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August 13, 2014

TO: NCPA Finance Committee

FROM: Donna Stevener, AGM Finance/Administrative Services

SUBJECT: NCPA Finance Committee Meeting Minutes of August 13, 2014, 10 a.m.

Finance Committee Attendees:

Committee Members

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

NCPA Staff
Donna Stevener

Consultants

Will Frymann	PFM
Mike Berwanger	PFM
Julie Desimone	Moss Adams
Gene Carron	Orrick

Public
None

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

Chairman Gary Plass called the meeting to order at 10:03 a.m. and roll call was conducted as listed above.

3. Approve Minutes of July 16, 2014

Minutes for the July 16, 2014 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
Jan Pepper	Santa Clara	Yes
Monty Hanks	Roseville	Yes

Voting Results: 4 Ayes, 0 Noes, 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 2014

Ms. Stevener reported that the Finance Committee was serving as the “audit committee” and as part of the annual audit the auditors were going to review their plans for this year’s audit and seek input from the Committee regarding any concerns they may want addressed during the annual financial audit. Ms. Stevener introduced Julie Desimone, partner with Moss Adams, the independent auditors.

Ms. Desimone reviewed a Powerpoint presentation regarding the audit approach. She provided an introduction to the members of the audit team and their roles in the audit. She also provided contact information should the Committee wish to call any of the auditors at any time. Ms. Desimone indicated that Moss Adams performs an annual independence review and they are independent in appearance and fact, as they don’t do any other work for NCPA except for the audit. She then discussed the concept of materiality. Materiality is not always just a dollar number, sometimes it is qualitative. For example, if something is a small dollar amount it may still have an impact on compliance with bond covenants. The financial audit is risk based, and the auditors concentrate their review of various items based on risks. Major areas covered include the plant assets, debt and power trading. Ms. Desimone asked the Committee if they had any concerns or specific areas they would like addressed in the audit. No concerns were expressed by the Committee and they were invited to call at any time if they wished to address any issues. Ms. Desimone discussed how auditors look at fraud in the audit, with review of the flow of cash in particular. Internal controls were tested during interim fieldwork in July. NCPA has strong internal controls which lowers the risk of fraud. If anything is discovered in final fieldwork, the auditors won’t wait until the end of the audit to report it to management or the Committee. Ms. Desimone then reviewed the audit timeline for this year. Interim fieldwork is complete, final fieldwork is scheduled for the first week of October, and Financial Statements will be ready at the end of October. Ms. Stevener indicated that we would set up the next Finance Committee meeting to coincide with the review of the draft audit results at the end of October, with finalization of the audit by November 1. Ms. Desimone finished the presentation by discussing the deliverables which are the same as last year and then reviewed expectations of NCPA and Moss Adams. Ms. Desimone indicated that due to the new GASB 65 pronouncement, certain reclassifications would occur. New pension standards will be implemented next fiscal year (2015) and Moss Adams will provide information on these standards and the impact to NCPA at the October Finance Committee meeting.

5. Status Update on Letter of Credit (LOC) Replacement Process for 2008 A & B Hydroelectric Bonds

Ms. Stevener reminded the committee that this item was approved at the July 16th, meeting and by the Commission at the July Commission meeting. The Financing Team (PFM, Orrick, NCPA staff and Meyers Nave) were successful in pushing back on onerous additions to the Letter of Credit documents and changes were able to be made to the contract prior to Commission approval. Mr. Frymann (PFM) reviewed the specific areas of change that were negotiated. This effort was successful due to all of the team's effort and the Chairman thanked the team for their work. Ms. Stevener briefly reviewed the schedule and told the Committee that the closing was schedule for September 10th and that the major participants disclosure documents would be finalized in the next few weeks.

6. Review of June 30, 2014 Debt and Interest Rate Management Report

Ms. Stevener reviewed the June 30, 2014 Debt and Interest Rate Management Report. No changes in debt structure, debt refundings or debt issuances have occurred over the last six months. Ms. Stevener also indicated that Fitch had affirmed their project credit ratings in May. The Standard and Poor's rating review was postponed until an individual review of Lodi Electric occurs in August or September. No changes in counterparties or defaults by counterparties have occurred. The fair value of the Hydroelectric interest rate swap has changed from a negative \$15.1 million to a negative \$18.4 million as of June 30, 2014. This means that to terminate the swap we would have to pay \$18.4 million to the swap provider, which under current interest rate circumstances doesn't make economic sense. The variable interest rate program reset rates are comparable to indices and remain very low, in the 5 or 6 basis point range. Savings from the interest rate swaps were above expectations by over \$2.1 million for the first seven years of the swap, despite the lower savings incurred in the 2008 and 2009 market meltdown period. Renewal of the letter of credit related to the Hydroelectric variable rate debt program will occur in September 2014, and the next report will reflect those changes.

There were no further questions at the conclusion of the report.

Motion: Recommend that the NCPA Commission approve the June 30, 2014 Debt and Interest Rate Management Report as presented.

1st Jan Pepper

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
Jan Pepper	Santa Clara	Yes
Monty Hanks	Roseville	Yes

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

7. Report on Current Financial Market Conditions or Issues

Ms. Stevener reported that one bank had visited since the July meeting, BMO, and their presentation was distributed to the group. No financing ideas were brought forth as our refinancing opportunities are extremely limited.

Mr. Frymann reviewed a one page summary of current market conditions. Rates are very low compared to the beginning of the year with the 30 year yields down almost 100 basis points. The municipal market is performing very well and credit spreads have improved as well. The interest rate forecast remains similar to previous reports. The expectation is that rates will rise over the next year.

NEW BUSINESS

8. Other Items of Interest to the Finance Committee

Ms. Stevener indicated that Kevin Wallace, Treasurer-Controller was retiring after 30 years of service. The recruitment flyer has been send out and the job is open. The Committee was encouraged to spread the word to any qualified candidates.

9. Next Finance Committee Meeting

The next meeting is scheduled for November 12, 2014 at 10:00 a.m. It was noted that a special meeting may be scheduled at the end of October to review the draft audit reports.

ADJOURNMENT

Meeting was adjourned at approximately 10:43 am.

cc: Jim Pope