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TO: NCPA Finance Committee

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

SUBJECT: November 9, 2016 Finance Committee Meeting Minutes

Finance Committee Attendees:

Committee Members

Madeline Deaton, Chair	Alameda	Call-in
Ann Hatcher	Santa Clara	Call-in
Jordan Ayers	Lodi	Call-in
Matt Michealis	Gridley	Call-in
Philip McAvoy	Roseville	Call-in

NCPA Staff

Donna Stevener
Randy Howard
Sondra Ainsworth
Victoria Nguyen

Consultants

Mike Berwanger	PFM
Rian Irani	PFM
Tyler Old	PFM
Gene Carron	Orrick
Marc Bauer	Orrick
Larry Sobel	Orrick

Public

Bob Orbeta	Alameda
Tarun Narayan	Palo Alto

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

Chair Madeline Deaton called the meeting to order at 10:10 a.m. and roll call was conducted as listed above.

3. Approve Minutes of September 14, 2016 and October 19, 2016

Motion: A motion was made by Jordan Ayers and seconded by Matt Michaelis recommending approval of the September 14th and October 19th meeting minutes.

<i>Representative</i>	<i>Member Org</i>	<i>Vote</i>
Madeline Deaton, Chair	Alameda	Yes
Ann Hatcher	Santa Clara	Yes
Jordan Ayers	Lodi	Yes
Matt Michaelis	Gridley	Yes
Philip McAvoy	Roseville	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. Review and approve the Finance Committee Calendar for 2017

Donna Stevener reminded the Committee that regular meetings of the Finance Committee are held on the 2nd Wednesday of February, May, August and November each year beginning at 10:00 a.m. A proposed calendar for calendar year 2017 was presented and approved as presented.

Motion: A motion was made by Ann Hatcher and seconded by Jordan Ayers recommending approval of the 2017 Finance Committee meeting calendar.

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

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

5. Review and Discussion of a Proposed Long-Term CalPERS Pension Funding Plan

Ms. Stevener reviewed a PowerPoint presentation about the current unfunded pension liability for the CalPERS retirement plans and reviewed possible options for accelerating the amortization of this obligation, similar to the plan adopted earlier this year for the unfunded retiree medical plan. Management is recommending consideration of a plan that could be funded with the FY 2018 budget which is now in the initial stages of preparation. The Committee discussed the issue and had the follow guidance for a draft policy to be considered further at the next Finance Committee meeting:

- Maintain flexibility and don't lock in a funding plan with CalPERS
- Consider placing any funds in a separate trust like PARS (Jordan Ayers will provide specific information to staff on what Lodi has done with their prefunding program)
- Reevaluate any funding plan annually to maintain flexibility
- Consider the 15 year funding option as it appears to provide the best balance of "extra funding" and projected savings

Phillip McAvoy indicated that Roseville could not support any of the proposed options at this time.

Staff will prepare more information on the expected UAL funding for the next five years and look in to the PARS trust option prior to the next meeting. A formal policy will be drafted for consideration by the Committee at a special meeting in January.

Note: Item 7 was taken out of order and Ms. Hatcher left the meeting at 11:22 a.m. after discussion of Item 7 and prior to discussion of Item 6.

6. Annual Review of NCPA Investment Policy and Guidelines – Policy 200-100 and Delegation of Investment Duties to the Treasurer-Controller

Sondra Ainsworth discussed that it is a best practice to annually review the investment policy and that NCPA has a legal requirement to formally delegate investment authority to the Treasurer-Controller on an annual basis. Ms. Ainsworth outlined the changes recommended to the investment policy, which were mostly clean up items. A staff report and redlined version of the Investment Policy were presented to the Committee. The following motion was introduced:

Motion: A motion was made by Jordan Ayers and seconded by Philip McAvoy recommending that the NCPA Commission approve a Resolution adopting the revised NCPA Investment Policy and delegating authority to the Treasurer-Controller for making investments on behalf of the agency for the next year.

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

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

7. Report on Recent Rating Agency Actions

Ms. Stevener reported that Silicon Valley Power (SVP) has been put on “negative watch” by Standard & Poor’s (S&P), which is a change in the rating outlook, not a change in the rating itself. Since SVP is a major participant in the Hydroelectric Project, NCPA has received notice that the Hydroelectric bond rating outlook has also been changed to “negative”. Ms. Hatcher reported that the concern was SVP’s use of rate stabilization reserves and that S&P’s “Fixed coverage ratio” was considered low by S&P due to using the reserves. Ms. Hatcher indicated that SVP has a planned rate increase that is moving forward that will improve this ratio. S&P told SVP that another review will occur in 12 – 18 months and that a “negative” outlook means there is a 33% chance of a downgrade over the next 2 to 3 years. Mr. Berwanger, PFM, indicated that although NCPA’s Hydroelectric bond outlook was also changed to “negative”, there is no immediate impact to NCPA at this time, as the change is not a rating downgrade.

8. Report on Current Financial Market Conditions or Issues

Mr. Berwanger, PFM, reported on the recent changes to the municipal bond market due to the Presidential election on November 8th. Both the Treasury and municipal rates are up 15 basis points in one day. The long term rates were already up 25 basis points from our last meeting, but the short term rates are still low in comparison to historical rates. The Geothermal refunding happened at a good time based on the recent increase in rates. Municipal bond rates are up more than Treasury rates due to excess supply in the municipal market. Since the last report, concerns surrounding money market reforms have subsided and SIFMA is down from 80 to 50 basis points. The effect of the election on short term rates will be seen next week as variable rate indices are set on Tuesdays. Basically, page 9 of the presentation can be thrown out since the Election changed everything. Expectations are still

that the Fed will raise interest rates by 25 basis points in December. It will be interesting to see if long term rates follow suit or if the yield curve will flatten.

Mr. Berwanger reviewed a proposal for refunding the Hydroelectric bonds submitted by Key Bank. This would be a deal that issues taxable debt to do an advanced refunding. It is a creative idea, but due to tax implications it is somewhat complicated. The recent increase in rates have made the idea less appealing. It could be considered if rates go down, otherwise the recommendation is to wait until the call date of the bonds to consider refunding. The Committee members concurred that there is no interest at this time in pursuing this proposal.

Mr. Berwanger then discussed SB 1029, a law that was recently passed requiring additional reporting on tax exempt debt issued in California and requiring that a formal debt policy be in place prior to issuing debt. The law lays out specific components that need to be included in the debt policy. While NCPA already has a debt policy, PFM has performed a review of the current policy and has provided staff with recommended changes to comply with SB 1029. This will be brought back to the Finance Committee for consideration at a future meeting.

NEW BUSINESS

9. Other Items of Interest to the Finance Committee

Ms. Stevener thanked Jordan Ayers for his years of service on the NCPA Finance Committee and congratulated him on his upcoming retirement. Ms. Stevener announced that she too was retiring in December. Ms. Deaton thanked Ms. Stevener for her contributions to NCPA and the members over the years and wished her the best in the future.

10. Next Finance Committee Meeting

The next regular Finance Committee meeting is scheduled for February 8, 2017 at 10:00 a.m. A special Finance Committee meeting will be called in January to consider the proposed Pension Funding Plan.

ADJOURNMENT

Meeting was adjourned at approximately 11:49 a.m.