651 Commerce Drive
Roseville, CA 95678

phone (916) 781-3636
fax (916) 783-7693
web www.ncpa.com

TO: NCPA Finance Committee

FROM: Donna Stevener, AGM Finance/Administrative Services

SUBJECT: NCPA Finance Committee Meeting Minutes of February 10, 2016

Finance Committee Attendees:

Committee Members:		**Attended:**	**Consultants:**	
Gary Plass	Healdsburg	Call-in	Mike Berwanger	PFM
Bob Orbeta	Alameda	Call-in	Rian Irani	PFM
Jordan Ayers	Lodi	Absent	Harry Kightlinger	PFM
Monty Hanks	Roseville	Call-in		
Jan Pepper	Santa Clara	Call-in	Gene Carron	Orrick
NCPA Staff:			**Member Staff:**	
Donna Stevener			Tarun Narayan	Palo Alto
Randy Howard				
Sondra Ainsworth				

1. & 2. Call Meeting to Order and Roll Call
Chairman Gary Plass called the meeting to order at 10:02 a.m. and roll call was conducted as listed above.

3. Approve Minutes of November 10, 2015
Minutes for the November 10, 2015 meeting were approved as presented.

1st Bob Orbeta

2nd Gary Plass

Representative	*Member Org*	*Vote*
Gary Plass, Chairman	Healdsburg	Yes
Bob Orbeta	Alameda	Yes
Jordan Ayers	Lodi	Absent
Monty Hanks	Roseville	Yes
Jan Pepper	Santa Clara	Yes

Voting Results: 4 Ayes, 0 Noes, 0 Abstain, 1 Absent

PUBLIC FORUM

Mr. Plass asked if anyone wished to address the Committee on matters within the jurisdiction of the Committee. No one from the public was present at the site or at any of the teleconference locations.

REPORTS AND COMMITTEE ACTION ITEMS

4. Review of December 31, 2015 Debt & Interest Rate Management Report

Ms. Stevener reviewed the Debt & Interest Rate Management Report for December 31, 2015. Key highlights included:

- No new debt was issued and the mark to market value of the swaps remains negative.
- The IRS continues to sequester Build America Bond (BABs) subsidies, although the reduction went from 7.2% to only 6.8% for the December 1, 2015 debt payment. Impact to the LEC participants was $227,000 higher interest during the last six months. Mr. Berwanger discussed what some other clients are doing regarding refinancing the BAB's, although due to a really high "make whole" call cost, the economics don't work for NCPA.
- Only one counterparty remains since most of the interest rate swaps were refinanced, and Citi's credit rating was upgraded from A to A+ by Fitch.
- The interest rate swaps continue to perform well, with savings much higher than projected. Estimated savings through December 31, 2015 was $4.2 million with actual savings $3.1 million higher at $7.4 million.
- Variable rates continue to be at near all-time lows. The tax exempt rates remain at only 1 basis point. The taxable rates saw an increase in December due to the rate hike by the Feds. The taxable rates went from 15 to 16 basis points to 40 basis points.

Motion: Recommend that the NCPA Commission approve the December 31, 2015 Debt and Interest Rate Management Report as presented.

1st Gary Plass

2nd Monty Hanks

Representative	*Member Org*	*Vote*
Gary Plass, Chairman	Healdsburg	Yes
Bob Orbeta	Alameda	Yes
Jordan Ayers	Lodi	Absent
Monty Hanks	Roseville	Yes
Jan Pepper	Santa Clara	Yes

Voting Results: 4 Ayes, 0 Noes, 0 Abstain, 1 Absent

5. Review and Discussion of June 30, 2015 Post Employment Benefits Other than Pensions Long-term Funding Plan

Mr. Howard explained the need to consider a long-term funding plan for the OPEB (Retiree Medical Plan) obligation. As discussed at the last meeting, we need to get our financial house in order, especially with the possibility of new members and end of life decisions upcoming for certain power plants. Ms. Stevener reviewed a PowerPoint presentation showing the increase in Unfunded Actuarial Liability from $5.0 million to $14.4 million, a decrease of funding level of 78% to 60.7%. PFM did a review for NCPA and found specific guidance from Standard & Poor's saying less than an 80% funding level is a concern that could negatively affect a credit rating. Ms. Stevener laid out a proposed strategy which included negotiation of a cap on health care premiums which the unions agreed to consider and to look at a shorter amortization period for the unfunded liability; similar to refinancing your mortgage from 30 years to 15 years. As requested by the Finance Committee last meeting, scenarios were expanded to look at the annual funding impact of 5, 8 10, 15 and 20 year funding scenarios. Annual impact ranged from $173,000 (20 years) to $2.3 million (5 years) additional annual contributions. Ms. Stevener then presented the estimated impact for each member/participant for each of the scenarios.

The staff recommendation was to:

- Establish a formal plan for approval by the NCPA Commission to address the issue
- Negotiate health care premiums to cap the exposure
- Shorten the amortization period to 8 years beginning with FY 2017 budget
- Use new services revenues to offset a portion of the additional required funding to mitigate member cost impact
- Update actuarial calculations in 2017 and update the plan accordingly

Extensive discussion occurred regarding the recommended proposal. Highlights include:

- Mr. Hanks (Roseville) – expressed concerned about timing of the plan; their retail rate case is already in place for three years; also expressed concerned about what will happen if the updated 2017 report is worse.
- Mr. Orbeta (Alameda) – Alameda is in a unique situation with declining load forecast for retail customers; they are losing revenue; can NCPA cut internal costs to make up some of the extra funding?
- Ms. Pepper (Santa Clara) – the 8 year number is a lot of money for Santa Clara.
- Mr. Hanks (Roseville) – understands the need to have a plan; recommends that we negotiate with unions first.
- Mr. Hanks (Roseville) - has concerns with 3rd bullet (accelerated amortization), but okay with rest of the proposal. Roseville needs at least 2 years notice of a major change in funding requirements in order to put the additional money in their retail rate plan.
- Ms. Pepper (Santa Clara) - suggested NCPA matching additional funding via budget cuts.

Overall, the Committee supported the concept of a plan and supported all the components except for the accelerated amortization. Ms. Pepper didn't receive the presentation prior to the meeting and requested a new copy be sent. The Committee agreed that they would like more time to review the scenarios and talk to the Utility Directors (UD's) at their cities for guidance. Mr. Howard suggested that NCPA present the issue to the UD's at their next meeting. Ms. Stevener suggested a special Finance Committee meeting be held in a few weeks to continue discussion on the issue and the Committee agreed to look at dates in 3 weeks' time.

6. Report on Current Financial Market Conditions or Issues

Mr. Berwanger reported that 2016 has been a wild ride in the markets so far. NASDAQ is down 12%; Standard & Poor's 500 index is down 8%. Meanwhile, unemployment rates are down and interest rates are still very low. The Fed raised rates in December, with expectations to raise rates every quarter in 2016. Now, new expectations are maybe only 2 increases will happen in 2016, maybe none. Short-term rates are up and the longer-end of yield curve is down. This situation may open up refunding opportunities for NCPA. The AAA 30 year rate for municipals is only 2.7%. While the Treasury rate increased in the short-end of the curve, tax exempt rates didn't follow and remain at almost the lowest levels ever in all portions of the yield curve.

Mr. Plass left the meeting at 10:58 a.m.

NCPA's Variable Rate bonds have reset at 1 basis point (bp) for the last 3 months and remain at that level. As Ms. Stevener mentioned during her report, taxable variable rate debt popped up with the increase in the Fed rate to 40 bp.

Volume in the municipal market is down in 2016. There is a large demand for municipal bonds, but little offerings, driving the rates down. The NCPA Hydro Interest Rate Swap has performed very well in this market with gap between SIFMA & LIBOR indices. The structure is making money in this environment. PFM performed some refunding screens on NCPA debt and found a few possible opportunities for the Geothermal bonds and the Hydroelectric bonds. Dollar savings are very small and the Committee didn't want to pursue the opportunities unless the savings were much larger.

7. Discuss Financial Advisory Services Contract

PFM staff left the call during the following discussion. In addition, Several members of the Committee had to leave the call and there was no longer a quorum to discuss this item.

8. Discussion and Possible Action Regarding Selection of Auditors to Perform FY 2016-17 Financial Audit

This item was not discussed due to lack of a quorum.

NEW BUSINESS

9. Other Items of Interest to the Finance Committee

No items were discussed.

10. Next Finance Committee Meeting

The next regularly scheduled meeting is May 11, 2016 at 10:00 a.m.

A special meeting will be scheduled in 3 weeks to continue discussion the items 5, 7 & 8. Those present suggested March 7th or 9th at 10:00 a.m. NCPA will contact the Committee to confirm the best date/time for the special meeting.

ADJOURNMENT

Meeting was adjourned at approximately 11:23 am.