MINUTES

REGULAR MEETING of the Finance Committee of the

Clean Power Alliance of Southern California

Wednesday, June 22, 2022, 11:00 a.m.

Pursuant to the Proclamation of the State of Emergency by Governor Newsom on March 4, 2020, AB 361, and enacting Resolutions, and as a response to mitigating the spread of COVID19, the Finance Committee conducted this meeting remotely.

CALL TO ORDER & ROLL CALL

Committee Chair Elect Susan Santangelo called the meeting to order at 11:00 a.m. and Gabriela Monzon, Board Clerk, conducted roll call.

Roll Call			
Beverly Hills	Julian Gold	Committee Chair	Remote
Camarillo	Susan Santangelo	Committee Chair Elect	Remote
Carson	Reata Kulcsar	Committee Member	Absent
Rolling Hills Estates	Steve Zuckerman	Committee Member	Remote
Santa Monica	Pam O'Connor	Committee Member	Remote

All votes are unanimous unless otherwise stated.

GENERAL PUBLIC COMMENT

There was no public comment.

CONSENT AGENDA

1. Approve Minutes from the May 25, 2022 Finance Committee Meeting
2. Receive and File May 2022 Risk Management Team Report
3. Receive and File May 2022 CPA Investment Report
4. Receive and File April Financial Dashboard

Motion: Committee Chair Gold, Beverly Hills
Second: Committee Member O'Connor, Santa Monica
Vote: The consent agenda was approved by a roll call vote.

REGULAR AGENDA

5. Report from the Chief Financial Officer
David McNeil, Chief Financial Officer, provided an oral update on CPA's treasury operations and financial performance. Mr. McNeil noted that there was a significant increase in energy prices in April due to a variety of reasons, including Ukraine events, high temperatures, and drought conditions reducing the availability of hydro. CPA is entering Q4 with a $30 million contribution to the net position through the first three quarters and is ahead of its overall budget for the year. Mr. McNeil noted that staff expects CPA will be ahead of budget for the fiscal year, but with energy revenues at a level lower than budgeted and expected resulting from reversals of revenue by Southern California

Edison (SCE) for prior months. Mr. McNeil indicated that these reversals occurred in April, May, and June, and staff opined that these reversals are most likely arising from billing errors, adding that they are working with SCE to fully understand and resolve the issue and reclaim the funds back. Committee Member Zuckerman pointed out numerical errors in the percentages listed on the chart displayed, and Mr. McNeil noted the fixes needed. Mr. McNeil provided an update on the summer projections of CPA's cash flow, specifying that a need may arise to draw on the J.P. Morgan line of credit but CPA is well-hedged and well-positioned to be successful and meet the financial objectives through the summer months. CPA will finish repaying the Los Angeles County loan a few days before the due date. Mr. McNeil provided an update on the Financial Security Requirement (FSR), stating that SCE issued an advice letter reducing the amount required from $97 million to $87 million and, subsequently, the advice letter was suspended by California Public Utilities Commission (CPUC). Staff has referred this to CPUC for a resolution, which is expected in the next 90 days, but it may take longer for CPUC to make a determination about what increase in the FSR, if any, will apply to CPA. Mr. McNeil noted that CPA staff are actively engaged with the surety bond market and with J.P. Morgan, who has agreed to an upsized credit line to accommodate a posting of up to $100 million. Staff has three options for contracting for this; wait until a determination is made by CPUC and sign an agreement to amend the credit agreement; increase the line of credit to $87 million now and pay non-utilization fees potentially until the end of December if the facility is not used; or sign an agreement now with a bank option to upsize the facility without needing to pay non-utilization fees because zero capital would be reserved.

Responding to Committee Chair Gold's question regarding Accounts Receivable (A/R), Mr. McNeil indicated that a second round of California Arrearage Payment Program (CAPP) funding is included in the budget, adding that a trailer bill is expected to be finalized in August that will clarify the terms and conditions of the CAPP funding. The expectation of staff is that in August, CPA's bad debt expense can then be adjusted to reflect past due A/R was paid by CAPP funds, reducing the bad debt expense. Mr. McNeil added that the A/R and large delinquencies of residential and active commercial accounts are continuing to age. SCE has initiated disconnection notifications for commercial customers, and staff is expecting an increase in payments from that customer group. In response to Committee Chair Gold's question, Mr. McNeil specified that the level of nonpayment continues to increase each month. Chair Gold questioned whether this was due to the nonpayment of customers or simply the A/R continuing to age. Mr. McNeil indicated that overall A/Rs are increasing largely as a function of the continuous aging of those receivables, adding that there is a seasonal factor as well as summers bring larger bills and a longer payment time by customers. Responding to Committee Member Zuckerman's question, Mr. McNeil indicated there are both small and large commercial delinquent accounts. Director Mahmud inquired whether there was communication with SCE regarding the large delinquent accounts, and Mr. McNeil noted there are monthly calls with customer credit and collections teams, and there is an expectation that as payment limits are reached, the customers will make payments. Committee Member Zuckerman questioned whether a delinquent customer's balance follows them if they decide to leave CPA and choose SCE. Mr. McNeil indicated it does not, noting that the balance is frozen with CPA and a collection agent is used to ensure SCE returns the receivable.

6. <u>Recommend Selection of California Community Choice Financing Authority as Bond Issuer and Goldman Sachs as Prepaid Supplier for an Energy Prepayment Transaction to the Board of Directors</u>

Kate Freeman, Financial Strategy & Initiatives Manager, presented an update on two items associated with the Energy Prepayment Transaction. Municipal Capital Markets (MCM) and Chapman & Cutler (C&C) have been assisting in the solicitations to select a Bond Issuer and a Prepaid Supplier. Staff is recommending the selection of California Community Choice Financing Authority (CCCFA) as the Bond Issuer and Goldman Sachs/J. Aron as the Prepaid Supplier. Ms. Freeman reviewed the Bond Issuer's role, indicated that three entities responded to the Request For Information (RFI) issued in April 2022, and identified various reasons staff is recommending CCCFA as the Bond Issuer. Staff is proposing CPA join CCCFA as a Founding Member, providing CPA with a seat on the CCCFA Board of Directors.

Director Mahmud expressed that it would be beneficial to know whether the $50,000 membership fee is equivalent to the amount contributed by the Founding Members to establish CCCFA. Director Mahmud added that there is some ambiguity in regards to the limits placed on the JPA Board actions, opining it would be in the JPA's best interest to adopt an amendment with language addressing subsequent Board actions regarding JPA approved prepayment projects. Nancy Whang, General Counsel, indicated that a particular Community Choice Aggregate's (CCA's) transaction holds that CCA responsible for allocation of costs, adding that staff will clarify this with CCCFA. Responding to Committee Chair Gold's question concerning a diligent assessment completed of CCCFA, staff indicated CCCFA has only Board members and a working team comprised of staff members from each of the Founding Members. CPA would appoint a Board member and a member of staff to serve on that working team, and work time spent would be billable. Ms. Whang noted that the liability is narrow so the risk is narrow but not limited entirely, adding that staff is working to select experienced counsel to assist with disclosures. Mr. McNeil added that all CCAs who form the JPA are issuing prepaid bonds and saving millions a year on prepay costs. The JPA is necessary in order to separate the CCA from risks and must have a minimum of three members. CCCFA was founded by four Founding Members, and the $50,000 initiation fee is intended to compensate those CCAs for the time and effort involved in the startup costs. The ongoing costs are intended to be split equally between the members. Founding Members, which CPA plans to join as, share administrative responsibilities for this JPA. Staff is planning to have a working group member from CPA join the CCCFA team. Mr. McNeil indicated that in the case where a particular member takes action that leaves the JPA with liability, that member becomes insolvent and the remaining JPA members would be responsible for the costs and actions of that particular member. Staff is comfortable with this risk, given that all four Founding Members are Investment Grade rated. Committee Member Zuckerman inquired if, in a situation where a member agency becomes extinct, the power remains for other members to sell to compensate for the exposure. John Norman, MCM advisor, stated that if bonds and prepayments are undertaken on behalf of a given entity by CCCFA then all documents, revenues, and power associated with that given transaction are deposited in a trust estate securing that transaction, and the only use for that trust estate are prescribed in the bond documents to secure bondholders. Mr. Norman added that there is no liability or obligation for a given prepayment by Founding Members, but the possibility exists for a trustee to offer the power for sale to others. Responding to Committee Member Zuckerman's question, staff clarified that prepaid contracts are for existing Purchase Power Agreements (PPAs) but there may be future PPAs that CPA has not yet entered into that would be novated into the facility in the future. Committee Member Zuckerman inquired whether the current interest rate changes could create an environment in which the advantages of municipal rates versus lending rates of a Prepaid Supplier would diminish in the future. Ms. Freeman indicated that a rise in interest rates would make a prepaid transaction more valuable because the size of the spread between corporate debt and tax-free municipal debt would widen. Staff identified that this recommendation would place CPA in a position to enter the market quickly once satisfactory conditions align. Director Mahmud opined that CCCFA has done well anticipating future liabilities, adding that Article 8 of the JPA specifies that no debt liability or obligation of CCCFA shall be a debt liability or obligation of any member, although members remain responsible for their respective prepayment project contracts. Committee Member Zuckerman expressed a desire to have staff reports for CCCFA available to the Board and/or Finance Committee for informational purposes, and staff agreed to inquire about this.

Ms. Freeman reviewed the Prepaid Supplier's role, indicated that four entities responded to the Request For Proposal (RFP) issued, and identified various reasons staff is recommending Goldman Sachs and its subsidiary J. Aron as its preferred Prepaid Supplier. Ms. Freeman outlined fiscal impacts associated with both the Prepaid Supplier and the Bond Issuer. Committee Member Zuckerman noted a current investigation into the mutual funds invested by Goldman Sachs could become a discussion item, opining staff should be prepared for questions concerning this. Ms. Freeman reviewed the remaining 2022 timeline for conducting the Prepaid Transaction.

Motion: Committee Chair Gold, Beverly Hills
Second: Committee Member Zuckerman, Rolling Hills Estates
Vote: Item 6 was approved by a roll call vote.

COMMITTEE MEMBER COMMENTS

Committee Chair Gold congratulated Committee Chair Elect Santangelo on her first meeting as chair. Committee Member O'Connor, Chair Elect Santangelo, and Mr. McNeil thanked Chair Gold for his work as Finance Committee Chair.

ADJOURN

Committee Chair Santangelo adjourned the meeting at 12:07 p.m.