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February 11, 2015

TO: NCPA Finance Committee

FROM: Donna Stevener, AGM Finance/Administrative Services

SUBJECT: NCPA Finance Committee Meeting Minutes of February 11, 2015, 10 a.m.

**Finance Committee Attendees:**

**Committee Members**

Gary Plass	Healdsburg	Call-in
Bob Orbeta	Alameda	Call-in
Jordan Ayers	Lodi	Call-in
Monty Hanks	Roseville	Absent
Jan Pepper	Santa Clara	Call-in

**NCPA Staff**

Donna Stevener  
Randy Howard  
Sondra Ainsworth

**Consultants**

Will Frymann	PFM
Rian Irani	PFM
Mike Berwanger	PFM
Gene Carron	Orrick
Michael Dean	Meyers Nave

**Public**

None

**1. & 2. Call Meeting to Order and Roll Call**

Chairman Gary Plass called the meeting to order at 10:06 a.m. and roll call was conducted as listed above.

**3. Approve Minutes of November 12, 2014**

Minutes for the November 12, 2014 meeting were approved as presented.

1<sup>st</sup> Jan Pepper

2<sup>nd</sup> Bob Orbeta

<i>Representative</i>	<i>Member Org</i>	<i>Vote</i>
Gary Plass, Chairman	Healdsburg	Yes
Bob Orbeta	Alameda	Yes
Jordan Ayers	Lodi	Yes
Monty Hanks	Roseville	Absent
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, 2014 Debt & Interest Rate Management Report**

Ms. Stevener reviewed the Debt & Interest Rate Management Report for December 31, 2014.

Key highlights included:

- No change in debt or interest rate swaps over the last six months.
- The Federal Government continued the sequestration program for Build America Bonds (BABs) by reducing the interest reimbursement on the Lodi Energy Center BABs by 7.3% or \$244,233 for the last six months. Ms. Stevener indicated that the President's proposed budget would end sequestration and the Legislative and Regulatory Affairs group would be strongly supporting this in our upcoming meetings in Washington DC.
- Filings for disclosures were made on time for the year-end financial and other continuing disclosure requirements on outstanding bonds.
- In September/October, Standard & Poor's affirmed all of the NCPA bond ratings and the rating of CDWR's Lodi Energy Center bonds.
- Citibank was replaced as the Letter of Credit provider for the Variable Rate Debt Program with Bank of Montreal.
- No credit concerns or collateral calls required for our swap counterparty during the last six months.
- The fair value of the interest rate swaps are negative \$21.1 million, which would be the payoff amount to get out of the interest rate swap.
- The swaps continue to perform better than expected in the current low interest rate environment, with life to date savings \$2.4 million better than expected over the last 75 months.

Motion: Recommend that the NCPA Commission approve the December 31, 2014 Debt and Interest Rate Management Report as presented.

1<sup>st</sup> Bob Orbeta

2<sup>nd</sup> Jan Pepper

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

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

## **5. Report on Current Financial Market Conditions or Issues**

Mr. Frymann reviewed a presentation prepared by PFM, NCPA's financial advisory firm. Interest rates are down even more from last quarter's report due to global concerns. The municipal market outperformed the treasury market and January brought many opportunities for refundings as rates again dropped near historic lows. Ms. Stevener reminded the Committee that NCPA currently has no currently callable debt eligible for refunding. Mr. Frymann indicated that early February saw a slight uptick in rates of 30 – 35 basis points on the long end of the yield curve. Despite some volatility, negative news on the global front creates expectations for rates to remain low.

When comparing rates to historic lows and last year, the current yield curve is flatter, i.e. long-term rates are lower than last year. Recent months have shown a good supply of bonds due to lots of issuers refunding bonds in January (70% of deals were refundings). Looking forward, economists project long-term rates to increase about 1% over the next 6 quarters, a very similar picture to the last two years projections. With good unemployment rates and improvement in the domestic economy, the expectation is for short-term rates to increase as early as the 3<sup>rd</sup> quarter of 2015.

PFM also prepared a refunding screening analysis for NCPA bonds. The analysis showed certain bonds may show small savings over the policy target at this time. However, due to the long timeframe prior to bonds being callable (2019), negative arbitrage in the refunding escrow makes the level of savings not very compelling. PFM recommends waiting due to these inefficiencies in the funding of the escrow accounts. PFM will continue to monitor the situation.

As far as banker's proposals, Wells Fargo provided a proposal that showed limited refunding opportunities as discussed above. No action is recommended at this time.

PFM also provided recent reports from the rating agencies about their view of Public Power. The Public Power outlook, despite concerns about Green House Gas mandates and other issues, can be described as "stable" and "steady", which a good reflection on our industry.

Mr. Berwanger indicated that certain rating agencies have contacted clients with questions unique to California regarding the Governor's 50% RPS proposal in his "State of the State" address and the recent decision on the Proposition 26 case being pursued against the City of Redding. Mr. Howard indicated that the Proposition 26 decision did have some positive benefits that should be pointed out and that NCPA is calling together the Legal Committee on the General Fund Transfer portion of the decision to discuss options for fixing the issues and even proposed legislation to fix the issue for the members.

Mr. Orbeta left the meeting at 10:30 a.m.

## 6. Discuss Financial Advisory Services Contract

PFM staff left the room during the following discussion.

Ms. Stevener discussed the Request for Proposal (RFP) process in 2012 that the Finance Committee went through to select our financial advisor. PFM was selected as the financial advisor during that process and a three year contract was executed with two-one year optional extensions at NCPA's discretion. Ms. Stevener indicated that she was seeking feedback from the Committee as to their desire to extend the contract or go through another RFP process. After discussion among the Committee members the following motion was made:

Motion: Motion to instruct staff to proceed with contract extension for one year with PFM for financial advisory services.

1<sup>st</sup> Jordan Ayers

2<sup>nd</sup> Jan Pepper

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

Voting Results: 3 Ayes, 0 Noes, 0 Abstain, 2 Absent

## 7. Discussion and Possible Action Regarding Selection of Auditors to Perform FY 2015-16 Financial Audit

Ms. Stevener reviewed the history surrounding the auditor selection process. Moss Adams was the selected firm and last year the Commission approved the third extension of the contract, subject to annual review by the Finance Committee of their performance. Ms. Stevener reviewed the prepared staff report and discussed the options and issues to consider. After discussion the following motion was made:

Motion: Motion to instruct staff to stay with Moss Adams for the FY 2015 financial audit and reconsider going out for another RFP process again next year.

1<sup>st</sup> Jordan Ayers

2<sup>nd</sup> Jan Pepper

<i>Representative</i>	<i>Member Org</i>	<i>Vote</i>
Gary Plass, Chairman	Healdsburg	Yes
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Voting Results: 3 Ayes, 0 Noes, 0 Abstain, 2 Absent

## **NEW BUSINESS**

### **8. Other Items of Interest to the Finance Committee**

No items were discussed.

### **9. Next Finance Committee Meeting**

The next scheduled meeting is May 13, 2015 at 10:00 a.m.

## **CLOSED SESSION**

### **10. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION**

Chairman Plass and Mr. Dean took the Committee into closed session to discuss the initiation of litigation pursuant to paragraph (d) (4) of Govt. Code section 54956.9: One case.

## **OPEN SESSION**

General Counsel Michael Dean reported there was no reportable action taken on item 10.

## **ADJOURNMENT**

Meeting was adjourned at approximately 11:10 am.