

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

Notes to Financial Statements

March 31, 2018 and 2017

(5) Long-Term Debt

(a) Long-Term Obligations (in thousands)

	2018	2017
(1) Airport Revenue Bonds 2014:		
Series A, maturing April 1, 2029 with variable annual principal payments commencing April 1, 2015, bearing interest at 3.0% to 5.0% (net of unamortized premium of \$5,012 in 2018 and \$5,838 in 2017)	\$ 65,182	\$ 67,159
Series B, maturing April 1, 2019 with variable annual principal payments commencing April 1, 2016, bearing interest at 4.0% to 5.0% (net of unamortized premium of \$105 in 2018 and \$300 in 2017)	6,425	9,735
(2) Airport Revenue Bonds 2004:		
Series A, maturing April 1, 2024 with variable annual payments commencing March 10, 2005, bearing fixed interest at 3.646% and a variable auction interest rate, offset by earned swap interest rate at 71% of the prevailing LIBOR rate	24,350	27,800
Series C, maturing April 1, 2024 with variable annual payments commencing March 10, 2005, bearing fixed interest at 3.55% and a variable auction interest rate, offset by earned swap interest rate at 69% of the prevailing LIBOR rate	3,825	4,375
(3) New York State, non-interest bearing	3,380	3,380
(4) Capital leases, monthly payments with fixed interest rates ranging from 4.19% to 6.59%, maturing in 2019, secured by related equipment	489	797
(5) Environmental Facilities Corporation (EFC) maturing January 15, 2020 with variable annual principal payments, bearing interest at 5.612% to 5.742%, offset by a variable refunding interest credit provided by EFC (NYS EFC Series 2011A)	500	735
(6) Capital leases, monthly payments with fixed interest rate of 2.91%, maturing in 2025, secured by related equipment	3,173	3,537
(7) Capital leases, monthly payments with fixed interest rate of 4.27%, maturing in 2020, secured by related equipment	569	847

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(8) Capital lease, monthly payments with fixed interest rate of 7.75%, maturing in 2032, secured by related equipment	3,654	3,783
(9) Capital lease, monthly payments with fixed interest rate of 2.57%, maturing in 2022, secured by related equipment	1,486	1,786
(10) Capital lease, monthly payments with fixed interest rate of 1.511% maturing in 2023, secured by related equipment	8,199	9,641
(11) Capital lease, monthly payments with fixed interest rate of 2.093% maturing in 2024, secured by related equipment	8,428	-
(12) Capital lease, annual payments with fixed interest rate of 1.60% maturing in 2020, secured by related equipment	496	-
	130,156	133,575
Less current portion	13,303	11,321
	<u>\$ 116,853</u>	<u>\$ 122,254</u>

(1) On September 3, 2014, the Authority issued \$65,340,000 Series 2014A and \$12,430,000 Series 2014B Airport Revenue Bonds at a premium of \$9,336,000. These bonds were issued to refund outstanding Series 1999A, 1999B, and 1998 bonds in the amounts of \$61,525,000, \$13,775,000, and \$13,485,000, respectively.

(2) On January 15, 2004, the Authority issued \$63,000,000 Series 2004A and \$10,025,000 Series 2004C Airport Revenue Bonds with fixed interest rates of 3.646% and 3.55%, respectively, and variable auction rates offset by a swap of fixed percentages of the prevailing LIBOR rate. These bonds were issued to refund the Series 1994A and the Series 1994C Airport Revenue Bonds of \$55,435,000 and \$9,765,000 with interest rates ranging from 5.70% to 6.25% for Series 1994A and 5.50% to 6.00% for Series 1994C, respectively.

(3) The State Legislature passed a law in 1994 that granted the Authority immediate relief from the repayment covenant for a non-interest bearing loan totaling \$3,380,000. The law provides in pertinent part that repayment of the loan would be deferred for a two-year period, which expired on May 12, 1996. The Director of the Budget has been granted the discretion to either enter into an agreement with the Authority setting forth a schedule for reimbursement without interest or waive the requirement for reimbursement in whole or in part. No decision has been made to date. Maturities for this loan have been included in the category of loans and capital leases for long-term debt maturities for 2029 through 2033 due to the uncertainty of repayment.

The Airport Revenue Bonds from 2014, 2004, and NYS EFC Series 2011A are payable from and secured by a lien against net revenues derived from the operations of the BNIA. Payment of scheduled bond principal and interest payments are also guaranteed by municipal bond insurance policies maintained by the Authority. The bonds are special limited obligations of the Authority. They are neither general obligations of the Authority nor a debt of the State or any political subdivision.

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Changes in long-term debt for the years ended March 31, 2018 and 2017 were as follows (in thousands):

	2018	2017
Balance, beginning of year	\$ 133,575	\$ 134,725
Proceeds from issuance of debt	9,799	10,478
Repayment of long-term debt, net of premium amortization	(13,218)	(11,628)
Balance, end of year	130,156	133,575
Less current portion	13,303	11,321
Noncurrent portion	\$ 116,853	\$ 122,254

Required principal and interest payments for long-term debt, including unamortized premiums, were as follows (in thousands):

	Loans and Capital Leases		Serial Bonds		
			Unamortized		
	Principal	Interest	Principal	Premium	Interest
Years ending March 31,					
2019	\$ 4,308	\$ 720	\$ 8,995	\$ 937	\$ 4,101
2020	4,220	613	9,180	826	3,794
2021	3,864	521	9,555	710	3,305
2022	3,740	435	9,930	599	2,920
2023	3,721	351	10,410	550	2,476
2024-2028	4,996	969	34,780	1,435	6,351
2029-2033	5,024	324	12,316	60	282
	\$ 29,873	\$ 3,933	\$ 95,166	\$ 5,117	\$ 23,229

At March 31, 2018 and 2017, the Authority was in compliance with all loan and bond covenants.

(b) Derivative Instruments

Interest Rate Swaps

To reduce exposure to changing interest rates, the Authority entered into two hedging interest rate swaps with Goldman Sachs Capital Markets, L.P. in connection with its \$73,025,000 Refunding Series 2004A and 2004C variable-rate bonds. The interest rate swaps are forward, floating-to-fixed agreements in notional amounts equal to the outstanding bonds pursuant to which the Authority will pay a specified fixed rate of interest in return for receipts of a variable rate of interest based on a fixed percentage of the prevailing LIBOR rate. The intention of the interest rate swaps was to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate of 3.646% and 3.55% for Series 2004A and 2004C, respectively.

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Risks

Below is a list of risks inherent in the Authority's interest rate swaps:

Basis Risk – The risk that the Authority's variable rate interest payments will not equal the variable rate swap receipts because they are based on different indexes. If the rate under the swap is lower than the bond interest rate, the payment under the swap agreement will not fully reimburse the Authority for the interest payments on the bonds. However, if the bond interest rate is lower than the swap payment, there is a net gain to the Authority. At March 31, 2018 and 2017, the unfavorable basis variance totaled \$3,150,000 and \$2,607,000.

Tax Risk – The risk that a change in Federal tax rates will alter the fundamental relationship between auction rates and LIBOR.

Interest Rate Risk – The risk that changes will adversely affect the fair value or cash flows.

Credit Risk – The risk that a counterparty will not fulfill its obligations under the swap. In this event, the Authority would have to pay another entity to assume the position of the defaulting counterparty. The Authority has sought to limit its counterparty risk by contracting with a highly rated entity.

Terms

At March 31, 2018, the negative fair values of the Series 2004A and 2004C interest rate swaps were \$1,547,000 and \$235,000, respectively. At March 31, 2017, the negative fair values of the Series 2004A and 2004C interest rate swaps was \$2,588,000 and \$386,000, respectively. At March 31, 2018, the notional amounts of Series 2004A and 2004C swaps were \$24,350,000 and \$3,825,000, respectively. At March 31, 2017, the notional amounts of Series 2004A and 2004C swaps were \$27,800,000 and \$4,375,000, respectively. The terms of the interest rate swaps will remain in effect until the bonds are fully matured on April 1, 2024.

The Series 2004A and 2004C interest rate swaps as of March 31, 2012 were considered ineffective because they did not meet the effectiveness criteria under the synthetic instrument method quantitative method of evaluating effectiveness. Therefore, changes in the fair value of the swaps are recorded as derivative instrument losses in the statements of revenues, expenses and changes in net position for 2012 and all future periods.

As of March 31, 2018 and 2017, the negative fair values of all investment and ineffective derivative instruments totaled \$1,782,000 and \$2,974,000 and are recorded as other noncurrent liabilities. Negative fair value decreases of \$1,192,000 and \$1,701,000 for 2018 and 2017 are recorded as non-operating revenues in the statement of revenues, expenses and change in net position.