



# Commission Staff Report

August 16, 2018

**COMMISSION MEETING DATE:** August 23, 2018

**SUBJECT:** Debt and Interest Rate Management Report – June 30, 2018

**AGENDA CATEGORY:** Consent

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

<b>IMPACTED MEMBERS:</b>					
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 June 30, 2018.

## **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, 2018, 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 refunded the 2008 Hydroelectric Series C bonds. Final refunding numbers for project participants include the following:

- Net Present Value (NPV) savings: \$7.6 million through final maturity of 2024
- Percentage savings of refunded bonds: 10%
- Average annual savings: approx. \$1.37 million per year

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 June 30, 2018, NCPA had \$86.2 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 \$13.767 million (negative). This amount has improved from the December 31, 2017 net liability of \$16.995 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 February 2018, Fitch Ratings notified NCPA that they were upgrading the Hydro project bonds resulting from a meeting pertaining to the refunding of the 2008 Hydroelectric bonds. Fitch's rating committee decided to:

- Upgrade the rating on NCPA's Hydroelectric Revenue Bonds to AA- from A+ with a rating outlook of 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 June 30, 2018 was \$6.0 million with actual results at \$10.1 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 \$4.1 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 \$13.767 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:**

The recommendation was reviewed by the Finance Committee on August 14, 2018 and was recommended for Commission acceptance.

Respectfully submitted,

RANDY S. HOWARD  
General Manager

Attachments:

- Debt and Interest Rate Management Report as of 6-30-2018