Commission Staff Report

August 11, 2020

COMMISSION MEETING DATE: August 27, 2020

SUBJECT: Debt and Interest Rate Management Report – June 30, 2020

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	☒	**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:

It is recommended the Commission accept the Debt and Interest Rate Management Report for the period ending June 30, 2020.

BACKGROUND:

In accordance with the Debt and Interest Rate Management Policy, Section 20, *Monitoring and Reporting Requirements*, approved by the Commission in May 2019, 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 June 30, 2020, is attached for your information and acceptance. Listed below is a summary of the report.

Fixed Rate Debt
No changes to the Agency's outstanding, fixed-rate debt since the last report.

Variable Rate Debt
The Agency had a total of $83.64 million of outstanding variable rate debt. The Agency's variable rate debt is structured with a Letter of Credit with Bank of America. On average, the reset rates continue to trade better than the Securities Industry and Financial Markets Association (SIFMA) for the Series A bonds. The reset rates and index comparisons are included in the attached report.

Interest Rate Swaps
As of June 30, 2020, NCPA had $83.64 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 $21.0 million (negative). This amount declined from the December 31, 2019 net liability of $15.8 million (negative) due to a drop in interest rates. No new swaps or defaults have occurred in the last six months. The interest rate swaps make up approximately 31% 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+/Aa3/A+ by S&P, Moody's, and Fitch, respective. There have been no changes since the last report.

Rating Changes
There have been no changes since the last report however the following actions were reported:

- February 2020
  - Fitch affirmed 'AA-' rating with 'stable' outlook on Hydroelectric Project Bonds.
- April 2020
  - S&P lowered outlook to 'negative' in all sectors, including Public Power, largely due to COVID. However, this action didn't require a continuing disclose notice.
- June 2020
  - Fitch affirmed 'A' rating with 'stable' outlook on Lodi Energy Center Revenue Bonds, Issue One.

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 June 30, 2020 was $7.3 million with actual results at $12.4 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 $5 million. Staff continues to monitor the potential for refinancing these bonds and terminating the swaps, however, the large mark-to-market payment due to Citibank, N.A. of over $21.0 million (net) is 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:

Respectfully submitted,

RANDY S. HOWARD
General Manager

Attachments:

- Debt and Interest Rate Management Report as of 6-30-2020