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Minutes

To: NCPA Finance Committee
From: Trisha Zimmer
Subject: August 14, 2018 Finance Committee Meeting Minutes

1. Call Meeting to Order

The meeting was called to order by Committee Chair David Hagele at 10:03am.

2. Roll Call

The meeting attendees either present or participating remotely are as follows: Finance Committee representatives: David Hagele (Healdsburg), Melissa Price (Lodi), Philip McAvoy (Roseville), and Ann Hatcher (Santa Clara) and Bob Orbeta (Alameda); NCPA Staff: Monty Hanks, Randy Howard, Sondra Ainsworth, Jane Luckhardt, Tony Zimmer, Trisha Zimmer, as well as Tyler Old, Jack Medall and Jim Carbone (PFM), and Marc Bauer (Orrick). A quorum of the Committee was established.

3. Approve Minutes from the May 8, 2018 Finance Committee Meeting

A motion was made by Bob Orbeta and seconded by David Hagele recommending approval of the May 8, 2018 Finance Committee meeting minutes. A vote was taken by roll call: YES: David Hagele (Healdsburg), Melissa Price (Lodi), Philip McAvoy (Roseville), Bob Orbeta (Alameda). The motion passed.

PUBLIC FORUM

Mr. Hagele 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 of Current Financial Market Conditions or Issues

Tyler Old provided a presentation on the current financial market conditions. The yield curve has steepened modestly since May. The short term rates have come down. The MMD remains well below historical averages. The municipal bond issuance was up 2% in July and is down 16% year-to-date through the end of July. New issue volume trails year-ago levels, while demand remains robust. SIFMA continues to remain volatile since the beginning of the year. The Hydro variable rate bonds have been resetting at or better than

benchmark rates. LIBOR is slated to expire at the end of 2021 and will likely be replaced by Secured Overnight Financing Rate (SOFR) which is based on actual market trades that reflect the price at which banks and other financial institutions can borrow. The Federal government has announced a yearly sequestration rate reduction. Subsidy payments to NCPA's outstanding BABs will be increased as a result. The 2018 rate reduction was 6.8% and the expected 2019 rate reduction will be 6.2%.

5. Debt and Interest Rate Management Report

Monty Hanks presented the Debt and Interest Rate Management Report for the period ending June 30, 2018. Some of the key highlights in the report include:

Geothermal Project Overview: \$29 million of outstanding bonds. When the debt falls off in 2023, those budgeted dollars may be moved to the Decommissioning Fund. This topic is currently being vetted through the Facilities Committee. Hydroelectric Project Overview: Fixed Rate Debt – While no new fixed rate debt was issued, staff refunded the 2008 Hydroelectric Series C bonds. The Agency has a total of \$86.4 million of outstanding variable rate debt. On average, the reset rates continue to trade at or better than the SIFMA for Series A bonds and LIBOR for Series B bonds.

NCPA had \$86.2 million of outstanding interest rate swaps, all related to the Hydroelectric Project bonds, which act as a hedge against the variable rate debt. The interest rate swaps make up approximately 27% of the outstanding Hydro Project debt portfolio. Capital Facilities Overview: There has been no major changes since the last report. Staff is considering shifting future debt saving budgets into a decommissioning fund. LEC Overview: The final maturity on the LEC is 2040. No new fixed rate debt was issued, however staff refunded the 2010 Series A bonds at the end of 2017.

Staff is recommending that the Finance Committee recommend the Commission accept and file the Debt and Interest Rate Management Report for the period ending June 30, 2018. Motion: A motion was made by Bob Orbeta (Alameda) and seconded by David Hagele approving staff's recommendation. A vote was taken by roll call: YES = David Hagele (Healdsburg), Melissa Price (Lodi), Philip McAvoy (Roseville), Ann Hatcher (Santa Clara), and Bob Orbeta (Alameda). The motion passed.

6. Review NCPA's Investment Strategy

Sondra Ainsworth provided a presentation with an overview of the investment strategy on five of the portfolios. The purpose of this strategy is continue with the preservation of principal and ensure there is sufficient liquidity to meet obligations while achieving a market rate of return on the funds. Each fund portfolio status was reviewed. The overall plan is to bring the actual performance of the portfolios closer to their benchmarks. Staff reviews internally on a monthly basis, identifies trends, rebalances as necessary, reviews portfolio performance annually with the Committee and and recommend revisions to suitability benchmarks as needed.

7. Review the Other Post Employment Benefits (OPEB) Actuarial Valuation as of June 30, 2018

Sondra Ainsworth provided an update on the results of the Actuarial Valuation of Other Post Employment Benefits for the measurement period of June 30, 2017. The fiduciary net positions as of June 30, 2018 is 78.4% compared to 68.1% on June 30, 2017 and 60.5% on June 30, 2015. Staff is recommending that the Committee affirm funding 100% of required employer contribution as well as affirm the 15 year funding of net OPEB liability. Staff will update the OPEB funding status to the Commission. All Finance Committee members present were in favor of staff's recommendations.

NEW BUSINESS

8. Hydroelectric Bonds, Series 2010A (refunding) and the Solar Project Prepayment Bond Offering (new issue) Request for Proposals

Staff is seeking Finance Committee direction for the Solar Project Pre-pay and the Hydroelectric 2010A bond refunding. For the hydro project, there is approximately \$44 million eligible for refunding with current estimates showing \$3 million (7.97%) in net present value savings to the project participants. There is a small transferred proceeds penalty of approximately \$200,000. However, with those numbers, PFM is recommending that NCPA begin the process to refund these bonds by issuing an RFP for undewriters. PFM does not recommend extending the maturity date. Motion: A motion was made by Philip McAvoy and seconded by Bob Orbeta recommending that staff begin the process to issue an RFP for the refunding of the 2010A Hydro Bonds. A vote was taken by roll call vote: YES = David Hagele (Healdsburg), Ann Hatcher (Santa Clara), Melissa Price (Lodi), Bob Orbeta (Alameda), and Philip McAvoy (Roseville). The motion passed.

The second opportunity would be a new issue transaction regarding NCPA's solar project. The deal would be structured as a prepaid PPA using available investment tax credits to help finance the project. Staff is recommending moving forward putting together a banking team to help assist with building the structure for the Solar Project prepayment. This would not commit the Agency to anything. Motion: A motion was made by Melissa Price and seconded by David Hagele recommending that staff moved forward with issuing the RFP. A vote was taken by roll call: YES = David Hagele (Healdsburg), Ann Hatcher (Santa Clara), Melissa Price (Lodi), Bob Orbeta (Alameda) and Philip McAvoy (Roseville). The motion passed.

9. NCPA FY2018 Audit

Sondra Ainsworth reported that the audit of the annual financial statements for fiscal year ended 2018 is now underway. Financial statements should be ready early October. Staff will likely schedule a Special Finance Committee meeting on or about October 9th to present the final financial statements to the Committee and seek a recommendation to approve.

10. Next Finance Committee Meeting

The next Finance Committee meeting is scheduled for November 13th at 10am. A Special Finance Committee meeting will likely be scheduled in early October to review and seek approval of the FY2018 Audited Financial Statements.

ADJOURNMENT

Meeting was adjourned at 11:57am.