beneficial to the Issuer, and which would allow the Issuer to go back into the market to replace the downgraded party with another suitable counterparty.

6) Term and Notional Amount

The Issuer shall determine the appropriate term for an Agreement 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 swap has on the overall exposure of the Issuer shall be considered in determining the appropriate term of any swap agreement. In connection with the issuance or carrying of bonds, the term of a swap agreement between the Issuer and a qualified swap counterparty shall not extend beyond the final maturity date of the related bonds of the Issuer, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds, or in the case of a hedging transaction for bonds expected to be issued, not later than the expected final maturity date of the proposed bonds.

7) Pledging of Collateral

As part of any Agreement, based on credit ratings of the counterparty or as may be requested by the counterparty of the Issuer, require collateralization or other forms of credit enhancements to secure any or all payment obligations of the counterparty under the Agreement. As appropriate, the Issuer, in consultation with its Legal Counsel and Swap Advisor, may require of the counterparty, or grant thereto, collateral or other credit enhancement to be posted by the counterparty subject to the collateral threshold amounts specified for such Agreement. Additional collateral for further decreases in credit ratings of each counterparty and/or increases in threshold mark to market exposure shall be posted by each counterparty in accordance with the provisions contained in the Agreement or collateral support agreements related thereto.

Threshold collateral amounts shall be determined by the Issuer on a case-by-case basis. The Issuer will determine the reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter. Collateral shall be deposited with a third-party trustee, or as mutually agreed upon between the Issuer and the 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 under the Agreement. The market value of the collateral shall be determined on a not less than weekly basis or more frequently if the Issuer determines it is in its best interest given the specific collateral security.

Unless otherwise specifically approved by the Board for a particular Agreement, payment of the Issuer's obligations under an Agreement will be limited to the same security and source of repayment as is pledged for the bonds that are hedged or carried by the swap, if any.

8) Prohibited Agreements

The Issuer will not enter into Agreements:

(i.) That are speculative or create extraordinary leverage or risk;

(ii.) For which the Issuer lacks adequate liquidity to terminate without incurring a significant bid/ask spread; or

(iii.) That provide insufficient price transparency to allow reasonable valuation.

Section 110.030 Evaluation and Management of the Agreements

Prior to the execution of any Agreement, the Issuer, the Swap Advisor, and the Legal Counsel shall evaluate the proposed transaction and report the findings to the Board of the Issuer. Such a review shall include the identification of the proposed benefit and the potential risks associated with the financing. As part of this evaluation, the Swap Advisor, on behalf of the Issuer, shall compute the maximum likely net termination exposure to the proposed counterparty.

1) Evaluation Methodology

The Issuer, along with its Swap Advisor, will review the following areas of potential risk associated with the Agreement and for new and existing counterparties, and will put in place procedures to evaluate and understand the risk and to overcome or mitigate it, in the event that unfavorable situations occur:

Interest Rate Risk:
Interest rate risk is the risk that interest costs on a bond or an Agreement will increase and cost more than the rates associated with a fixed-rate obligation.

Evaluation methodology for interest rate risk: The Issuer along with its Swap Advisor and Financial Advisor will develop a financing program that will attempt to hedge the Issuer's interest rate risk exposure in a manner that results in a net interest cost that is lower than that associated with a fixed-rate obligation.

Basis Risk:
Basis risk is the risk of a mismatch between the actual variable interest rate on the Issuer's debt and the floating rate option index under the Agreement.

Evaluation methodology for basis risk: The Issuer and the Swap Advisor and Financial Advisor will review historical relationships and trading differentials between the variable rates on similar bonds and the index and decide whether the relationship is sufficiently close to accept such risk.

Termination Risk:
Termination risk occurs when there is a need to terminate the Agreement in an interest rate environment that dictates a termination payment by the Issuer to the counterparty.

Evaluation methodology for termination: Risk will be assessed by the Issuer along with the Swap Advisor who will compute the Issuer's termination exposure for all existing and proposed Agreements at a market value, and under a worst-case scenario.

Counterparty Risk:
Counterparty risk occurs when there is the failure of the counterparty to make required payments under the Agreement.

Evaluation methodology for counterparty risk-the Issuer and the Swap Advisor will monitor exposure levels, ratings thresholds and collateralization requirements and will immediately address remedies.

Credit Risk:
Credit risk occurs when an event modifies the credit rating of the Issuer, the counterparty or any guarantor.

Evaluation methodology for credit risk- the Issuer and the Swap Advisor and Financial Advisor will monitor the ratings of its counterparties and its credit enhancers, and in the event of a downgrade will immediately address remedies such as collateralization and additional credit enhancement.

Liquidity Risk:
Liquidity risk occurs when there is an inability to renew a liquidity facility on a floating rate bond issue.

Evaluation methodology for liquidity risk - the Issuer and the Swap Advisor and Financial Advisor will evaluate the expected availability of liquidity support for variable rate debt. It will be the policy of the Issuer to encourage frequent discussions with potential liquidity facility providers in the event that a current provider has liquidity problems. The Issuer shall also consider alternative bond structures, such as auction rate bonds, to mitigate liquidity risk.

Tax Risk:
Tax risk is created by potential changes in the tax laws that could affect payment under the Agreement.

Evaluation methodology for tax risk - the Issuer, the Swap Advisor and Legal Counsel will review the tax events in proposed Agreements. The Issuer and the Swap Advisor will evaluate the impact of potential changes in tax law on payments under the Agreement based on taxable indices and shall take into account the reduction in the Authority's fixed payer rate in return for accepting tax risk.

2) Managing Agreement Risks

Reports to the Board:
The Issuer and the Swap Advisor will evaluate the risks associated with the outstanding Agreements, at least annually and at will as requested by the Board, and make reports to the Board of the Issuer of the findings. This evaluation will include the following information:

(1) A description of all outstanding Agreements, including related bond series, types of Agreements, rates paid and received under Agreements, notional amounts, average life and the remaining term, and the current termination value of all Agreements.

(2) Separately for each swap, the actual debt service requirements versus the projected debt service on the swap transaction; and for any swaps used as part of a refunding, the actual cumulative savings versus the projected savings at the time the swap was executed.

(3) The credit rating of each Agreement counterparty, parent, guarantor, and credit enhancer insuring payments, if any, per swap agreement and in total by swap counterparty.

(4) Actual collateral postings by counterparty, if any, per Agreement and in total by swap counterparty.

(5) Information concerning any material event involving outstanding Agreements, including a default by a counterparty, a counterparty downgrade, or termination.

(6) An updated contingency Policy to replace, or fund a termination payment in the event an outstanding Agreement is terminated.

(7) The status of any liquidity support used in connection with Agreements, including the remaining term and current fee.

Updates to the Policy:
The Issuer, along with the Swap Advisor, shall review, and if necessary, update the Policy at least annually and submit the update to the Issuer's Board for approval.

Contingency Policy:
The Issuer and its Swap Advisor shall compute the termination exposure of each of its Agreements and its total Agreement termination payment exposure at least annually and prepare a contingency Policy to either replace the Agreements or fund the termination payments, if any, in the event one or more outstanding Agreements are terminated. The Issuer shall assess its ability to obtain replacement Agreements and identify revenue sources to fund potential termination payments.

3) Terminating Agreements

Optional Termination:
The Issuer, in consultation with its Swap Advisor and Legal Counsel, and as directed in its authorizing Agreement Resolution, may terminate an Agreement if it is determined that it is financially advantageous to do so.

Mandatory Termination:
In the event that an Agreement is terminated as a result of a termination event, such as a default or a decrease in credit rating of either the Issuer or the counterparty, the Issuer along with the Swap Advisor will evaluate whether it is financially advantageous to obtain a replacement Agreement, or, depending on market value, make or receive a termination payment.

In the event the Issuer makes an Agreement termination payment, the Issuer and the Swap Advisor shall attempt to follow the process identified in this Policy. The Issuer shall also evaluate the economic costs and benefits of incorporating a provision into the swap agreement that will allow the Issuer to make termination payments over time.

4) Swap Insurance

In recognition of the considerable protection against an unfavorable early termination of the swap afforded by swap insurance, the Issuer shall evaluate the use of swap insurance to enhance the Issuer's obligations to the counterparty under the swap agreement.

Section 110.040 Disclosure and Financial Reporting

The Issuer will take steps to ensure that there is full and complete disclosure of all Agreements to the Board of the Issuer, to rating agencies, and in disclosure documents. Disclosure in marketing documents shall provide a clear summary of the special risks involved with the Agreements and any potential exposure to interest rate volatility or unusually large and rapid changes in market value. With respect to its financial statements, the Issuer will adhere to the guidelines for the financial reporting of Agreements, as set forth by the Financial Accounting Standards Board.