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Commission Staff Report

AGENDA ITEM NO.: ____

Date: August 27, 2015

To: NCPA Commission

Subject: June 30, 2015 Debt & Interest Rate Management Report

Background
In accordance with the "Debt and Interest Rate Management Policy" approved by the Commission in May 2013, the following semi-annual report is submitted for your information and acceptance.

Fixed Rate Debt
No new fixed rate debt was issued and no fixed rate refunding occurred during the last six months. 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 7.3% or $244,233 for the June 1, 2015 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 June 30, 2015, 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 a negative $19.5 million. This amount has changed from the December 31, 2014 fair value, which was a negative $21.1 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 22% 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. Citi's (swap counterparty) credit ratings were upgraded by Moody's from A2 to A1. They remain highly rated with all other rating agencies and no collateral calls were required under the swap terms.

Fiscal Impact/Projected Savings – 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 June 30, 2015 was $3,950,827 with actual results at $6,715,557. 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. Negative results in prior reports were directly attributable to the meltdown in the variable rate bond market in 2008. For a short period of time in December 2007 and January 2008, NCPA had "bank bonds", which are variable rate bonds that are not able to be remarketed. These bonds bore interest rates at 12% for the short time they were not remarketed, diluting the actual savings expected from these swap transactions by almost

$200,000. On a positive note, the market stabilized in early 2009 and the swaps accrued positive basis differential until approximately May 2011. A downgrade by the rating agencies of the liquidity provider for our variable rate program, Dexia, increased the weekly reset rates from approximately 30 basis points, to a high of 300 basis points. In September 2011, Citibank NA replaced Dexia as the liquidity provider. Prior to the replacement, from May to September, the Agency again experienced negative basis on these swap transactions. After replacement of Dexia, the rates again improved greatly and at the current time and on a cumulative basis, savings from the swap transactions have exceeded expected savings by over $2.7 million. 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 $19.5 million, refunding is not feasible at this time.

<u>Environmental Analysis</u>
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.

<u>Committee Review</u>
This report was reviewed by the Finance Committee on August 12, 2015 and with x members present it was their unanimous recommendation to accept this report as filed.

<u>Recommendation</u>
NCPA staff and the Finance Committee recommend that the Commission accept and file the June 30, 2015 Debt and Interest Rate Management Report.

Respectfully submitted,	Prepared by:	Concurs with,
RANDY S. HOWARD	DONNA STEVENER	GARY W. PLASS
General Manager	Assistant General Manager/CFO	Chair, Finance Committee
	Administration Services/Finance	

RSH/dis

Attachments: June 30, 2015 Debt and Interest Rate Management Report

SR: xxx:15