Commission Staff Report

COMMISSION MEETING DATE: February 24, 2022

SUBJECT: Authorizing and Approving the Issuance of up to $173 Million Hydroelectric Project Number One Revenue Bonds, 2022 Refunding Series A (tax-exempt) and Hydroelectric Project Number One Revenue Bonds, 2022 Taxable Refunding Series B

AGENDA CATEGORY: Discussion/Action

FROM:	Monty Hanks	**METHOD OF SELECTION:**	
	Assistant General Manager/CFO	N/A	
Division:	Administrative Services	*If other, please describe:*	
Department:	Accounting & Finance		

IMPACTED MEMBERS:

All Members	☐	**City of Lodi**	☒	**City of Shasta Lake**	☐
Alameda Municipal Power	☒	**City of Lompoc**	☒	**City of Ukiah**	☒
San Francisco Bay Area Rapid Transit	☐	**City of Palo Alto**	☒	**Plumas-Sierra REC**	☒
City of Biggs	☒	**City of Redding**	☐	**Port of Oakland**	☐
City of Gridley	☒	**City of Roseville**	☒	**Truckee Donner PUD**	☐
City of Healdsburg	☒	**City of Santa Clara**	☒	**Other**	☐

If other, please specify

RECOMMENDATION:

Approve Resolution 22-XX authorizing and approving the issuance of up to $173 million of fixed rate Hydroelectric Project Number One Revenue Bonds, 2022 Refunding Series A (tax-exempt) and fixed rate Hydroelectric Project Number One Revenue Bonds, 2022 Refunding Series B (taxable) and the related legal documents and delegating the General Manager and other NCPA officials the authority to execute related legal documents and take other actions needed to issue these bonds.

BACKGROUND:

Policy and Request for Proposals
The NCPA Finance Committee, NCPA staff and the Agency's municipal advisors, PFM Financial Advisors LLC (PFM), carefully monitor the bond market for potential opportunities to refinance NCPA bonds for debt service savings and/or de-risking opportunities associated with the existing interest rate swap. According to NCPA's *Debt and Interest Rate Management Policy*, a target of 5% net present value (NPV) savings is desired before considering a fixed rate debt refunding and/or NPV savings at or less than 0% if the risk mitigation benefits are deemed to merit the cost for refunding variable or synthetically fixed rate debt.

In October 2021, a Request for Proposals was issued to several investment banks seeking a refunding of the 2012 Hydroelectric Bonds, Series A (2012A) Upon evaluation of the various proposals, Citigroup Global Markets Inc. (Citi) offered the best approach and understanding of the transaction along with competitive pricing. Their analysis, dependent on interest rates, also reflected a zero to small cost de-risking the Hydroelectric debt portfolio by terminating the interest rate swap and refunding the 2008 Hydroelectric Bonds, Series A (2008A) variable rate debt obligations with fixed rate bonds. The Finance Committee directed staff to move forward with the 2012A refunding using Citi as the primary Underwriter (UW) and adding Bank of America as a co-manager in the event that the 2008A refunding and termination of the interest rate swap was still financially viable.

Outstanding Bonds to be Refunded
The 2012A bonds were originally issued as fixed rate debt in the aggregate principal amount of $76,665,000 for the purpose of providing funds to refund the then remaining portion of NCPA's outstanding 1998 Hydroelectric Bonds, Series A, to fund a debt service reserve and to pay costs of issuance.

The 2008A bonds were originally issued as variable rate debt added with an interest rate swap to "synthetically" fix the debt in the aggregate principal amount of $85,160,000 for the purpose of providing funds to refund a portion of NCPA's 1998 Hydroelectric Bonds, Series A outstanding at that time and to pay costs of issuance.

The 2022 Bonds (Series A&B) are proposed to be issued for the purpose of providing funds to refund all of the outstanding 2008 Series A Bonds and 2012 Series A Bonds. A portion of the 2022 Bonds proceeds will also be applied to pay costs of issuance of the 2022 Bonds and other costs related to the refunding, including costs of termination of the interest rate swap relating to the 2008 Series A Bonds.

Documents for Approval

To complete the bond refunding, the Commission will be required to approve Resolution 22-XX authorizing and approving the issuance of the refunding bonds and related documents including the following:

1. Preliminary Official Statement (POS); and
2. Twenty-Seventh Supplemental Indenture (tax-exempt); and
3. Twenty-Eighth Supplemental Indenture (taxable); and
4. Escrow Deposit Agreement; and
5. Continuing Disclosure Agreement; and
6. Swap Termination Agreement; and
7. Bond Purchase Contract

Draft copies of these documents are attached to this report. Upon approval by the Commission, pricing of the refunding bonds will occur around the first week of March with the bond closing expected in early April.

FISCAL IMPACT:

With the passage of SB450, the following details of the refunding must be disclosed prior to authorization of the bonds. The numbers reflect rates as of February 1, 2022.

Estimated Amount of Proceeds:	$159.1m
Estimated True Interest Cost:	1.68%
Estimated Cost of Issuance:	$500,000
Estimated Sum of Debt Service Payments:	$175.5m

The estimated NPV savings refunding the 2012A bonds is approximately $13.3 million or 17.4% of refunded bonds through final maturity in 2032. The estimated cost de-risking the outstanding debt by terminating the interest rate swap and fixing out the variable rate debt is ($518k), or a combined NPV savings of $12.8m. The estimated refunding debt service savings averages $1.76m per year. The breakdown of cost allocation per Participant for debt service savings (net of all fees) is shown below:

Participant	Entitlement Percentage	Estimated NPV Savings	Est. Avg. Annual Debt Service Savings
Alameda	10.00%	$ 1,282,000	$ 176,087
Biggs	0.10%	$ 12,820	$ 1,761
Gridley	1.06%	$ 135,892	$ 18,665
Healdsburg	1.66%	$ 212,812	$ 29,230
Lodi	10.37%	$ 1,329,434	$ 182,602
Lompoc	2.30%	$ 294,860	$ 40,500
Palo Alto	22.92%	$ 2,938,343	$ 403,592
Roseville	12.00%	$ 1,538,400	$ 211,305
Santa Clara	35.86%	$ 4,597,251	$ 631,449
Ukiah	2.04%	$ 261,528	$ 35,922
Plumas-Sierra	1.69%	$ 216,658	$ 29,759
Total	**100.00%**	**$ 12,819,996**	**$ 1,760,872**

ENVIRONMENTAL ANALYSIS:

This activity would not result in a direct or reasonably foreseeable indirect change in the physical environment and is therefore, not a "project" for purposes of Section 21065 the California Environmental Quality Act. No environmental review is necessary.

COMMITTEE REVIEW:

The recommendation will be reviewed by the Finance Committee on February 8, 2022.

Respectfully submitted,

RANDY S. HOWARD
General Manager

Attachments:
- Resolution 22-XX
- Preliminary Official Statement (POS)
- Twenty-Seventh Supplemental Indenture (tax-exempt)
- Twenty-Eighth Supplemental Indenture (taxable)
- Escrow Deposit Agreement
- Continuing Disclosure Agreement
- Swap Termination Agreement
- Bond Purchase Contract