



Commission Staff Report

February 2, 2017

COMMISSION MEETING DATE: February 23, 2017

SUBJECT: December 31, 2016 Debt & Interest Rate Management Report

AGENDA CATEGORY: Consent

FROM:	Sondra Ainsworth	METHOD OF SELECTION:
	Treasurer-Controller	N/A
Division:	Administrative Services	
Department:	Accounting & Finance	

IMPACTED MEMBERS:

All Members	<input checked="" type="checkbox"/>	City of Lodi	<input type="checkbox"/>	City of Ukiah	<input type="checkbox"/>
Alameda Municipal Power	<input type="checkbox"/>	City of Lompoc	<input type="checkbox"/>	Plumas-Sierra REC	<input type="checkbox"/>
Bay Area Rapid Transit	<input type="checkbox"/>	City of Palo Alto	<input type="checkbox"/>	Port of Oakland	<input type="checkbox"/>
City of Biggs	<input type="checkbox"/>	City of Redding	<input type="checkbox"/>	Truckee Donner PUD	<input type="checkbox"/>
City of Gridley	<input type="checkbox"/>	City of Roseville	<input type="checkbox"/>	Other	<input type="checkbox"/>
City of Healdsburg	<input type="checkbox"/>	City of Santa Clara	<input type="checkbox"/>	<i>If other, please specify.</i>	

RECOMMENDATION:

It is recommended that the Commission receive and file the December 31, 2016 Debt and Interest Rate Management Report.

BACKGROUND:

In accordance with the “Debt and Interest Rate Management Policy” approved by the Commission in May 2015, the following semi-annual report is submitted for your information and acceptance.

Fixed Rate Debt – No new fixed rate debt was issued. In October 2016, the Agency refunded \$15,705,000 of outstanding principal for Geothermal Project No. 3 Revenue Refunding Bonds, Series A through issuance of \$17,530,000 fixed rate tax-exempt debt with a yield of 1.67% with final maturity in July 1, 2024. The refunding decreased project debt service by an estimated \$1.69 million over the next 8 years with an estimated net present value savings of \$1.03 million. Due to the sequestration of federal budget dollars, the Build America Bond (BAB) Subsidies related to the Lodi Energy Center (LEC) BAB issues were reduced by 6.9% or \$230,851 for the December 1, 2016 debt service payments. This amount was billed to the LEC participants. Other highlights are included in the attached report, page i.

Interest Rate Swaps – As of December 31, 2016, NCPA had \$86.7 million of outstanding interest rate swaps, all related to the Hydroelectric Project bonds. The fair value of these interest rate swaps on the same date was negative \$18.7 million. This amount has changed from the June 30, 2016 fair value, which was negative \$25.2 million. Details of the swap agreements are provided in the attached report. No new swaps or defaults have occurred in the last six months. Interest rate swaps now make up approximately 23% of the outstanding Hydroelectric Project debt portfolio.

Counterparties – Subsequent to the July 9, 2008 termination of most of the swaps in the portfolio, only two swaps and one counterparty remain. Standard & Poor’s upgraded NCPA swap counterparty’s (Citigroup) credit rating to A+; there were no other changes in the credit ratings for Citigroup over the last six months. They remain highly rated with all other rating agencies and no collateral calls were required under the swap terms.

FISCAL IMPACT:

Total projected savings over the life of the related bonds (23 years) was \$13.9 million at the inception of these agreements. Total savings projected to occur through December 31, 2016 was \$4,937,309 with actual results at \$8,555,814. The difference between expected savings and actual savings is due to “basis risk”, or the difference between what NCPA pays for underlying variable rate bonds and the index rate used in the swap transaction. Total basis risk to date is positive, resulting in additional savings over those

expected of \$3,618,505. Staff continues to monitor the potential for refinancing these bonds and terminating the swaps, however, with current low treasury rates causing a large mark to market payment due to Citigroup of over \$18.7 million, refunding is not feasible at this time.

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 was reviewed by the Finance Committee on February 8, 2017 and

Respectfully submitted,

RANDY S. HOWARD
General Manager

Attachments: