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Minutes

To: NCPA Finance Committee
From: Trisha Zimmer
Subject: February 11, 2020 Finance Committee Meeting Minutes

1. Call Meeting to Order

The meeting was called to order at 10:35am.

2. Roll Call

The meeting attendees either present or participating remotely are as follows: Finance Committee representatives: Ann Hatcher (Santa Clara), Robert Orbeta (Alameda) and Eric Campbell (Roseville); NCPA Staff: Monty Hanks, Sondra Ainsworth, Jane Luckhardt, Randy Howard, Tarun Narayn from Palo Alto, and Mike Berwanger of PFM as well as Jim Carbone. Committee representatives Greg Scharff (Palo Alto) and Melissa Price (Lodi) were absent. 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.

REPORTS AND COMMITTEE ACTION ITEMS

3. Approve Minutes from the November 12, 2019 Finance Committee Meetings

A motion was made by Ann Hatcher and seconded by Eric Campbell recommending approval of the November 12, 2019 Finance Committee meeting minutes. A vote was taken by roll call: YES = Ann Hatcher (Santa Clara), Robert Orbeta (Alameda) and Eric Campbell (Roseville). The motion passed.

4. Report of Current Financial Market Conditions or Issues

Michael Berwanger of PFM provided a presentation on the current financial market conditions. Interest rates are a full point lower since a year ago. This is a historic low for AAA MMD. New issuance volume was up 18.64% in January year over year. Based on the effective Fed fund futures, the probability of at least one rate at the June meeting is 35%, and the probability of at least one rate cut at the December meeting is 77%. After sitting below 70% of 1-M LIBOR since mid-October, SIFMA surpassed 70% of 1-M LIBOR on December 18th and briefly rose above 80% or 1-M LIBOR on December 25th, before dropping to below 70% for the last few resets.

5. Hydroelectric Refunding Opportunity

At the November Finance Committee meeting, staff discussed an opportunity to refund the Hydroelectric Project No. 1 Revenue Bonds, 2012 Refunding Series A. At that November meeting, Committee members asked staff to continue to monitor the interest rates and refine the numbers and financing scenarios for their consideration. At the time of this meeting, the numbers are much more favorable being that the interest rates have dropped further. A taxable advance refunding of the 2012A bonds could produce over \$9 million in NPV savings. A forward starting swap could produce over \$15 million in NPV savings. PFM provided detailed settlement examples and mechanics. A downgrade in the Agency's credit rating would not affect the swap, however it could change the collateral requirements.

A benefit of doing a forward starting swap is that the process is somewhat simple and straightforward. There is a lot less paperwork and this option would take less time compared to a traditional bond refunding. The advantages of a forward starting swap include: no upfront cash outlay required, mitigates interest rate risk, low transaction costs if swap is cash-settled. The disadvantages of a forward swap include: Basis risk, no ability to benefit if the futures decline in interest rates or standard non-call swap, termination payment required at settlement if interest rates are unchanged or lower, and possible collateral posting requirement depending on terms of the ISDA Agreement.

The group discussed the LIBOR discontinuation risk. Due to a change in rules announced in 2017, contributing bonds will not be compelled to make LIBOR submissions until after the end of 2021.

The next steps would be for PFM and NCPA staff to work on the specifics and seek approval (most likely at the next Finance Committee meeting). The members would not be committed to go forward by allowing this next step. Monty Hanks will plan a call with the Hydroelectric Project participants to go over the details of this swap opportunity to find out if there is a majority consensus to move forward. There were no objections by members present with going forward with the next steps in this process.

6. Debt and Interest Rate Management Report

Monty Hanks provided the semi-annual Debt and Interest Rate Management Report for the period ending December 31, 2019. Mr. Hanks highlighted that no negative changes to any fixed or variable rate debt or outstanding swap agreements occurred since the last report. In December, staff completed the refunding of the 2010 Capital Facilities Series A bonds. The project participants realized a NPV savings of \$2.4 million or 9.55% of refunded bonds. In addition, the refunding was able to eliminate the final year of maturity from August 2025 to August 2024. Ratings on all projects remained the same. No defaults under the above swap agreements, fixed rate or variable rate debt have occurred. Counterparty ratings remained the same; no collateral posting by the counterparty has been required and the counterparty remains highly rated. The MTM on the outstanding swaps changed from a negative value of \$15.8 million on June 28, 2019 to a negative value of \$16.8 million on December 31, 2019.

MOTION: A motion was made by Bob Orbeta and seconded by Eric Campbell recommending that the Commission accept the Debt and Interest Rate Report for the period ending December 31, 2019. A vote was taken by roll call: YES = Ann Hatcher (Santa Clara), Robert Orbeta (Alameda) and Eric Campbell (Roseville). The motion passed.

7. Annual Review of NCPA Investment Policy and Guidelines – Policy 200-100

Staff is proposing to increase the maximum limit that the Agency can invest in the California Local Agency Investment Fund (LAIF) to \$75 million. This change corresponds with the State of California's increase to LAIF's deposit limit for regular reports from \$65 million to \$75 million effective January 1, 2020.

Staff is also proposing the addition of a limit in the percentage of the portfolio that the Agency can invest in issuers of medium-term corporate notes. The proposed limit is no more than 5% per issuer. This change formalizes current Agency practice and mitigates concentration risk in a single issuer and contributes to portfolio diversification.

As well, staff proposes an increase in the allowable maximum percentage of portfolio investments in municipal bonds from 10% to 20%. Staff also proposes a limit of no more than 5% of municipal bonds per issuer. These changes will give the Agency additional investment flexibility while maintaining the preservation of the portfolio principal and mitigation of credit and concentration risk.

Staff proposes to add clarifying language in the credit rating requirement that changes the minimum credit rating requirements from an A rating to Category A rating or its equivalent.

Motion: A motion was made by Eric Campbell and seconded by Ann Hatcher recommending approval of the modifications to the NCPA Investment Policy and Guidelines as presented. A vote was taken by roll call: YES = Ann Hatcher (Santa Clara), Robert Orbeta (Alameda) and Eric Campbell (Roseville). The motion passed.

NEW BUSINESS

8. Long-Term Funding Plan for the NCPA Pension Program.

Sondra Ainsworth provided the annual update of the Long-Term funding plan for the NCPA Pension Program. Ms. Ainsworth reminded the group that the goal is to obtain a minimum of 80% funding level and a continued 100% funding of the required employer contribution as well as shorten the amortization of unfunded liability from 30 years to 15 beginning FY2018. As of fiscal year ending June 30, 2018, the plan's funded status is at 60.2% up from 58.5% the prior year. Some of the drivers that contributed to this net increase include net investment return and contributions that outpaced distributions.

Staff recommends that the Committee affirm the goal to obtain 80% funding level, affirm funding accelerated to 15 year UAL for fiscal year 2021 and provide update to Commission on the UAL funding status.

Motion: A motion was made by Ann Hatcher (Santa Clara) and seconded by Eric Campbell recommending the Commission accept the Long-Term Funding Plan for the NCPA Pension Program update and affirmations as presented. A vote was taken by roll call: YES = Ann Hatcher (Santa Clara), Robert Orbeta (Alameda), and Eric Campbell (Roseville). The motion passed.

9. Next Finance Committee Meeting

The next regular Finance Committee meeting is scheduled for May 12, 2020.

ADJOURNMENT

Meeting was adjourned at 11:58am.