



651 Commerce Drive
Roseville, CA 95678

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

February 19, 2014

TO: NCPA Finance Committee

FROM: Donna Stevener, AGM Finance/Administrative Services

SUBJECT: NCPA Finance Committee Meeting Minutes of February 19, 2014, 1:00 p.m.

Finance Committee Attendees:

Committee Members

Gary Plass	Healdsburg
Jordan Ayers	Lodi
Bob Orbeta	Alameda
Jan Pepper	Santa Clara

NCPA Staff

Donna Stevener

Consultants

Will Frymann	PFM
Dan Hartman	PFM
Mike Berwanger	PFM
Rian Irani	PFM
Gene Carron	Orrick
Marc Bauer	Orrick

Public

None

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

Chairman Gary Plass called the meeting to order at 1:04 p.m. and roll call was conducted as listed above.

3. Approve Minutes of October 30, 2013

Minutes for the October 30, 2013 meeting were approved as presented.

1st Bob Orbeta

2nd Jan Pepper

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

Voting Results: 3 Ayes, 0 Noes, 1 Abstain 0 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, 2013 Debt & Interest Rate Management Report

Ms. Stevener referred the Committee to the Debt & Interest Rate Management Report included in the packet. Ms. Stevener indicated that the report is provided every six months and this report is very similar to the last report; not much has changed over the last six months. There has been no new debt issues and the interest rate swaps continue to perform well, with positive basis differentials providing more savings than projected. Citigroup remains the one credit exposure related to interest rate swaps and the variable rate debt program, and their credit rating was upgraded by Moody's since the last report.

The mark to market valuation remains negative, although there was some improvement from June 30, 2013 when the amount was a negative \$18.1 million, versus the December 31, 2013 negative \$15.1 million. This large termination payment means it is still not economic to refund the variable rate debt and unwind the interest rate swaps, although staff continues to monitor the situation.

Looking forward, the letter of credit related to the variable rate debt program expires in September, and a plan for renewal needs to be developed. Ms. Stevener indicated that PFM has recommendations for the renewal that they will discuss under the market update portion of the agenda.

Motion: Recommend that the NCPA Commission approve the December 31, 2013 Debt & Interest Rate Management Report as presented.

1st Jordan Ayers

2nd 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
Jan Pepper	Santa Clara	Yes

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

5. Discussion Regarding Selection of Auditors to Perform FY 13/14 Financial Audit

Ms. Stevener explained that in 2008 NCPA did a Request for Proposal (RFP) process for financial auditors. From that process Moss Adams was selected as the financial auditor and a contract was established that provided for a three year term with two additional three year extensions available at NCPA's discretion. In 2011 NCPA exercised its option to extend the contract for an additional three years through FY 2013. At this time, NCPA has two options: extend the Moss Adams contract for an additional three years or perform a new RFP process and select new auditors for FY 14.

Ms. Stevener indicated that staff has received excellent service from Moss Adams, they have rotated the partner in charge to provide new eyes on our audit and they have met our November 1 deadline each and every year. They have expertise in our industry and especially with joint action agencies in California. They have low turnover of audit staff, providing great efficiencies for NCPA staff when conducting the audit. Based on these factors, NCPA staff recommends that the final three year option for extension be exercised and that Moss Adams be retained for the FY 2014 financial audit.

Mr. Plass asked if there were benefits of a new firm being engaged to have fresh eyes look at things and to maybe sharpen their pencil as to the fees paid. Ms. Stevener indicated that Moss Adams has internal procedures whereby different partners are rotated onto our job to provide fresh eyes and that their fee is substantially below the previous audit firm's and have stayed at this low level for many years. The fee has increased only \$2,000 over the last three years, less than 1% per year. In addition, the learning curve for new auditors to understand our business is very steep and it is time consuming for NCPA staff to retrain new auditors, causing inefficiencies on our side. Ms. Stevener indicated that the contract provided for notice to terminate at NCPA's discretion and that the three year notice is a contract option, but NCPA has an out with proper notice. It is staff's intent to look at service levels and other factors each year and evaluate the situation annually. No matter the outcome of the annual review, Ms. Stevener indicated that it would be appropriate to rotate auditors at the end of this final extension.

Motion: Recommend that the NCPA Commission approve the extension of contract with Moss Adams for three years under the terms of the current audit contract with annual review by the Finance Committee prior to each fiscal year engagement.

1st Gary Plass

2nd Jordan Ayers

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

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

6. Report on Current Financial Market Conditions or Issues

Mr. Frymann, PFM, reviewed a PowerPoint on current market conditions. He indicated that in early 2014 interest rates have fallen after a run up in rates at the end of 2013. Current rates remain well below long-term averages. The short end of the yield curve remains at all-time lows, while the longer end is below average, but higher than 2013 rates. This has resulted in a steepening of the yield curve from the past several years. Mr. Frymann indicated that the current volatility in rates is due to several factors, including the FOMC taper of their quantitative easing program and a supply/demand imbalance.

The FOMC is continuing to keep short-term rates at very low levels to impact the unemployment rate and this has benefitted NCPA's Variable Rate Debt program. The municipal bond funds have shown continued reduction in investments in municipal bonds (outflows), which would normally raise rates, however, volumes from the issuer side are down substantially, offsetting the expected impact and rates remain low.

It is expected that short-term rates will remain low throughout 2014 as the FOMC continues to focus on low short-term rates.

The debt ceiling bill was signed by the President over the weekend and sequestration for the Build America Bonds Subsidy was continued, even extended an additional year over the original plan. BAB's subsidy payments will continue to be cut by 5.5 to 7% through 2024.

Mr. Frymann then discussed the market for letter of credit (LOC) instruments. He indicated that this market is more robust as some new players have entered the market and some who left have rejoined, increasing the competition. NCPA currently has a 50 basis point fee for our LOC with Citigroup that expires in September. Based on the current market situation and increased competition, PFM feels it would be a good time to obtain bids for the renewal of the LOC. Mr. Hartman recommended that NCPA stick with the current financing structure for the 2008 Hydroelectric bonds and renew the LOC for 3 to 5 years. Ms. Stevener supported this approach and recommended that we ask PFM to send an RFP for LOC renewal within the next six weeks to obtain bids and evaluate the responses versus waiting until this summer to begin the process. The Finance Committee was supportive of this approach and will schedule a meeting in early April to evaluate the responses to the RFP.

NEW BUSINESS

7. Other Items of Interest to the Finance Committee

No items were discussed.

8. Next Finance Committee Meeting

The next meeting is scheduled for April 9, 2014 at 10:00 a.m.

ADJOURNMENT

Meeting was adjourned at approximately 1:40 p.m.

cc: Jim Pope