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Lincoln Center to Pay Wall Street Banks $73 Million to End Swaps.

- **Derivative deal left arts center paying above-market rates**
- **Center dismissed or furloughed 200 staff because of pandemic**

Lincoln Center for the Performing Arts, which dismissed or furloughed 200 employees after canceling performances because of the pandemic, is borrowing $73 million to end derivative trades with Morgan Stanley and Bank of New York Mellon Corp.

The home of the New York Philharmonic, the Metropolitan Opera and the New York City Ballet entered into interest-rate swaps in 2006 and 2008 to lock in fixed rates on $150 million of floating rate bonds. However, the value of the contracts to Lincoln Center plummeted as interest-rates fell to historic lows and it had to draw $30 million on a line of credit to post collateral.

In mid-August, Lincoln Center plans to issue about $140 million fixed-rate tax-exempt debt at a premium to refinance the bonds and about $73 million taxable bonds to pay off the swaps, according to Leah Johnson, the center's chief communications and marketing officer. Lincoln Center is taking advantage of low interest rates to cut exposure to variable-rate debt, free up its $100 million credit line, and potentially reduce interest costs compared to alternatives, she said.

"At the time, given the historical interest rate trend line, it seemed like the appropriate course," to execute the swaps, said Johnson. "We're not going to second guess."

Lincoln Center was among scores of U.S. states, cities and non-profits that sought to save money by borrowing with floating-rate bonds paired with interest-rate swaps instead of selling traditional fixed-rate debt. Under the swaps, municipalities received a variable-rate payment from banks, meant to cover those on the bonds, and paid a fixed rate in return.

The deals unraveled during the financial crisis when the housing bust hammered insurers that guaranteed the bonds, causing the interest rates to soar. While many governments paid billions to back out of the deals after the crisis, others, including Lincoln Center, opted to replace insurance on the bonds with bank letters of credit that would guarantee the bonds from default and help lower rates.

Under the swaps, Lincoln Center paid Morgan Stanley a fixed rate of 3.7% on $95 million of variable-rate debt and paid Bank of New York 4% on $50 million of bonds. The banks paid Lincoln Center 69% of 3-month London Interbank Offered Rate, Johnson said.

As long-term rates declined in the last decade — because of Federal Reserve bond purchases, sluggish economic growth and more recently, a coronavirus induced flight to U.S. Treasuries — the value of the swaps to Lincoln Center plummeted from a gain of $2.7 million in 2006, to a $73 million loss. Since 2006, yields on top rated 30-year tax exempt bonds have declined to 1.5% from 4.4%.

Unwinding the swaps will eliminate further losses if interest rates continue to fall and avert the need to transition to a new benchmark when Libor is phased out at the end of 2021, Johnson said.

The pandemic has put even more pressure on Lincoln Center’s finances. It has dismissed 55 staffers permanently and furloughed about 150, Johnson said. Lincoln Center is projecting a $10 million operating loss and $3 million in restructuring expenses, according to an S&P Global Ratings report this week.

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