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TO: NCPA Finance Committee

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

SUBJECT: September 14, 2016 Special Finance Committee Meeting Minutes

Finance Committee Attendees:

Committee Members			Consultants	
		Attended:		
Madeline Deaton	Alameda	Call-in	Mike Berwanger	PFM
Ann Hatcher	Santa Clara		Rian Irani	PFM
Jordan Ayers	Lodi		Tyler Old	PFM
Matt Michaelis	Gridley		Gene Carron	Orrick
Philip McAvoy	Roseville		Marc Bauer	Orrick
NCPA Staff			Michael Smoot	Moss Adams
Donna Stevener			Julie Desimone	Moss Adams
Randy Howard			Michael Dean	Meyers Nave
Sondra Ainsworth			Public	
			Bob Orbeta	Alameda

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

Chair Madeline Deaton called the meeting to order at 9:08 a.m. and roll call was conducted as listed above.

3. Approve Minutes of August 10, 2016

Motion: A motion was made by Jordan Ayers and seconded by Philip McAvoy recommending approval of the August 10th meeting minutes as presented.

<i>Representative</i>	<i>Member Org</i>	<i>Vote</i>
Madeline Deaton, Chair	Alameda	Yes
Ann Hatcher	SVP	Yes
Jordan Ayers	Lodi	Yes
Philip McAvoy	Roseville	Yes
Matt Michaelis	Gridley	Yes

Voting Results: 5 Ayes, 0 Noes, 0 Abstain, 0 Absent

PUBLIC FORUM

Ms. Deaton 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. Finance Committee Orientation

Ms. Donna Stevener, Chief Financial Officer provided an overview of the Finance Committee duties including their roles as Audit committee. Ms. Stevener introduced the consultants who serve as the financing support team for NCPA, the financial advisors, the bond counsel and the auditors and explained their roles to support NCPA's management of the debt portfolio and financial matters. Mr. Mike Berwanger, PFM, reviewed the NCPA debt portfolio and provided information on the history of the debt and the various risks/status of each project's debt. Ms. Stevener and Mr. Berwanger discussed the importance of updating the rating agencies annually and how NCPA meets with them to tell our story and provide California specific information on current issues in the industry.

5. Approval of Issuance of Up to \$20 Million Fixed Rate Geothermal Revenue Bonds (2016 Refunding Series A)

Ms. Stevener provided an overview of the proposed refinancing and the process used to select the Bank of America for the proposed refunding of certain 2009A Geothermal bonds. The proposed deal is for a fixed rate (rate to be established 2 days before the scheduled bond closing) for 8 years with estimated present value savings close to \$1 million. Ms. Stevener indicated that there is some interest rate risk, due to talk of the Feds raising rates again, but as long as the rate is 2.0% or less at closing, the targeted 5% present value savings would be met.

Motion: A motion was made by Ann Hatcher and seconded by Matt Michaelis recommending the Commission approve and authorize issuance of up to \$20 million of fixed rate Geothermal Project Number 3 Revenue Bonds (2016 Refunding Series A) and delegate the General Manager and other NCPA officials authority to execute the related legal documents needed to issue those bonds through a direct loan with Bank of America.

<i>Representative</i>	<i>Member Org</i>	<i>Vote</i>
Madeline Deaton, Chair	Alameda	Yes
Ann Hatcher	SVP	Yes
Jordan Ayers	Lodi	Yes
Philip McAvoy	Roseville	Yes
Matt Michaelis	Gridley	Yes

Voting Results: 5 Ayes, 0 Noes, 0 Abstain, 0 Absent

5. Review and Approval of June 30, 2016 Debt and Interest Rate Management Report

Ms. Stevener reviewed the Debt & Interest Rate Management Report for June 30, 2016. Key highlights included:

- No new debt was issued and no refundings occurred during the last six months; the mark to market value of the swaps remains negative at \$25 million. This is the amount NCPA would owe if the swaps were terminated.
- The IRS continues to sequester Build America Bond (BABs) subsidies, although the percentage reductions are scheduled to decline each year until 2024. The IRS withheld 6.8% of the interest reimbursement for the June 1, 2016 debt payment. The impact to the LEC participants was \$227,000 higher interest during the last six months.
- No changes occurred in bond ratings, although Fitch did confirm our current ratings based on visits we held in May.
- Citi's credit rating (our swap counterparty) was upgraded from A to A+ by Fitch late last year. No further changes occurred in their credit rating.
- The interest rate swaps continue to perform well, with savings much higher than projected. Estimated savings through June 30, 2016 was \$4.6 million with actual savings \$3.4 million higher at \$8.0 million.
- Variable rates continue to be low, although both taxable and tax exempt rates have increased due to the rate hike in December by the Fed. The taxable rates went from 20 basis points to 47 basis points and tax exempt rates went from 1 basis point to 41 basis points.

Motion: a motion was made by Jordan Ayers and seconded by Philip McAvoy recommending that the NCPA Commission approve the June 30, 2016 Debt and Interest Rate Management Report as presented.

<i>Representative</i>	<i>Member Org</i>	<i>Vote</i>
Madeline Deaton, Chair	Alameda	Yes
Ann Hatcher	SVP	Yes
Jordan Ayers	Lodi	Yes
Philip McAvoy	Roseville	Yes
Matt Michaelis	Gridley	Yes

Voting Results: 5 Ayes, 0 Noes, 0 Abstain, 0 Absent

NEW BUSINESS

6. Report on Audit Plan for Fiscal Year 2016

Ms. Stevener introduced Julie Desimone, partner with our audit firm, Moss Adams and Michael Smoot, Senior Manager. Ms. Stevener indicated that Moss Adams was here to conduct a review of the audit plan for fiscal year ended June 30, 2016 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 discussed the concept of materiality and indicated that they conduct audit testing based on risks of various audit areas. Some of the areas they emphasize are the revenues (does NCPA bill fairly and in accordance with Commission direction), power supply expenses (bid to bill process), and plant, in addition to the normal

cash, accounts payable, etc. The auditors don't look at every transaction, but use a quantitative materiality threshold with qualitative overlay. Mr. Smoot indicated that 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. Ms. Desimone 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. Ms. Desimone invited the Committee to contact them later with any concerns they may have after the meeting. Mr. Smoot discussed how they address fraud in their audit work. While techniques change each year, they usually interview staff at all levels of the organization, especially in the operations area, to talk about controls and possible fraud. They don't just talk to the accountants. Mr. Smoot then reviewed the audit timeline. Final field work is underway and the final audit will be delivered in mid-October. 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. This year a special report on information technology best practices will be provided to management. 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. There are no new accounting standards this year to implement. There were no questions for the auditors on the presentation.

7. Other Items of Interest to the Finance Committee

New Finance Committee members introduced themselves and their role at their agencies.

8. Next Finance Committee Meeting

The next regular Finance Committee meeting is scheduled for November 9, 2016 at 10:00 a.m. A Special Finance Committee meeting is scheduled for October 19, 2016 at 9:30 a.m. for approval of the June 30, 2016 Audited Financial Statements and Related Reports.

ADJOURNMENT

Meeting was adjourned at approximately 10:55 a.m.