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Minutes

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

1. Call Meeting to Order and Roll Call

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

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

2. Approve Minutes from the May 12, 2020 Meeting

A motion was made by Melissa Price and seconded by Robert Orbeta recommending approval of the May 12, 2020 Finance Committee Meeting minutes. A vote was taken by roll call: YES = Robert Orbeta (Alameda), Melissa Price (Lodi), Eric Campbell (Roseville), Greg Scharff (Palo Alto), and Ann Hatcher (Santa Clara). The motion passed.

3. Report of Current Financial Market Conditions or Issues

Michael Berwanger of PFM provided a presentation on the current financial market conditions. The markets are still open and remain calm. Last week the MMD rate set an all time low record. This is a very favorable market for the Members. New issuance volume in the municipal market was up by 43.10% year-over-year in July, while the year-to-date new issuance volume was 22.65% higher than 2019 issuance through July.

According to effective Fed funds futures, the market is not expecting any rate actions through January 2021. Following the late-March spike in rates due to the impacts of COVID-19 and subsequent Fed economic relief programs, the SIFMA Index has stabilized and remained around the 70% of LIBOR level since early May.

Since May, NCPA's Hydroelectric Project 2008 Series A Bonds have consistently reset

below 0.20% and have continued to reset better than SIFMA. The Hydro 2008A bonds are hedged with an interest rate swap and backed by a direct-pay letter of credit agreement with Bank of America, N.A..

4. Debt and Interest Rate Management Report

Monty Hanks provided a detailed presentation on the Debt and Interest Rate Management report as of June 30, 2020. The key highlights of the report included that there were no negative material changes to any fixed or variable rate debt or outstanding swap agreements occurred since the last report. Ratings on all projects remained the same, however, S&P put all sectors including Public Power, on negative outlook but this does not trigger a continuing disclosure notice, Fitch affirmed the AA- rating on Hydro Revenue Bonds, and an A rating on Lodi Energy Center Revenue Bonds, Issue One. No defaults under the swap agreements, fixed or variable rate debt have occurred. Counterparty ratings remained the same. The MTM on the outstanding swaps changed from a negative value of \$16.8 million on December 31, 2019 to a negative value of \$21 million on June 30, 2020.

Staff is recommending the Finance Committee accept the Debt and Interest Rate Management Report for the period ending June 30, 2020 and recommend Commission acceptance at the August 27 meeting.

Motion: A motion was made by Robert Orbeta and seconded by Ann Hatcher recommending acceptance of the Debt and Interest Rate Management Report for period ending June 30, 2020. A vote was taken by roll call: YES = Robert Orbeta (Alameda), Melissa Price (Lodi), Eric Campbell (Roseville), Greg Scharff (Palo Alto) and Ann Hatcher (Santa Clara). The motion passed.

5. Use of Geothermal Debt Reserve Funds for FY2020 Annual Settlements – Monty Hanks reported to the Committee that when the 2009A Geothermal bonds were issued, \$3.5 million of the proceeds were deposited into a Debt Service Reserve Fund. This amount is generally calculated as the equivalent of “maximum annual debt service” which provides the bondholders additional security and the intent is to use these funds for the final year of debt service payments. In 2016, staff refunded a portion of the 2009A bonds and then with the eventual final 2009A bond payment in FY2020, the funds in this debt service reserve were released to operations.

During FY2020 there were a number of unplanned events and unplanned expenses. Staff has estimated that there is a funding shortfall for approximately \$2 million for the Geothermal Project. The money for this shortfall would normally be collected through the annual settlements process. As an alternative option, staff recommends seeking Commission approval of issuing the remaining excess debt service reserve funds as part of the annual settlements process to avoid having the Project Participants cover this shortfall. After final settlements, any remaining funds will be refunded to the Project Participants.

Motion: A motion was made by Greg Scharff and seconded by Eric Campbell recommending that the Commission approve using the remaining excess debt service reserve funds as part of the annual settlements process to avoid Project Participants from covering any shortfall related to the Geothermal project. After final settlements, any remaining funds would then be refunded to the Project Participants. A vote was taken by roll call: YES = Robert Orbeta (Alameda), Melissa Price (Lodi), Eric Campbell (Roseville), Greg Scharff (Palo Alto) and Ann Hatcher (Santa Clara). The motion passed.

NEW BUSINESS

6. Strategic Plan 2021 – 2026

Staff is currently working on updating the Strategic Plan for 2021 – 2026. The Assistant General Managers plan to have discussions at various Committees, Workshops and Ad Hoc working groups in an effort to get member input creating new goals. Monty Hanks reported that of the seven draft strategies, two have been identified as specifically relating to the Finance Committee: Value – develop and enhance strategies to control costs, and Strength – maintain financial strength. The key considerations presented to this Committee for discussion were 1) Outstanding Debt, 2) Unfunded Liability, 3) Financial Policies and Agreements, 4) Disaster Recovery Center and 5) Capital Operations Reserve Equity Fund.

Staff will schedule a Special Finance Committee meeting in the near future to discuss this topic further.

7. Update Regarding the Other Post Employment Benefits (OPEB) Actuarial Valuation –

As of June 30, 2019, the full valuation of the OPEB trust is funded at 94.6%. Since this is almost fully funded, there are certain options to consider going forward, such as:

Investment Strategies: should NCPA consider changing? There are 3 strategies to choose from and NCPA can only pick one, blending is not an option;

Future Budgets: budget less or move the difference to pension or another trust;

Create another Trust: creating another trust is used to keep future contributions relatively flat against market volatility;

Consider using a new Trust to fund retiree medical expenses.

Staff has a meeting scheduled with PERS later this month to discuss all the various options. Staff will report back to the Finance Committee in October with recommendations.

8. NCPA FY2020 Audit

Staff reported that the annual audit is currently underway. The auditors will be present at the October Finance Committee meeting to present their findings and recommendations.

9. Next Finance Committee Meeting

The next regular Finance Committee meeting is scheduled for October 13, 2020.

ADJOURNMENT

The meeting was adjourned at 12:06pm.