

**Delaware Valley Regional Finance Authority
Testimony to the Senate Local Government Committee
September 9, 2013**



DelVal was created by Bucks, Chester, Delaware, and Montgomery Counties in 1985 to provide loans to local governments. DelVal has:

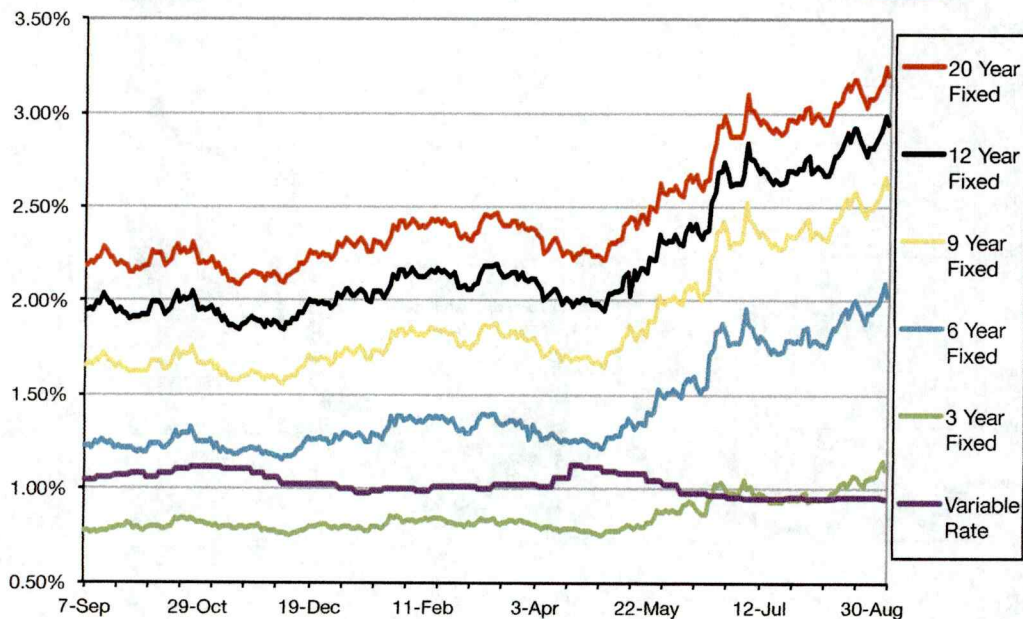
- Issued \$1.3 billion of bonds and entered \$2.0 billion of interest rate swaps to provide fixed and variable rate loans and
- Originated more than \$2.9 billion of loans to more than 185 local governments.

Currently, 130 local governments in 14 different counties have approximately \$900 million of loans from DelVal.

The Loan Program has been successful because:

- The issuance costs are typically 25% - 50% of the costs of bonds,
- Interest rates are 0.10% to 0.90% lower than bonds or bank loans,
- Borrowers have total flexibility in structuring their debt, and
- Borrowers can avoid the churning of refundings.

Daily Trend of Loan Rates for the Past Year



Daily Trend of Loan Rates for the Past Year

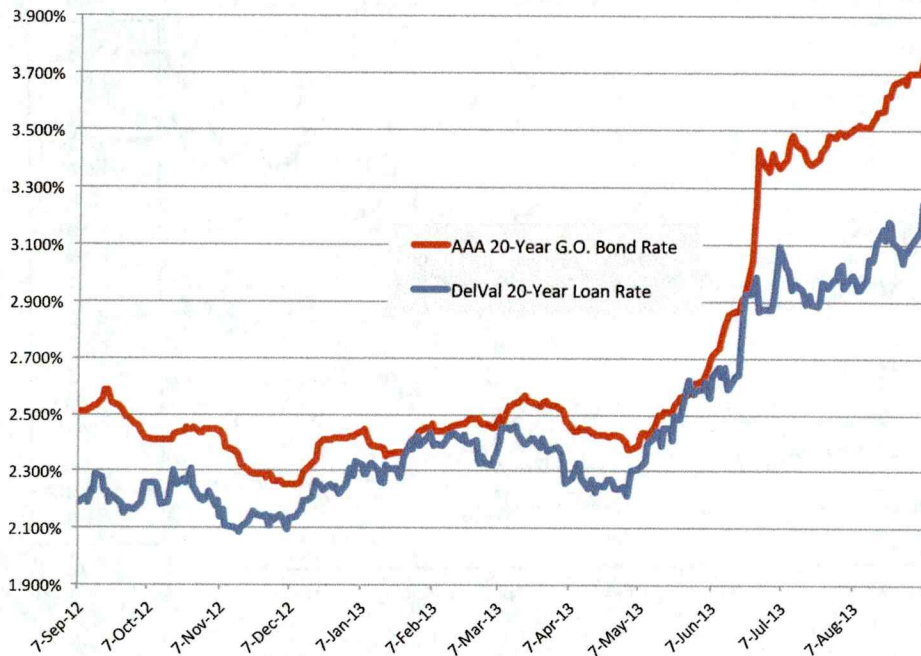


<u>Loan Rate*</u>	<u>Average Rate*</u>			<u>Current Rate*</u>
	<u>Since 1999</u>	<u>Past Year</u>	<u>Past Quarter</u>	
20-year fixed rate:	4.070%	2.466%	2.958%	3.202%
15-year fixed rate:	4.014%	2.373%	2.866%	3.110%
12-year fixed rate:	3.909%	2.205%	2.696%	2.942%
9-year fixed rate:	3.716%	1.893%	2.363%	2.600%
6-year fixed rate:	3.410%	1.422%	1.814%	2.029%
3-year fixed rate:	2.895%	0.851%	0.983%	1.109%
Variable rate:	2.231%	1.025%	0.959%	0.950%

*Assumes 20 year loan amortized to produce level debt at the 20-year fixed rate, no options.

Rates as of:
September 6, 2013

Comparison of DelVal Loan Rates with Bloomberg AAA General Obligation Bond Indices for a 20-Year, Fixed Rate, Level Debt Structure





The proposed legislation would cripple the DelVal Loan Program, and every year it would increase the debt service costs of 25 local governments (the average annual number of DelVal loans) by \$3.5 to \$10 million.

DelVal has not abused interest rate swaps.

Swaps have been used to obtain the lowest fixed and variable interest rates possible for borrowers, not to speculate.

DelVal has formally adopted a Swap Policy, and DelVal requires all borrowers to adopt the same policy.

If all of DelVal's swaps were terminated today, DelVal would receive approximately \$123 million from the Counterparties.



Most abuses of swaps have occurred when the local governments:

- Faced budgetary problems and used swaps to borrow working capital or
- Tried to lock long term rates years before debt was issued.

Below are tenets of DelVal's Swap Policy that would eliminate abuses:

- Prohibit any transaction that provides an "up front" payment to the local government,
- Prohibit any trade that is not effective within one year,
- Prohibit the Swap Counterparty from compensating the financial advisor or law firm representing the local government, and
- Prohibit any trade based on LIBOR ("basis trades") if the local government has not issued bonds with interest rates based on LIBOR.



All of DelVal's bond issues and all of the loans to local governments have been, and need to be, negotiated sales.

Timing is the most important decision in any sale.

DelVal's costs of issuance for its bond issues have been lower than 1%.

The typical borrower's costs of issuance for a DelVal loan is about 0.5%.

Recent Bond Sales by Local Governments



<i>Par Amount</i>	\$9,990,000	\$34,745,000	\$5,700,000	\$10,000,000	\$10,000,000
<i>Type of Sale</i>	Competitive	Competitive	Competitive	Negotiated	Negotiated
<i>Costs of Issuance</i>	2.544%	2.732%	3.636%	1.800%	2.227%
<i>Maturity</i>	2026	2035	2031	2030	2043
<i>All-In True Interest Cost</i>	3.565%	4.871%	4.752%	4.297%	5.238%
<i>Spread over AAA Indices</i>	0.034%	0.502%	0.249%	0.585%	0.810%



A blanket prohibition on the use of interest rate swaps, statutory competitive bid requirements and “price controls”, and an expansion of the Commonwealth’s bureaucracy are not a panacea for poor policy decisions.

These changes will most adversely affect the cost of borrowing of the smaller townships, boroughs, authorities, and school districts in the Commonwealth.

These changes punish the majority or the local governments in Pennsylvania that do manage their finances responsibly for the transgressions of a few that failed in their fiduciary responsibilities.

