



Commission Staff Report - *Draft*

January 31, 2018

COMMISSION MEETING DATE: February 22, 2018

SUBJECT: Debt and Interest Rate Management Report – December 31, 2017

AGENDA CATEGORY: Consent

FROM:	Monty Hanks Assistant General Manager/CFO	METHOD OF SELECTION:	N/A
Division:	Administrative Services		
Department:	Accounting & Finance		

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

It is recommended the Commission accept the Debt and Interest Rate Management Report for the period ending December 31, 2017.

BACKGROUND:

In accordance with the Debt and Interest Rate Management Policy, Section 20, *Monitoring and Reporting Requirements*, approved by the Commission in May 2017, the Finance team will provide a written report regarding the status of all fixed and variable rate debt and the Agency's interest rate swaps on a semi-annual basis to the Finance Committee and to the Commission.

The report, for the period ending December 31, 2017, is attached for your information and acceptance. Listed below is a summary of the report.

Fixed Rate Debt – While no new fixed rate debt was issued, staff took advantage of a limited opportunity to do an advance refunding of the Lodi Energy Center, Issue One, 2010 Series A bonds. The debt was refunded as Lodi Energy Center Revenue Refunding Bonds, Issue One, 2017 Series A into a Direct Placement with Bank of America securing a fixed rate of 2.27% through final maturity in 2025. Project participants will realize a Net Present Value (NPV) savings of over \$2 million which includes over \$300,000 in average annual debt service savings.

Staff is also currently working on refunding the Hydro Project Number One Revenue Bonds, 2008 Refunding Series C. The tentative schedule is to seek the Finance Committee's recommendation to request Commission authorization at the February 2018 meetings with an anticipated closing in early April.

Other highlights are included in the attached report.

Variable Rate Debt – The Agency has a total of \$86.4 million of outstanding variable rate debt (\$85.16 million for Hydro 2008 Series A and \$1.24 million Hydro 2008 Series B). The Agency's variable rate debt is structured with a Letter of Credit with the Bank of Montreal. On average, the reset rates continue to trade at or better than the Securities Industry and Financial Markets Association (SIFMA) for the Series A bonds (tax-exempt) and 1-month London Interbank Offered Rate (LIBOR) for Series B bonds (taxable). The reset rates and index comparisons are included in the attached report.

Interest Rate Swaps – As of December 31, 2017, NCPA had \$86.3 million of outstanding swaps, all related to the Hydroelectric Project bonds, which act as a hedge against the variable rate debt. The total market value of the interest rate swaps was a net liability of \$16.995 million (negative). This amount has improved from the June 30, 2017 net liability of \$18.312 million (negative) due to a rise in interest rates and time value. No new swaps or defaults have occurred in the last six months. The interest rate swaps make up approximately 27% of the outstanding Hydroelectric Project debt portfolio. Additional details of the swap agreements are provided in the attached report.

Counterparties – The counterparty for both interest rate swaps is Citibank, N.A. The credit ratings for Citibank, N.A., are A+/A1/A+ by S&P, Moody's, and Fitch, respective. There have been no changes since the last report.

Rating Changes

In October 2017, Moody's Investor Services notified NCPA that they were upgrading both Hydro and LEC bonds. Moody's met with staff back in June to review the status and key metrics of each project. Moody's rating committee has decided to:

- Upgrade the rating on NCPA's Hydroelectric Revenue Bonds to Aa3 from A1. The rating outlook is stable.
- Upgrade the rating on NCPA's Indenture A (Issue One) Lodi Energy Center (LEC) Revenue Bonds to A1 from A2. The rating outlook is stable.

FISCAL IMPACT:

The total projected savings over the life of the interest rate swaps was \$13.9 million at the inception of these agreements. Total projected savings through December 31, 2017 was \$5.6 million with actual results at \$9.6 million. The difference between expected savings and actual savings is due to "basis risk", or the difference between what NCPA pays on the 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 \$4.0 million. Staff continues to monitor the potential for refinancing these bonds and terminating the swaps, however, with rates still near historical lows, this is causing a large mark-to-market payment due to Citibank, N.A. of over \$16.995 million (net) making a potential refund not a feasible option 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:

Pending

Respectfully submitted,

RANDY S. HOWARD
General Manager

Attachments:

Debt and Interest Rate Management Report, as of December 31, 2017



Debt and Interest Rate Management Report

As of December 31, 2017

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Key Highlights

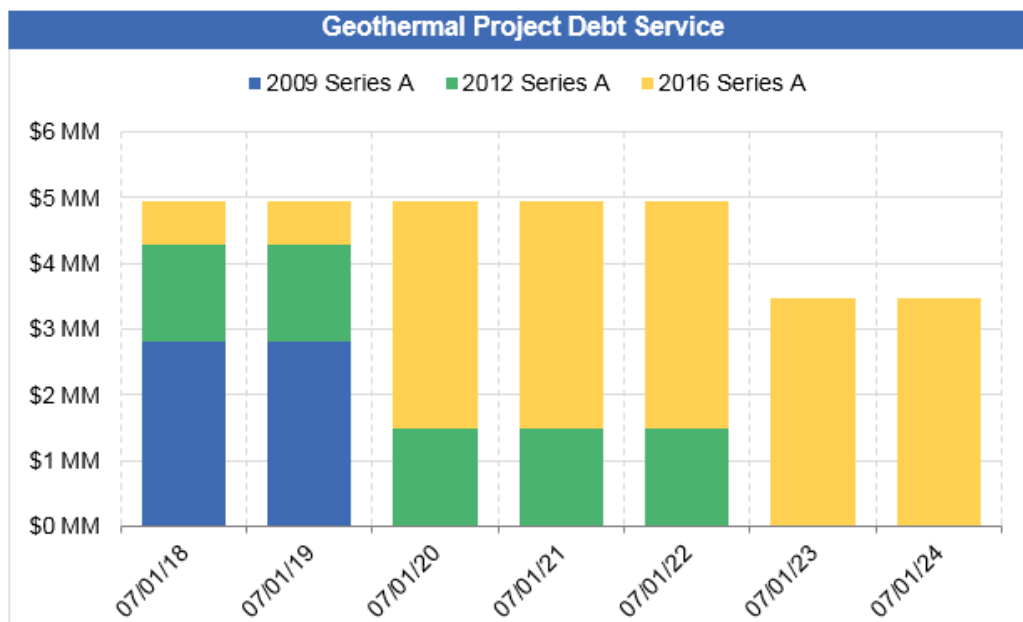
- In December 2017, staff refunded the Lodi Energy Center, Issue One, 2010 Series A bonds into a Direct Purchase with Bank of America securing a fixed rate of 2.27% through final maturity in 2025.
- No negative material changes to any fixed or variable rate debt or outstanding swap agreements occurred since the last report.
- In October 2017, Moody's Investor Services upgraded the rating on NCPA's Hydroelectric Revenue Bonds to Aa3 from A1 with a rating outlook of stable.
- In October 2017, Moody's Investor Services upgraded the rating on NCPA's Lodi Energy Center, Issue One, Series 2010 A bonds to A1 from A2 with a rating outlook of stable.
- No defaults under the above swap agreements, fixed rate or variable rate debt have occurred.
- Counterparty rating remained the same; no collateral posting by the counterparty has been required and the counterparty remains highly rated.
- The MTM* on the outstanding swaps changed from a negative value of \$18.3 million on June 30, 2017 to a negative value of \$17.0 million on December 31, 2017.

* Doesn't reflect the GASB 72 Fair Value risk profile of NCPA. This calculation is done at fiscal year-end.

DEBT OVERVIEW BY PROJECT

Geothermal Project Debt Overview

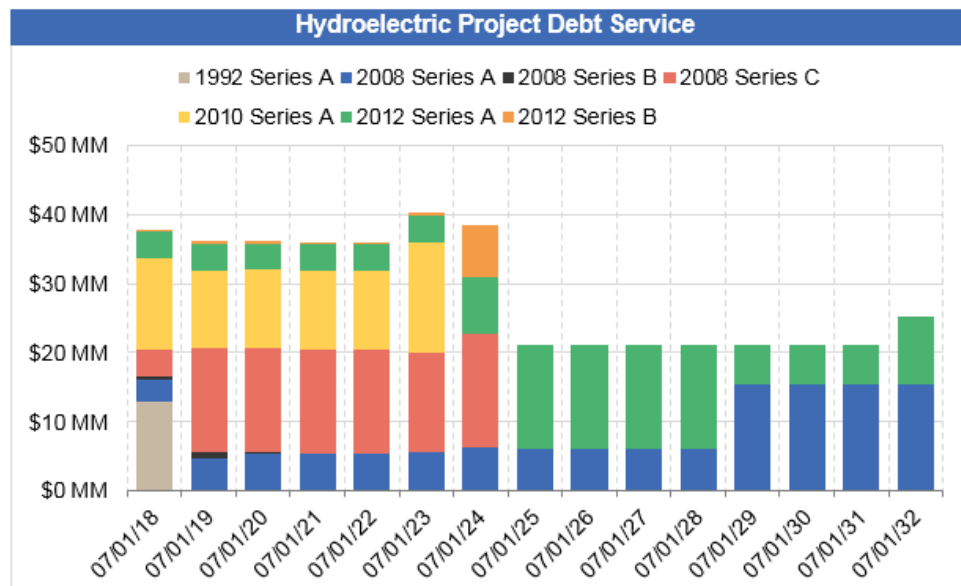
Geothermal Project Participation Percentages		
Member	Entitlement Share (%)	Beneficiary Share (%)
Alameda	16.8825	16.8825
Biggs	0.2270	0.2270
Gridley	0.3950	0.3360
Healdsburg	3.6740	3.6740
Lodi	10.2800	10.2800
Lompoc	3.6810	3.6810
Palo Alto	6.1580	0.0000
Plumas-Sierra	0.8145	0.7010
Roseville	7.8830	7.8830
Santa Clara	44.3905	44.3905
TID	0.0000	6.3305
Ukiah	5.6145	5.6145



Summary of Outstanding Geothermal Project Debt							
Ratings (M/S/F): A1/A-/A+, Stable Outlooks							
Series	Tax Status	Coupon Type	Issue Size	Outstanding Par	Coupon Range	Call Date	Final Maturity
2009 Series A	Tax-Exempt	Fixed-Rate	\$35,610,000	\$5,220,000	5.000%	-	7/1/2019
2012 Series A	Tax-Exempt	Fixed-Rate	\$12,910,000	\$6,945,000	2.289%	7/1/2017	7/1/2022
2016 Series A	Tax-Exempt	Fixed-Rate	\$17,530,000	\$17,265,000	1.670%	-	7/1/2024

Hydroelectric Project Debt Overview

Hydroelectric Project Participation Percentages	
Member	Entitlement Share (%)
Alameda	10.000
Biggs	0.100
Gridley	1.060
Healdsburg	1.660
Lodi	10.370
Lompoc	2.300
Palo Alto	22.920
Roseville	12.000
Santa Clara	35.860
Ukiah	2.040
Plumas-Sierra	1.690

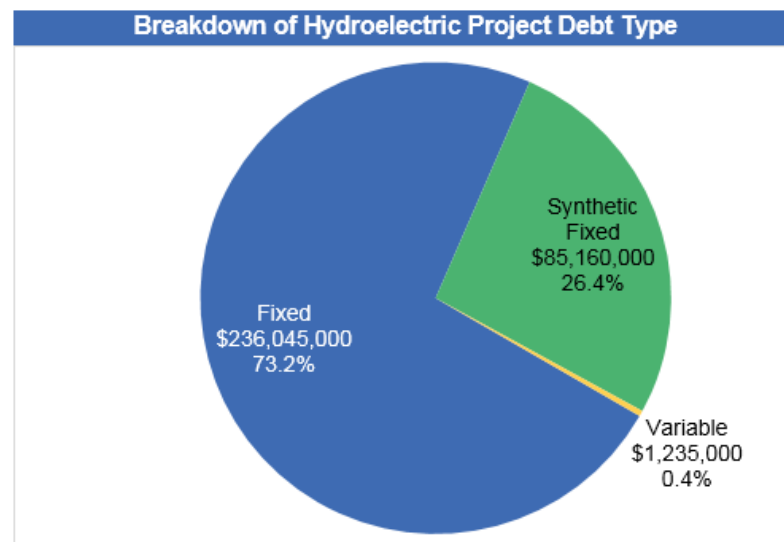


Summary of Outstanding Hydroelectric Project Debt							
Ratings (M/S/F): Aa3/A+/A+, Stable Outlooks							
Series	Tax Status	Coupon Type	Issue Size	Outstanding Par	Coupon Range	Call Date	Final Maturity
1992 Series A	Tax-Exempt	Fixed-Rate	\$195,610,000	\$12,155,000	6.300%	Non-Callable	7/1/2018
2008 Series A	Tax-Exempt	Variable-Rate	\$85,160,000	\$85,160,000	Var. (3.819%) ^(S)	Current	7/1/2032
2008 Series B	Taxable	Variable-Rate	\$3,165,000	\$1,235,000	Variable ^(V)	Current	7/1/2020
2008 Series C	Tax-Exempt	Fixed-Rate	\$128,005,000	\$77,130,000	5.000%	7/1/2018	7/1/2024
2010 Series A	Tax-Exempt	Fixed-Rate	\$101,260,000	\$62,975,000	5.000%	7/1/2019	7/1/2023
2012 Series A	Tax-Exempt	Fixed-Rate	\$76,665,000	\$76,665,000	5.000%	7/1/2022	7/1/2032
2012 Series B	Taxable	Fixed-Rate	\$7,120,000	\$7,120,000	4.320%	Make-Whole	7/1/2024

Hydroelectric Project Debt Overview

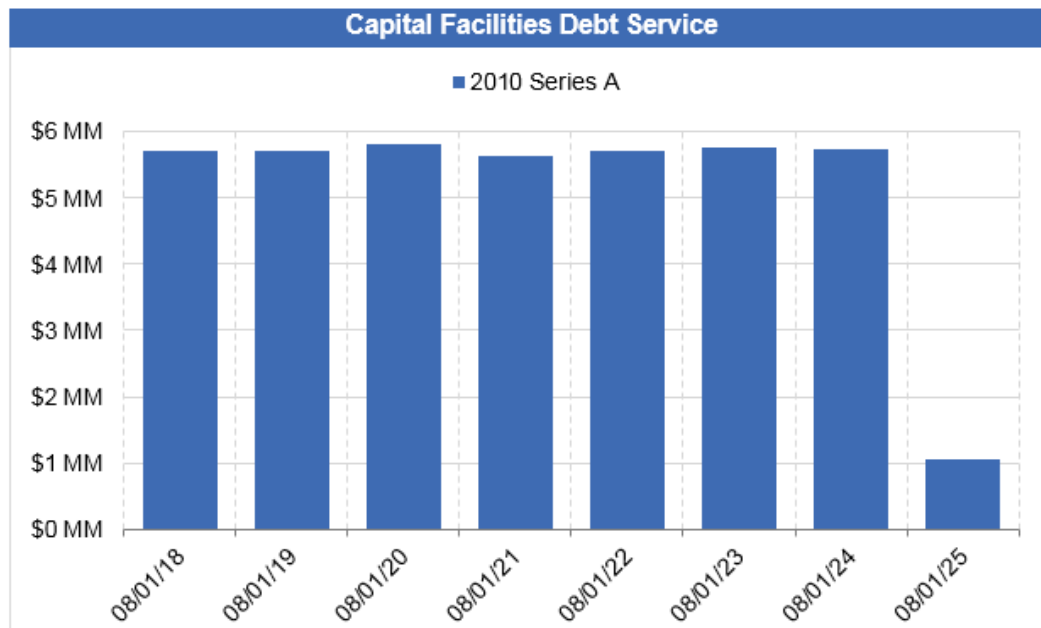
Hydroelectric Project Swap Summary									
Series	NCPA Pays	NCPA Receives	Trade Date	Effective Date	Maturity Date	MTM Value (As of 12/29/17)	Initial Notional	Current Notional	Bank Counterparty
2008 Series A	3.8190%	54% of USD-LIBOR + 0.54%	11/24/04	11/24/04	7/1/32	(\$17,210,366)	\$85,160,000	\$85,160,000	Citibank, N.A., New York (A1/A+/A+)
2008 Series B	USD-LIBOR	5.2910%	11/24/04	11/24/04	7/1/32	\$215,149	\$1,574,000	\$1,108,537	Citibank, N.A., New York (A1/A+/A+)

Hydroelectric Project Liquidity Summary			
Series	LOC Provider	LOC Expiry	Reset (as of 12/26/17)
2008 Series A	Bank of Montreal (A1/A+/AA-)	September 09, 2019	1.60%
2008 Series B	Bank of Montreal (A1/A+/AA-)	September 09, 2019	1.65%



Capital Facilities Debt Overview

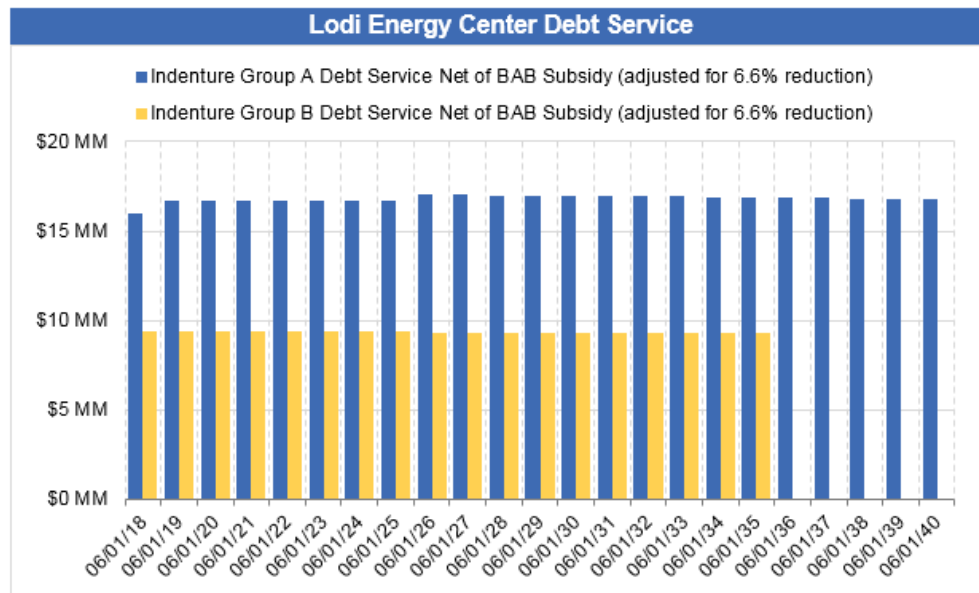
Capital Facilities Participation Percentages	
Member	Entitlement Share (%)
Alameda	19.00
Lodi	39.50
Lompoc	5.00
Roseville	36.50



Summary of Outstanding Capital Facilities Debt							
Ratings (M/S/F): A2/A-/ , Stable Outlooks							
Series	Tax Status	Coupon Type	Issue Size	Outstanding Par	Coupon Range	Call Date	Final Maturity
2010 Series A	Tax-Exempt	Fixed-Rate	\$55,120,000	\$33,640,000	4.000% - 5.250%	2/1/2020	8/1/2025

Lodi Energy Center Debt Overview

LEC Participation Percentages		
Member	Entitlement Share (%)	Ind. Group A Cost Share (%)
CDWR	33.5000	-
Azusa	2.7857	4.9936
Biggs	0.2679	0.4802
Gridley	1.9643	3.5212
Healdsburg	1.6428	2.9448
Lodi	9.5000	17.0295
Lompoc	2.0357	3.6491
Santa Clara	25.7500	46.1588
Ukiah	1.7857	3.2010
MID	10.7143	-
Plumas-Sierra	0.7857	1.4084
PWRPA	2.6679	4.7824
SFBART	6.6000	11.8310



Summary of Outstanding Lodi Energy Center Debt							
Series	Tax Status	Coupon Type	Issue Size	Outstanding Par	Coupon Range	Next Call	Final Maturity
Indenture Group A Ratings (M/S/F): A1/A-/A, Stable Outlooks							
2010 Series A	Tax-Exempt	Fixed-Rate	\$78,330,000	\$17,755,000	5.000%	6/1/2020	6/1/2020
2010 Series B	Taxable BABs	Fixed-Rate	\$176,625,000	\$176,625,000	7.311% ⁽¹⁾	Make-Whole	6/1/2040
2017 Series A	Tax-Exempt	Fixed-Rate	\$38,970,000	\$38,970,000	2.270%	-	6/1/2025
Indenture Group B—CADWR Ratings (M/SF): Aa2/AAA/ , Stable Outlooks							
2010 Series A	Tax-Exempt	Fixed-Rate	\$30,540,000	\$9,685,000	5.000%	Non-Callable	6/1/2019
2010 Series B	Taxable BABs	Fixed-Rate	\$110,225,000	\$110,225,000	4.630%-5.679% ⁽¹⁾	Make-Whole	6/1/2035

⁽¹⁾ Taxable Build America Bonds; Interest rate gross of BAB subsidy

FIXED RATE DEBT OVERVIEW

Fixed Rate Debt Overview

- While no new fixed rate debt was issued, staff took advantage of a limited opportunity to do an advance refunding of the Lodi Energy Center, Issue One, 2010 Series A bonds into a Direct Purchase with Bank of America securing a fixed rate of 2.27% through final maturity in 2025.
- October 2017, Moody's Investor Services:
 - Upgraded the rating on NCPA's Hydroelectric Revenue Bonds to Aa3 from A1 with a rating outlook of stable
 - Upgraded the rating on NCPA's Lodi Energy Center, Issue One, Series 2010 A bonds to A1 from A2 with a rating outlook of stable.
- Refunding in progress
 - 2008 Hydroelectric Refunding Bonds, Series C
 - Callable July 1, 2018 but can refund as early as April 3, 2018
 - Lead UW: Citigroup with Goldman Sachs as co-manager

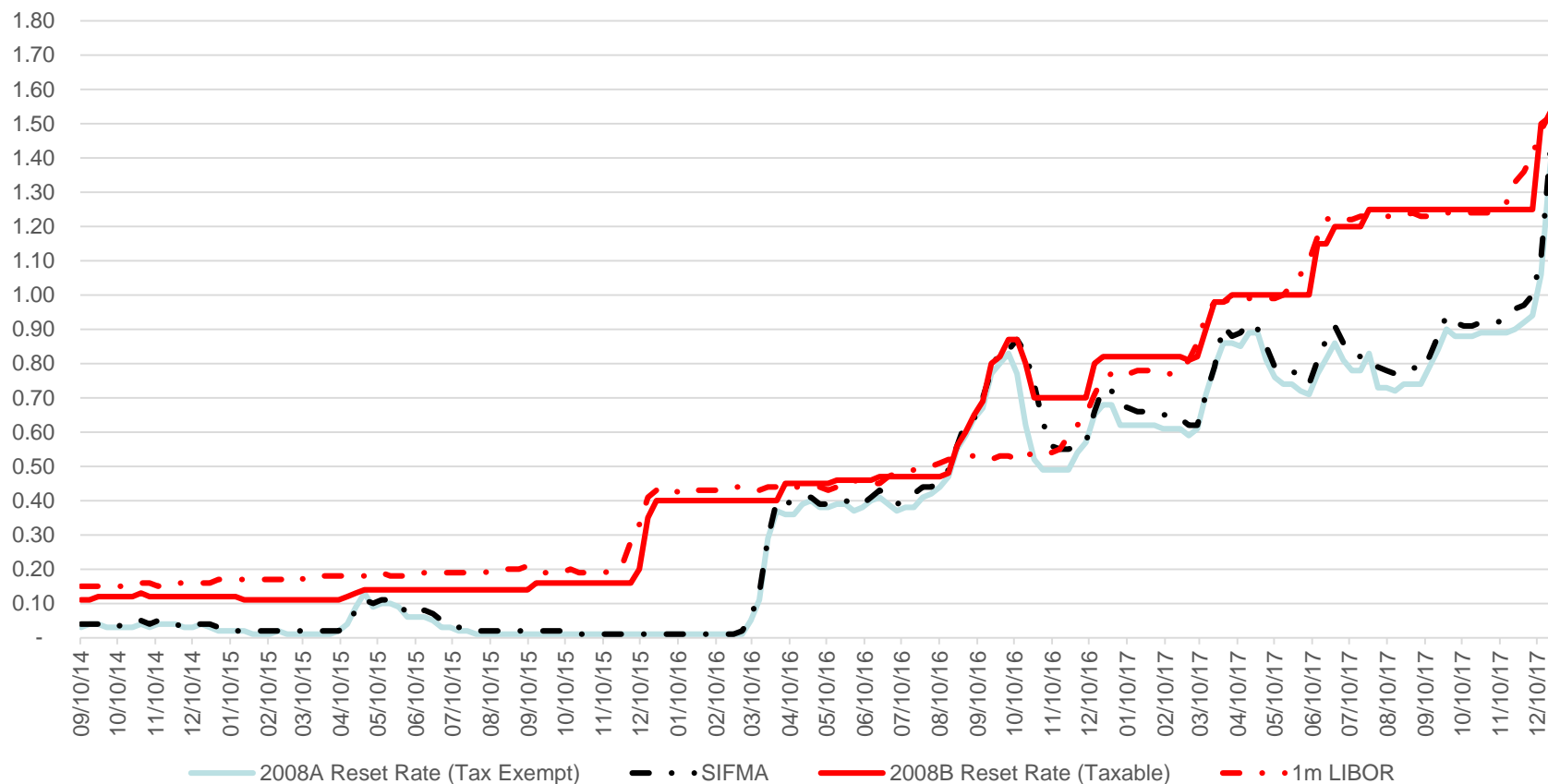
VARIABLE RATE DEBT OVERVIEW

Variable Rate Debt Overview

	Hydro 2008A	Hydro 2008B
Variable Rate Debt Amount	\$85,160,000	\$1,574,000
Priced	Weekly	Weekly
Payment	Monthly	Monthly
Swap Counter-party:	Citigroup	Citigroup
Payments	NCPA Pays Fixed @ 3.819%	NCPA Receives Fixed @ 5.291%
From/To: Counterparty	NCPA Receives Floating rate (based on 54% of monthly Libor+.54%)	NCPA Pays Floating rate (based on monthly Libor)
Payment terms:		
NCPA Counterparty	Semi-Annual (net) Semi-Annual (net)	Semi-Annual (net) Semi-Annual (net)
Liquidity/Letter of Credit Provider ¹	Bank of Montreal	Bank of Montreal
Annual Fee	39.0 bp	39.0 bp
Expiration Date	9/9/2019	9/9/2019
Credit Ratings ²	A1/A+/AA-	A1/A+/AA-
¹ Effective 9/10/14 Citibank N.A. was replaced as the LOC provider with Bank of Montreal. ² Effective 5/10/17 Moody's downgraded the Bank of Montreal from Aa3 to A1		

Variable Rate Debt Overview

NCPA Variable Rate Debt Performance Versus Indices

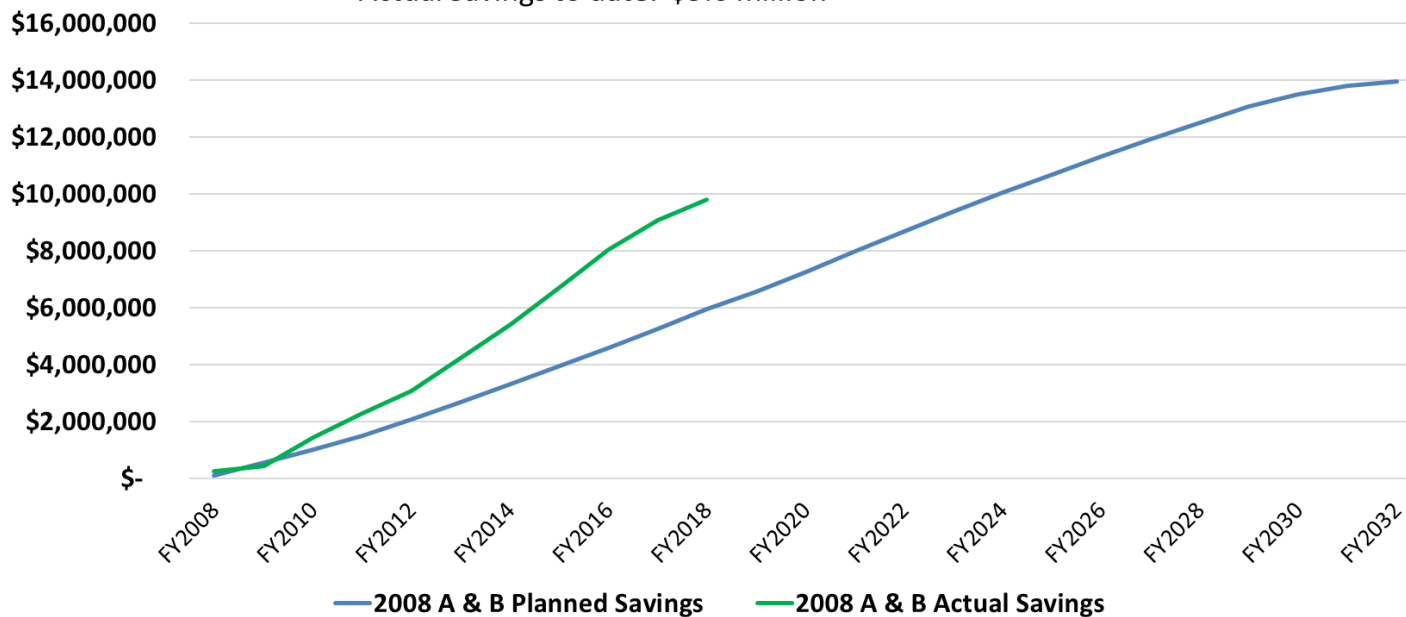


INTEREST RATE SWAPS OVERVIEW

Interest Rate Swaps Overview

Northern California Power Agency Hydroelectric Project Swaps Performance to Date December 31, 2017

Total Projected Savings over life of bonds: \$13.9 million
Total Project Savings to date: \$5.6 million
Actual Savings to date: \$9.6 million



Interest Rate Swaps Overview




PFM Swap Advisors LLC

Phone: 215 567-6100

Fax: 215 567-4180

Transaction Type	Name	Associated Bonds	Client Pay	Client Receives	Trade Date	Effective Date	Maturity Date
Swap	NCPA 200411240001	Series 2008A	3.8190%	54% of USD-LIBOR + 0.54%	11/24/2004	11/24/2004	7/1/2032
Swap	NCPA 200411240002	Series 2008B	USD-LIBOR	5.2910%	11/24/2004	11/24/2004	7/1/2032
Initial Notional	Current Notional	Bank Counterparty	Counterparty Ratings Moody's / S&P / Fitch	MTM Value 12/29/2017	Impact on MTM Value - 50 bp swing		
\$85,160,000	\$85,160,000	Citibank, N.A., New York	A1 / A+ / A+	(\$17,210,366)	\$2,601,371		
\$1,574,000	\$1,108,537	Citibank, N.A., New York	A1 / A+ / A+	\$215,149	(\$34,835)		
\$86,734,000	\$86,268,537			(\$16,995,217)	\$2,566,536		

Interest Rate Swaps Overview

 PFM Swap Advisors LLC Phone: 215 567-6100 Fax: 215 567-4180	Transaction Type	Name	Associated Bonds	Client Pay	Client Receives	Trade Date	Maturity Date	Current Notional	
	Swap	NCPA 200411240001	Series 2008A	3.8190%	54% of USD-LIBOR + 0.54%	11/24/2004	7/1/2032	\$85,160,000	
	Swap	NCPA 200411240002	Series 2008B	USD-LIBOR	5.2910%	11/24/2004	7/1/2032	\$1,108,537	
								<u>\$86,268,537</u>	
Total MTM Value	Alameda 10%	Healdsburg 1.66%	Lodi 10.37%	Lompoc 2.30%	Palo Alto 22.92%	Plumas-Sierra 1.69%	Roseville 12.00%	Santa Clara 37.02%	Ukiah 2.04%
(\$17,210,366)	(\$1,721,037)	(\$285,692)	(\$1,784,715)	(\$395,838)	(\$3,944,616)	(\$290,855)	(\$2,065,244)	(\$6,371,277)	(\$351,091)
\$215,149	\$21,515	\$3,571	\$22,311	\$4,948	\$49,312	\$3,636	\$25,818	\$79,648	\$4,389
(\$16,995,217)	(\$1,699,522)	(\$282,121)	(\$1,762,403)	(\$390,890)	(\$3,895,304)	(\$287,219)	(\$2,039,427)	(\$6,291,629)	(\$346,702)
Total Impact on MTM Value - 50 bp swing	Alameda 10%	Healdsburg 1.66%	Lodi 10.37%	Lompoc 2.30%	Palo Alto 22.92%	Plumas-Sierra 1.69%	Roseville 12.00%	Santa Clara 37.02%	Ukiah 2.04%
\$2,601,371	\$260,137	\$43,183	\$269,762	\$59,832	\$596,234	\$43,963	\$312,165	\$963,028	\$53,068
(\$34,835)	(\$3,484)	(\$578)	(\$3,612)	(\$801)	(\$7,984)	(\$589)	(\$4,180)	(\$12,896)	(\$711)
\$2,566,536	\$256,654	\$42,604	\$266,150	\$59,030	\$588,250	\$43,375	\$307,984	\$950,132	\$52,357

Interest Rate Swaps Overview

