



Commission Staff Report

July 21, 2017

COMMISSION MEETING DATE: August 24, 2017

SUBJECT: Debt and Interest Rate Management Report – June 30, 2017

AGENDA CATEGORY: Consent

FROM:	Monty Hanks Assistant General Manager/CFO	METHOD OF SELECTION: N/A
Division:	Administrative Services	<i>If other, please describe:</i>
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"/>
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 June 30, 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 June 30, 2017, is attached for your information and acceptance. Listed below is a summary of the report.

Fixed Rate Debt – No new fixed rate debt was issued. However, staff continues to receive refunding opportunities for the Hydro Project Number One Revenue Bonds, 2008 Refunding Series C. The bonds are callable on July 1, 2018 and staff will continue to monitor the savings and will mostly likely explore a refunding in late 2017/early 2018. Other highlights are included in the attached report.

Variable Rate Debt – The Agency has a total of \$86.7 million of outstanding variable rate debt (\$85.16 million for Hydro 2008 Series A and \$1.54 million Hydro 2008 Series B). The Agency's variable rate debt is structured with a Letter of Credit with the Bank of Montreal. The reset rates continue to trade at or better than SIFMA for the Series A bonds (tax-exempt) and 1m LIBOR for Series B bonds (taxable) despite Moody's downgrade of the bank on May 10th. The reset rates and index comparisons are included in the attached report.

Interest Rate Swaps – As of June 30, 2017, NCPA had \$86.7 million of outstanding swaps, all related to the Hydroelectric Project bonds, which act as a hedge against the variable rate debt. The total fair value of the interest rate swaps was a net liability of \$15.2 million (negative). This amount has improved from the June 30, 2016 net liability of \$22.3 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 25% 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 are been no changes since the last report. NCPA's swap payments and the 1992 Hydro bonds are insured by National Public Finance Guarantee, formerly MBIA. On June 26, 2017, S&P Global Ratings lowered its financial strength rating on National Public Finance Guarantee Corp. (National) to 'A' from 'AA-' and its long-term counterparty credit rating on MBIA Inc. to 'BBB' from 'A-'. For the swaps, minimum credit ratings and thresholds are found in the ISDA and Credit Support Annex documents. Under the ISDA agreement, an Additional Termination Event (ATE) occurs if the Insurer (National) doesn't have a rating of at least A3/A- and NCPA's debt ratings fall below Baa3 or BBB-. Since NCPA's underlying credit rating is A1/A+, no collateral posting is required.

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, 2017 was \$5.3 million with actual results at \$9.1 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 \$3.8 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 \$15.2 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:

The item was reviewed by the Finance Committee on August 9, 2017 and was recommended for the Commission to accept the informational report.

Respectfully submitted,

RANDY S. HOWARD
General Manager

Attachments:
Debt and Interest Rate Management Report, as of June 30, 2017



Debt and Interest Rate Management Report

As of June 30, 2017

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Key Highlights

- No fixed or variable rate debt or interest rate swaps were issued, refinanced or terminated since the last report.
- No material changes to any fixed or variable rate debt or outstanding swap agreements occurred since the last report.
- On May 10, 2017, Moody's Investor Services downgraded the Bank of Montreal (BOM) from Aa3 to A1 who acts as the Letter of Credit provider for the 2008 Hydro bonds Series A and B.
- On June 26, 2017, S&P Global Ratings lowered its financial strength rating on National Public Finance Guarantee Corp. (National) to 'A' from 'AA-' and its long-term counterparty credit rating on MBIA Inc. to 'BBB' from 'A-'. National (formerly MBIA) is the bond insurer for the 1992 Hydroelectric bonds.
- 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 Fair Value on the outstanding swaps changed from a negative value of \$22.3 million on June 30, 2016 to a negative value of \$15.2 million on June 30, 2017.

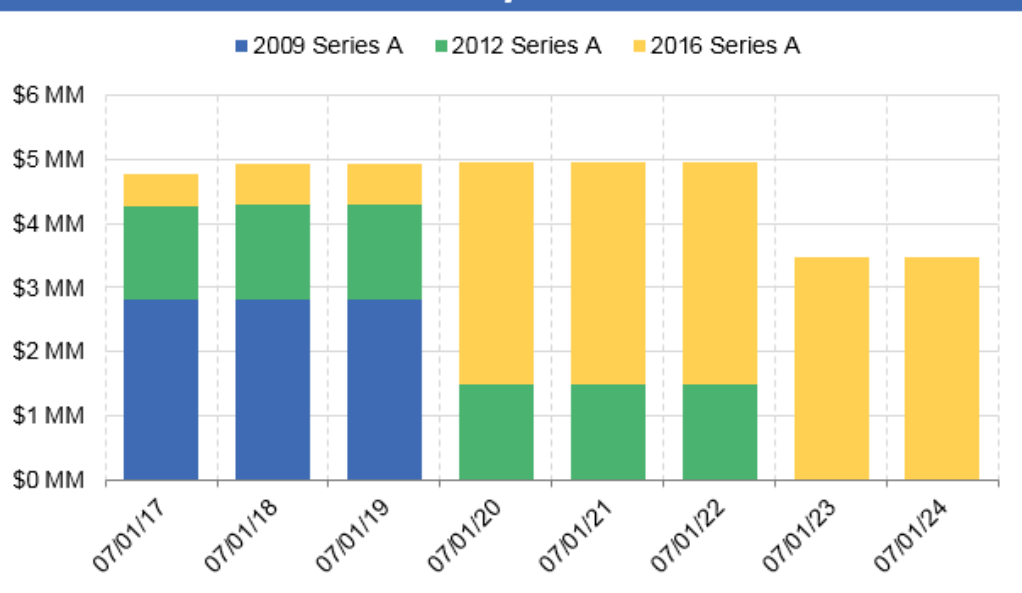
DEBT OVERVIEW BY PROJECT

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

Geothermal Project Debt Service



Summary of Outstanding Geothermal Project Debt

Ratings (M/S/F): A1/A-/A+, Stable Outlooks

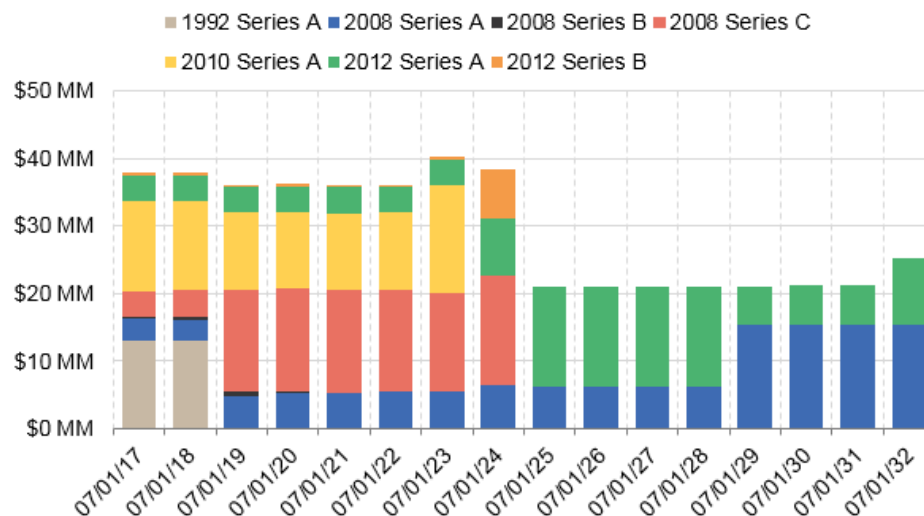
Series	Tax Status	Coupon Type	Issue Size	Outstanding Par	Coupon Range	Call Date	Final Maturity
2009 Series A	Tax-Exempt	Fixed-Rate	\$35,610,000	\$7,640,000	5.000%	-	7/1/2019
2012 Series A	Tax-Exempt	Fixed-Rate	\$12,910,000	\$7,595,000	2.289%	7/1/2017	7/1/2022
2016 Series A	Tax-Exempt	Fixed-Rate	\$17,530,000	\$17,530,000	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

Hydroelectric Project Debt Service



Summary of Outstanding Hydroelectric Project Debt

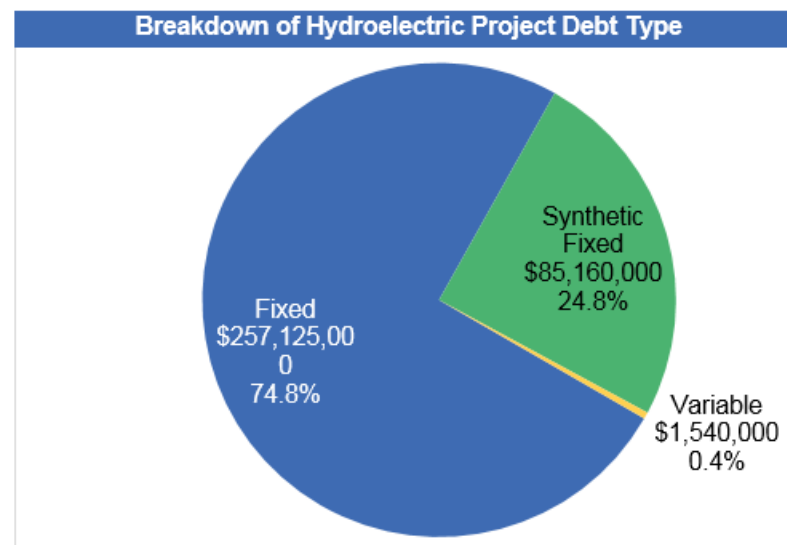
Ratings (M/S/F): A1/A+/A+, Stable Outlooks

Series	Tax Status	Coupon Type	Issue Size	Outstanding Par	Coupon Range	Call Date	Final Maturity
1992 Series A	Tax-Exempt	Fixed-Rate	\$195,610,000	\$23,595,000	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	\$1,540,000	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	\$72,615,000	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 06/30/17)	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	(\$18,558,743)	\$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	\$246,521	\$1,574,000	\$1,142,014	Citibank, N.A., New York (A1/A+/A+)

Hydroelectric Project Liquidity Summary			
Series	LOC Provider	LOC Expiry	Last Reset
2008 Series A	Bank of Montreal (A1/A+/AA-)	September 09, 2019	0.78%
2008 Series B	Bank of Montreal (A1/A+/AA-)	September 09, 2019	1.20%

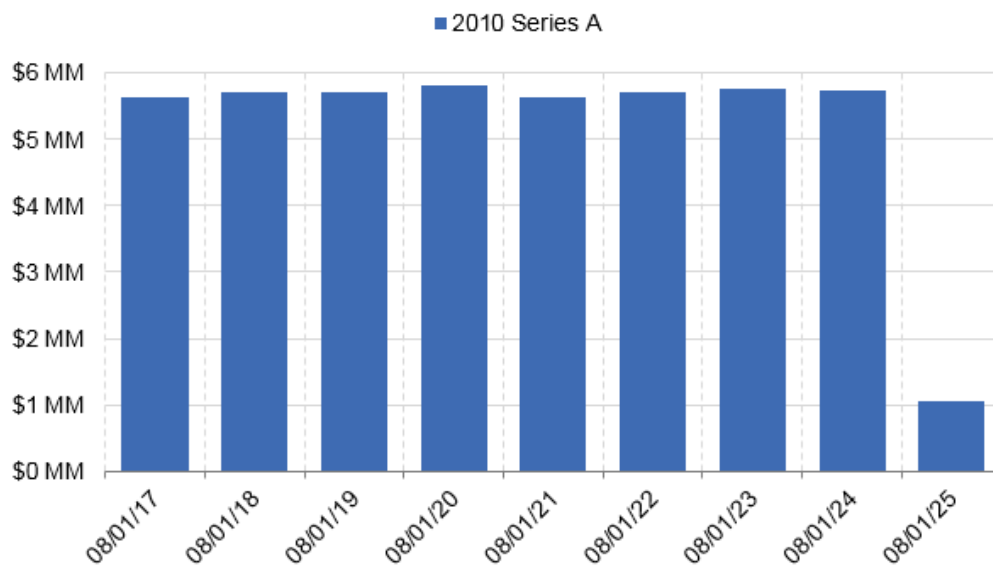


Capital Facilities Debt Overview

Capital Facilities Participation Percentages

Member	Entitlement Share (%)
Alameda	19.00
Lodi	39.50
Lompoc	5.00
Roseville	36.50

Capital Facilities Debt Service



Summary of Outstanding Capital Facilities Debt

Ratings (M/S/F): A2/A-/ , Stable Outlooks

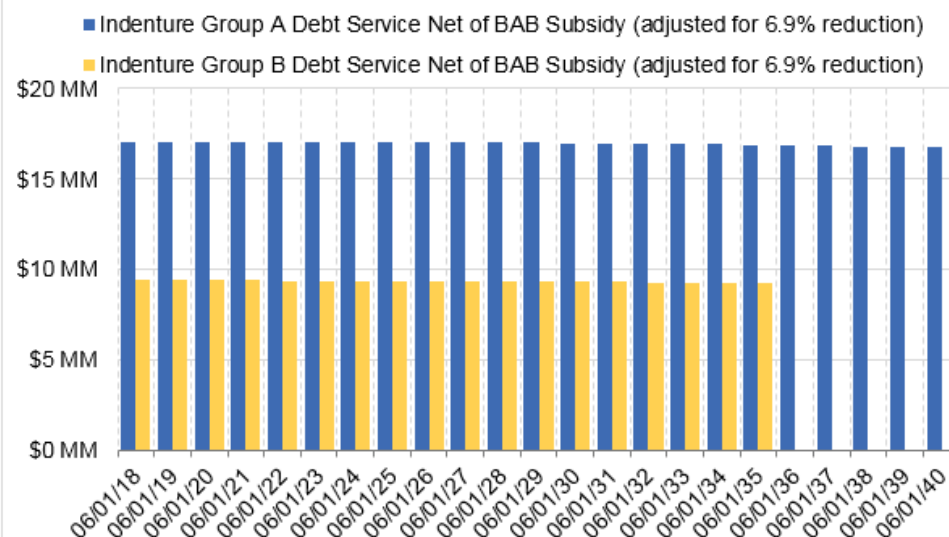
Series	Tax Status	Coupon Type	Issue Size	Outstanding Par	Coupon Range	Call Date	Final Maturity
2010 Series A	Tax-Exempt	Fixed-Rate	\$55,120,000	\$37,400,000	3.600% - 5.250%	2/1/2020	8/1/2025

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

Lodi Energy Center Debt Service



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): A2/A-/A, Stable Outlooks							
2010 Series A	Tax-Exempt	Fixed-Rate	\$78,330,000	\$53,775,000	5.000%	6/1/2020	6/1/2025
2010 Series B	Taxable BABs	Fixed-Rate	\$176,625,000	\$176,625,000	7.311% ⁽¹⁾	Make-Whole	6/1/2040
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

- No new or refunded debt issued
- 1992 Hydroelectric Bonds were downgraded due to S&P lowering the credit rating on bond insurer National Public Finance Guarantee (formerly MBIA)
- Refunding opportunities
 - 2008 Hydroelectric Refunding Bonds, Series C
 - Callable July 1, 2018, refunded as early as April 3, 2018
 - Refunding candidate late 2017 / early 2018
 - 2010 Lodi Energy Center, Series A
 - Callable June 1, 2020 (Advanced Refunding)
 - About \$22m meet targeted 5% savings or more
 - Continue to monitor

VARIABLE RATE DEBT OVERVIEW

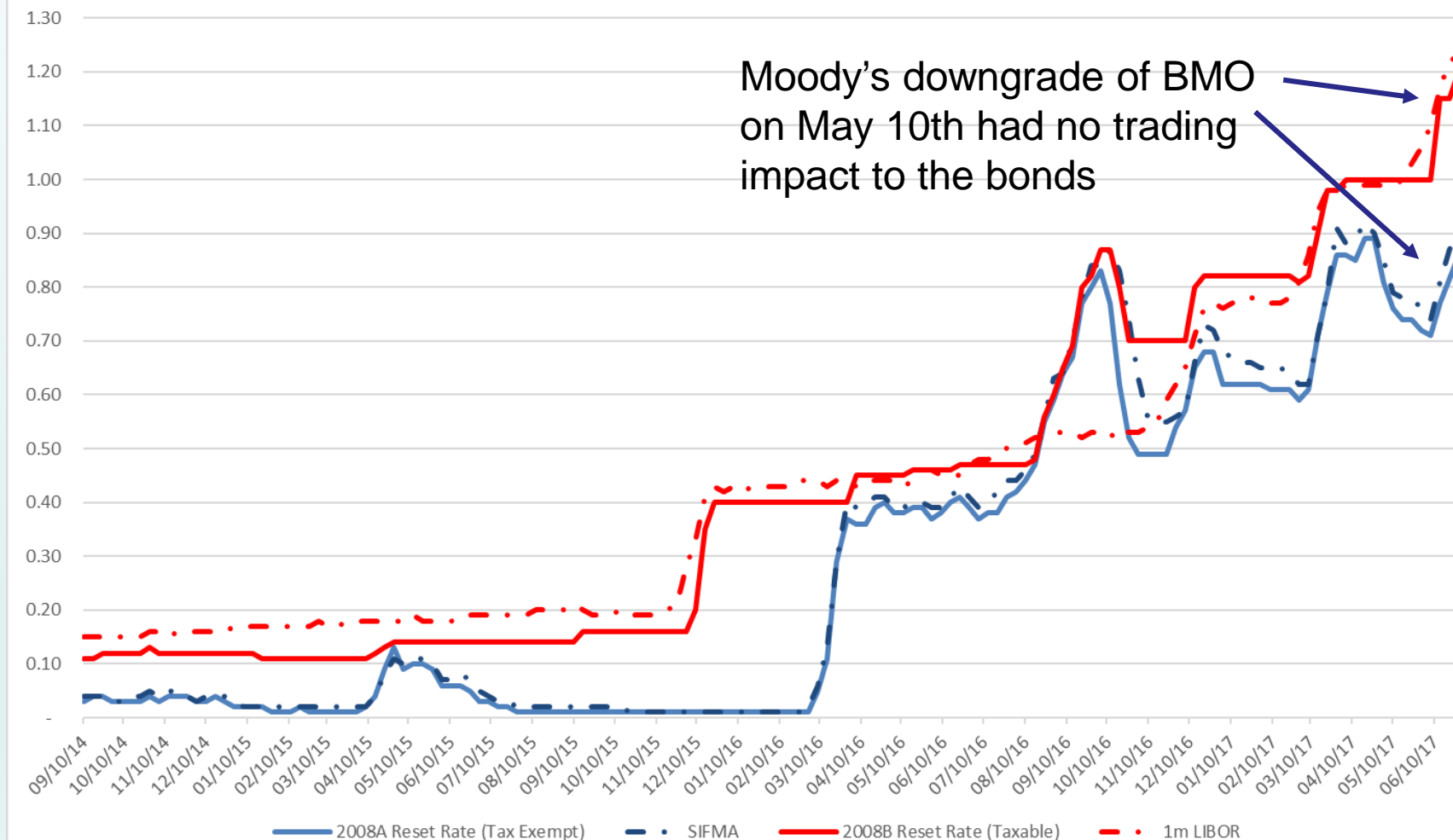
Variable Rate Debt Overview

	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

Moody's downgrade of BMO on May 10th had no trading impact to the bonds

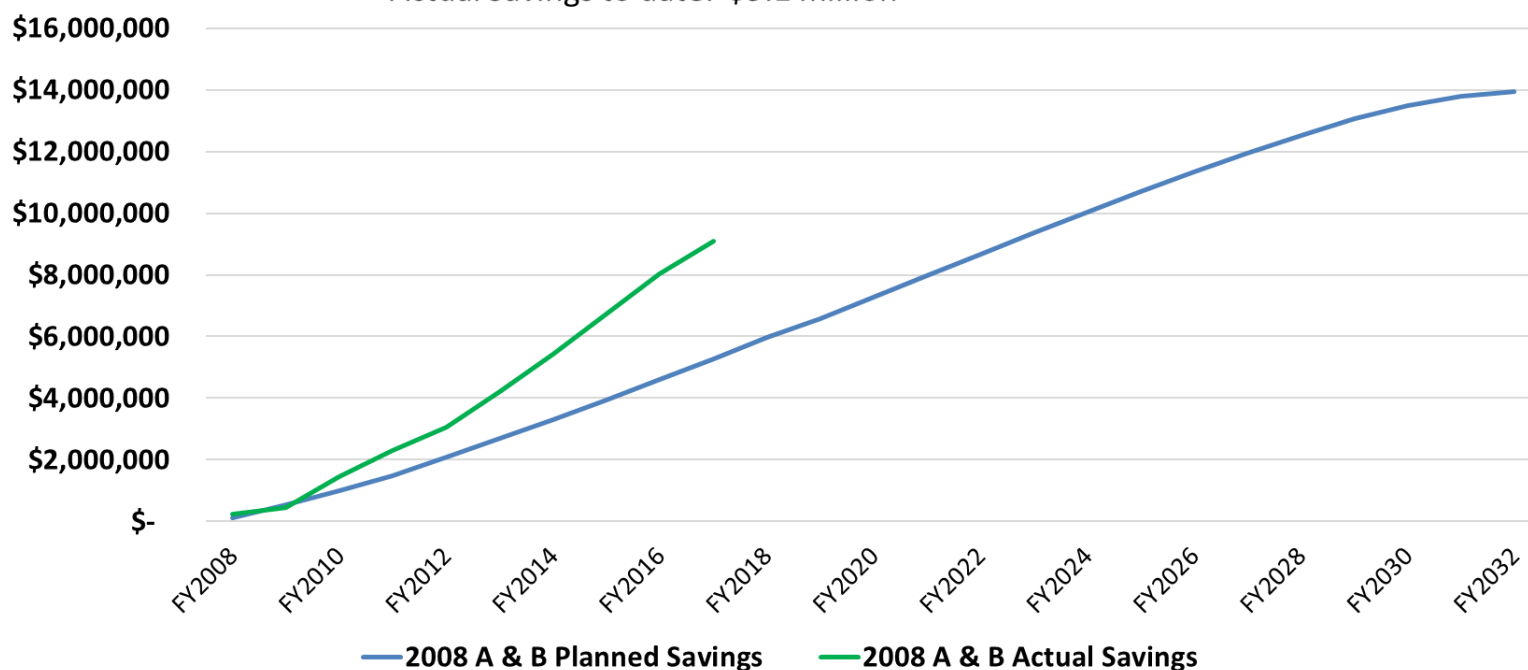


INTEREST RATE SWAPS OVERVIEW

Interest Rate Swaps Overview

Northern California Power Agency Hydroelectric Project Swaps Performance to Date June 30, 2016

Total Projected Savings over life of bonds: \$13.9 million
Total Project Savings to date: \$5.3 million
Actual Savings to date: \$9.1 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	Remaining Life
Swap	NCPA 200411240001	Series 2008A	3.8190%	54% of USD-LIBOR + 0.54%	11/24/2004	4/2/2008	7/1/2032	16 years
Swap	NCPA 200411240002	Series 2008B	USD-LIBOR	5.2910%	11/24/2004	11/24/2004	7/1/2032	16 years
Initial Notional	Current Notional	Bank Counterparty	Counterparty Ratings Moody's / S&P / Fitch	MTM Value	Impact on MTM Value - 50 bp swing			
\$85,160,000	\$85,160,000	Citibank, N.A., New York	A1 / A+ / A+	(\$18,558,743)	\$2,769,715			
\$1,574,000	\$1,142,014	Citibank, N.A., New York	A1 / A+ / A+	\$246,521	(\$38,324)			
\$86,734,000	\$86,302,014			(\$18,312,222)	\$2,731,391			

Interest Rate Swaps Overview



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	\$1,142,014
							<u>\$86,302,014</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%
(\$18,558,743)	(\$1,855,874)	(\$308,075)	(\$1,924,542)	(\$426,851)	(\$4,253,664)	(\$313,643)	(\$2,227,049)	(\$6,870,447)	(\$378,598)
\$246,521	\$24,652	\$4,092	\$25,564	\$5,670	\$56,503	\$4,166	\$29,583	\$91,262	\$5,029
(\$18,312,222)	(\$1,831,222)	(\$303,983)	(\$1,898,977)	(\$421,181)	(\$4,197,161)	(\$309,477)	(\$2,197,467)	(\$6,779,185)	(\$373,569)

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%
\$2,769,715	\$276,971	\$45,977	\$287,219	\$63,703	\$634,819	\$46,808	\$332,366	\$1,025,348	\$56,502
(\$38,324)	(\$3,832)	(\$636)	(\$3,974)	(\$881)	(\$8,784)	(\$648)	(\$4,599)	(\$14,187)	(\$782)
\$2,731,391	\$273,139	\$45,341	\$283,245	\$62,822	\$626,035	\$46,161	\$327,767	\$1,011,161	\$55,720

Interest Rate Swaps Overview

