NCPA
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Minutes

To: NCPA Finance Committee

From: Trisha Zimmer

Subject: February 8, 2022 Finance Committee Meeting Minutes

1. Call Meeting to Order and Roll Call
The meeting was called to order at 10:31am.

The meeting attendees either present or participating remotely are as follows: Finance Committee representatives: Robert Orbeta (Alameda), Catalina Sanchez (Gridley), Melissa Price (Lodi), Ann Hatcher (Santa Clara), and Eric Campbell (Roseville); NCPA Staff: Monty Hanks, Sondra Ainsworth, Eric Siu, Randy Howard, as well as Mike Berwanger, Faisal Alif, and Louise Houghton from PFM, Jonathan Guz from Stradling, Yocca, Carlson & Rauth, Suds Jain Santa Clara, Khaley Nguyen from Port of Oakland, and Tarun Narayan from Palo Alto. A quorum of the Committee was established.

PUBLIC FORUM

No one from the public was present at the site or at any of the teleconference locations.

DISCUSSION / ACTION ITEMS

2. Approve minutes from the October 12, 2021 and November 16, 2021 meetings.
A motion was made by Melissa Price and seconded by Ann Hatcher recommending approval of the October 12, 2021 and November 16, 2021 meeting minutes. A vote was taken by roll call: YES = Robert Orbeta (Alameda), Catalina Sanchez (Gridley), Melissa Price (Lodi), Ann Hatcher (Santa Clara) and Eric Campbell (Roseville). The motion passed.

REPORTS AND COMMITTEE ACTION ITEMS

3. Report of Current Financial Market Conditions or Issues
Michael Berwanger of PFM provided a presentation of the current financial market conditions. From mid November to the end of the year, the Treasury and MMD saw minimal change. AAA MMD saw more moderate increases shadowing the Treasury rate movement. Rates are much higher than they were last year, however, they are still relatively much lower than the historic average. For the week ending January 19th, municipal bond funds saw the first outflows since March 2021. Outflows continued into the following week totaling $1.43 billion the week ending January 26th. New issuance volume was down by 51.04% year-over-year in October, while year-to-date issuance volume was 7.88% lower than 2020 issuance through October. According to the effective Fed funds futures, the market expects

a rate hike in Q1 and subsequent rate hikes in each of the following quarters. For the past year SOFR, SIFMA, and 1-M LIBOR have all remained below 0.20%. Currently, SIFMA and SOFR are below 80% of 1-M LIBOR at 0.04% and 0.05%, respectively. The 2008A Hydroelectric Bonds have continued to reset in line with SIFMA.

4. Debt and Interest Rate Management Report

The Debt and Interest Rate Management Report for period ending December 31, 2021 was presented and recommended for acceptance by the Finance Committee. There have been no material changes to any fixed or variable debt since the last Debt and Interest Rate Management Report. The ratings on all NCPA Projects have remained the same as well as counterparty ratings. The Mark-to-Market on the outstanding swaps changed from a negative value of $17.3 million on June 30, 2021 to a negative value of $15.5 million on December 31, 2021. Geothermal 2012 Series A bonds are set to roll off in July this year, leaving the 2016 Series A bonds with a final maturity in July 2024. The Committee would like to revisit how the funds are handled when debt rolls off in 2024. Hydroelectric debt service will be dropping off over the next couple years, however, there are several large projects on the horizon. Capital Facilities outstanding debt is approximately $13.5 million with a final maturity date of August 1, 2024. Lodi Energy Center (LEC) Group A debt is approximately $200 million, of which, $30 million is scheduled to roll off in 2025. LEC Group B debt is approximately $100 million.

The Hydroelectric interest rate swap as of December 31, 2021 shows a total projected savings over the life of the bonds at $13.9 million. The projected savings to date is $8.7 million while the actual savings date is $13.6 million.

Motion: A motion was made by Bob Orbeta (Alameda) and seconded by Melissa Price (Lodi) recommending approval of the Debt and Interest Rate Management Report for period ending December 31, 2021. A vote was taken by roll call: YES = Robert Orbeta (Alameda), Catalina Sanchez (Gridley), Melissa Price (Lodi), Ann Hatcher (Santa Clara) and Eric Campbell (Roseville). The motion passed.

5. Approve the Issuance of Hydroelectric Project Number One Bonds, 2022 Refunding Series A and 2022 Taxable Refunding Series B

Staff is seeking approval of the issuance of up to $173 million of fixed rate Hydroelectric Project Number One Revenue Bonds, 2022 Refunding Series A (tax-exempt) and Hydroelectric Project Number One Revenue Bonds, 2022 Refunding Series B (taxable) and to delegate to the General Manager and other NCPA officials the authority to execute related legal documents and take other actions needed to issue these bonds.

Mike Berwanger of PFM reported that the refunding is on schedule, seeking Commission approval at the February 24th Commission meeting. Currently, $76 million Series 2012A is outstanding – callable on July 1, 2022 and $79 million Series 2008A VRDO bond is outstanding all of which is callable on any date. The Agency is looking to refund 2012A bond for an NPV savings of approximately 20% or $16 million. Staff is also considering refunding 2008A VRDO bonds and issuing taxable bonds to terminate the associated swap. The economics of the 2008A refunding and swap de-risking have seen dramatic swings over the last few weeks given the market volatility. The NPV savings have changed from a savings of approximately $2.9 million on December 29, 2021 to $2.3 million on January 14, 2022 to -$689,000 as of February 1, 2022.

The Swap was designed to approximate SIFMA, however it was expected to outperform in a low or compresed rate environment which it has. As rates rise, that outperformance will diminish as NCPA has experienced for periods of time. The 2008A swap had a projected savings of $13.9 million and the actual savings to date is $13.6 million. The Agency has experienced the most favorable rates for this time period. Going forward, however, that may not be the case with rates trending back up – the swap could return to a break-even scenario. The savings/dis-savings from the de-risking are more heaviliy reliant on underyling assumptions than a normal refunding. The Committee was asked if the NPV savings loss should be bumped up from $500,000 to $750,000 in order to go forward with terminating the swap. Due to the volatility, the Committee recommended increasing the not-to-exceed amount from $500,000 to $1 million to allow staff some flexibility.

Staff is requesting the Finance Committee recommend to the Commission for approval the issuance of up to $173 million fixed rate Hydroelectric Project Number One Revenue Bonds, 2022 Refunding Series A (tax-exempt) and Hydroelectric Project Number One Revenue Bonds, 2022 Refunding Series B (taxable). Motion: A motion was by Ann Hatcher (Santa Clara) and seconded by Eric Campbell (Roseville) approving staff's above recommendation. A vote was taken by roll call: YES = Robert Orbeta (Alameda), Catalina Sanchez (Gridley), Melissa Price (Lodi), Ann Hatcher (Santa Clara) and Eric Campbell (Roseville). The motion passed.

6. **Approve Modifications to the NCPA Investment Policy and Guidelines**
Sondra Ainsworth provided a presentation with recommended modifications to the NCPA Investment Policy and Guidelines. The primary goals of the proposed modifications are to improve overall transparency and include legistative code changes. One of the suggested modifications to the guidelines was to add Environmental, Social and Governance (ESG) investment objectives. The consensus of the Committee was that the Finance Committee's responsibility is to maintain the financial well being of the Agency, not make social policy changes. The Committee suggested taking this ESG investment objective to the Utility Directors as well as the Commission for a more in depth policy discussion and their recommendation on whether or not this should be added to the policy.

In regard to the new investment type – supranationals, Alameda stated that the 20% limit of the par value of the portfolio seemed too high. Palo Alto suggested this objective may be brought into the ESG umbrella discussion.

Randy Howard stated he would bring the ESG, fossils fuel investments, and supranationals topics to the next Utility Director and Commission meetings for discussion and consideration.

NEW BUSINESS

7. **Other Items of Interest to the Finance Committee**
None

8. **Next Finance Committee Meeting -** The next regular Finance Committee meeting is scheduled for May 10, 2022 at 10:30am.

ADJOURNMENT

The meeting was adjourned at 12:51pm.