



651 Commerce Drive
Roseville, CA 95678

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

TO: NCPA Finance Committee

FROM: Donna Stevener, AGM/CFO Finance/Administrative Services

SUBJECT: NCPA Finance Committee Meeting Minutes of August 12, 2015

Finance Committee Attendees:

Committee Members

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

Member Staff:

Tarun Narayan	Palo Alto	Call-in
---------------	-----------	---------

NCPA Staff

Donna Stevener	Attended
Randy Howard	Attended

Consultants

Will Frymann	PFM
Mike Berwanger	PFM
Gene Carron	Orrick

Larry Sobel	Orrick
Michael Dean	Meyers Nave
Julie Desimone	Moss Adams
Michael Smoot	Moss Adams

Public

None

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

Chairman Gary Plass called the meeting to order at 10:02 a.m. and roll call was conducted as listed above.

3. Approve Minutes of May 13, 2015

Minutes for the May 13, 2015 meeting were approved as presented.

1st Bob Orbeta

2nd Monty Hanks

<i>Representative</i>	<i>Member Org</i>	<i>Vote</i>
Gary Plass, Chairman	Healdsburg	Yes
Bob Orbeta	Alameda	Yes
Jordan Ayers	Lodi	Absent
Monty Hanks	Roseville	Yes
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. Report on Audit Plan for Fiscal Year 2015

Ms. Stevener introduced Julie Desimone, partner with our audit firm, Moss Adams. Ms. Stevener indicated that Moss Adams was here to conduct a review of the audit plan for fiscal year ended June 30, 2015 and to seek input from Committee for any particular areas of concern they may have or issues they want to have looked into deeper this year. Ms. Desimone then reviewed a PowerPoint presentation. She provided contact information and introduced the audit team members who would be working on the audit this year. Ms. Desimone indicated that no independence issues existed between Moss Adams and NCPA, in fact Moss Adams has not done any work for NCPA other than the prior year's audit. The audit team finished interim field work in July, which included the review of internal controls. No control issues were identified by Moss Adams during that work. Mr. Smoot indicated that they like to get input from the Committee on areas of concern. After inquiry, there were no specific concerns expressed by any of the Committee members. Mr. Smoot indicated that in addition to the audit team discussing possible areas of fraud, during the course of interim field work they interviewed staff at all levels of the organization to talk about controls and possible fraud. Moss Adams is not aware of any fraud at this point in the audit. Mr. Smoot then inquired if the Committee had any concerns regarding possible fraud. No concerns were expressed. Mr. Smoot then reviewed the audit timeline. Final field work will begin at the end of September, and the final audit will be delivered in early November. Deliverables from the audit include the audit report, a report to the governing board, a report to management on internal controls if needed and a special report on compliance with debt and investments. Ms. Desimone then discussed the expectations of NCPA, including timely delivery of information and expectations of Moss Adams to communicate any findings and adjustments when identified. She identified one possible concern in regard to new reporting under GASB 68 related to pensions. This new GASB statement requires that CalPERS produce special actuarial reports on the pension plans. CalPERS recently reported a delay in preparation of these reports until September. If the reports are delayed by CalPERS any further, the timing of the audit could be impacted. There were no questions for the auditors on the presentation.

5. Review of June 30, 2015 Debt and Interest Rate Management Report

Donna Stevener provided an overview of the Debt and Interest Rate Management Report for June 30, 2015. There were no new debt issuances or new swaps in the last six months. The Federal government continued budget sequestration reductions of 7.3% related to the interest rate subsidies for the Build America Bond program used to finance the Lodi Energy Center. The project participants were required to make up the difference of \$244,000 to pay the interest payment on June 1, 2015. No changes in NCPA bond ratings occurred in the last six months, but Citigroup's rating by Moody's was increased from A2 to A1; good news for a bank that had been downgraded due to the financial crisis. The fair value of the interest rate swaps went from negative \$21.1 million at the last report to negative \$19.5 million at June 30 2015. This large payoff amount continues to prevent NCPA from considering any refinancing of the swaps due to the economics being very poor.

NCPA variable rate debt reset at only 1 basis point this week and rates continue to be at or below the index for our variable rate (VRDO) program. The projected savings from these interest rate swaps was \$13.9 over the life of the swaps (through 2032), and so far the performance has far exceeded expectations. To date the projected savings were \$3.9 million, with actual savings at \$6.7 million, an additional \$2.7 million over expectations.

Ms. Stevener indicated that page 6 of the presentation shows individual participant's share of the interest rate swap mark-to-market value and a variance analysis of how the value would change if interest rates changed by 50 basis points. Jan Pepper asked for further explanation and Ms. Stevener responded that this report shows the impact that interest rate volatility has on the termination payment and each member's share of that number.

Motion: Recommend that the NCPA Commission approve the June 30, 2015 Debt and Interest Rate Management Report as presented.

1st Jan Pepper

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	Absent
Monty Hanks	Roseville	Yes
Jan Pepper	Santa Clara	Yes

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

6. Report on Current Financial Market Conditions or Issues

Will Frymann discussed bond market headlines. GDP was revised up in the 1st quarter, which is good news for the market. Unemployment rates continue to remain at 5.3%. All of this positive news feeds the expectation that the FOMC will increase the Fed Funds rate later this year. The question is "when?", not "if". Short-term rates are expected to increase, but long-term rates are down, resulting in a flattening of the yield curve.

On the global front, although news has been quiet as of late, Greece is not out of the woods yet. In addition, China saw a large drop in stocks in July and the government stepped in to correct the situation. Puerto Rico defaulted on certain bonds, primarily General Obligation (GO). Due to the default, Puerto Rico bonds are trading at 70 cents on the dollar. Although a municipal default, the market in general has not seen any widening of credit spreads. Puerto Rico is thought to be isolated case and the market doesn't appear to be overly worried. Commodity prices (oil and metals) are generally declining. Oil below \$50/barrel.

Interest rates have been quite volatile due to the global headlines. So far in 2015, on 20 different days muni rates have moved more than 5 basis points. Normal volatility would be this type of daily change occurring only 5 days in a whole year; an illustration of the extreme volatility we are experiencing. Yields are largely unchanged from our last meeting. Long-term rates remain low and remain very close to all-time lows. Short-term rates remain very low. SIFMA index closed at 2 basis points today. NCPA's VRDO rate was at 1 basis point today. The Muni market was busy in June and July. Supply will probably go down in August due to vacations. The "Street" expects a Fed Fund increase by the end of year. Some say

September, others December. The current 30 year Treasury rate is 2.80. It is expected by the "Street" to rise by about 80 basis points over the next 6 quarters. Mr. Frymann indicated that the report included a copy of the Standard & Poor's view of the EPA Clean Power Plan impact on ratings for the electric sector for the Committee's reference.

NEW BUSINESS

7. Other Items of Interest to the Finance Committee

No items were discussed.

8. Next Finance Committee Meeting

The next scheduled meeting is Tuesday, November 10, 2015 at 10:00 a.m.

CLOSED SESSION

9. 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 9.

ADJOURNMENT

Meeting was adjourned at approximately 10:59 am.