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Minutes

To: NCPA Finance Committee
From: Trisha Zimmer
Subject: August 9, 2022 Finance Committee Meeting Minutes

1. Call Meeting to Order and Roll Call

The meeting was called to order at 10:32am.

The meeting attendees either present or participating remotely were 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, Jane Luckhardt, as well as Mike Berwanger and Louise Houghton from PFM, Basil Wong from Santa Clara, 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 May 10, 2022 meeting.

A motion was made by Melissa Price and seconded by Ann Hatcher recommending approval of the May 10, 2022 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. At the May Federal Open Market Committee (FOMC) meeting the central bank raised the Fed funds by 50bps. Powell's comments that the Fed was not considering a 75bps rate hike in June temporarily eased market fears of more aggressive Fed monetary policy. Hawkish sentiments returned in June as strong labor data led to market expectations for tighter Fed monetary policy. In June, the Fed increased the funds by 75bps. July saw a positive momentum in the municipal market, with rates moving tighter across the curve, despite US treasuries continuing to remain volatile with large intraday swings. At the July FOMC meeting, the Fed increased the funds rate by another 75bps, as anticipated. AAA MMD yield curve shows rates are up significantly, however, starting to show a leveling off.

Historically speaking, even though rates are up, data shows that the current rates are still good. Municipal bond funds saw small inflows the week ending July 13th – the first inflow in 5 weeks, but outflows continued in the following weeks. New issuance volume was down 31.9% year-over-year in July, and year-to-date new issuance volume was 16.9% lower than issuance through July. While the market still anticipates multiple rate hikes for the rest of the year, forecasted rate growth is slowing – up through Q2 2023 – then rates may go down after that.

While 1-M LIBOR has experienced steady growth since February, SOFR has seen jumps in line with Fed rate hikes. In the meantime, SIFMA increased by 35bps following the FOMC June meeting.

In June, members of the Public Finance Network – including APPA – provided a letter to Congress voicing concern that, unless new legislation is enacted to waive the PAYGO Act connected to the American Rescue Plan, various subsidy programs could be impacted – this includes: BABs, QSCBs, QZABs, New CREBS and QECBs. Unless the PAYGO Act is waived, subsidy payments will be eliminated in 2023 through 2026. This issue will likely not be addressed until after November elections, but historically Congress has taken legislative action at the end of the calendar year to waive the PAYGO scorecard. NCPA Lodi Energy Center currently has two series of BABs – should NCPA lose the BAB subsidy in 2023 through 2026, the Agency would have to pay approximately \$12.8 million in additional interest on the Indenture Group A BABs and approximately \$5 million in additional interest on the Indenture Group B BABs. In evaluating the potential for refunding both BABs – PFM determined a refunding of Group A BABs would not be economic and a refunding of Group B BABs would generate a marginal savings of approximately \$3 million. PFM recommends waiting for the mid-terms to pass and see how Congress handles this.

4. Debt and Interest Rate Management Report

Monty Hanks provided the semi-annual written report regarding the status of all fixed and variable rate debt and the Agency's rate swaps for the period ending June 30, 2022 in accordance with the Debt and Interest Rate Management Policy, Section 20.

Material changes since last report include – 2008 Hydroelectric swap with Citi was terminated, 2008 Hydroelectric Letter of Credit with BofA was terminated and the 2008 and 2012 Hydroelectric bonds were redeemed and refunded with the 2022 Hydroelectric bonds. Since the last report NCPA met with all three rating agencies. Ratings on all projects remained unchanged. No defaults occurred on any of NCPA's outstanding debt.

Motion: A motion was made by Ann Hatcher (Santa Clara) and seconded by Bob Orbeta (Alameda) recommending that the Commission accept and file the Debt and Interest Rate Management Report for period ending June 30, 2022. 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.

NEW BUSINESS

- 5. NCPA FY2022 Audit** – The FY2022 Annual Financial Audit is underway and the preliminary work was completed remotely. The auditors will be onsite at the end of August to complete the fieldwork. Staff is planning to present the final results of the Audit at the next meeting scheduled for October 11th.

6. Other Items of Interest to the Finance Committee

The Reserve and Security Deposit study is currently being studied by consultant UFS. Staff's most recent meeting with UFS was on August 8th. The study is due to be completed by August 18th. Monty Hanks provided a high-level discussion on the preliminary results. Any changes to the deposit requirements will require Member board approval to amend the Schedule Coordination Program Agreement. This will take a number of months to accomplish so we will need to consider the timing and possible accommodations in the meantime.

7. Next Finance Committee Meeting - The next regular Finance Committee meeting is scheduled for October 11, 2022 at 10:30am.

ADJOURNMENT

The meeting was adjourned at 11:39am.