



M-S-R Public Power Agency

SPECIAL MEETING OF THE FINANCIAL MANAGEMENT COMMITTEE

Thursday, June 11, 2020 10:00 AM

WEBINAR DIGITAL PLATFORM OR PHONE MEETING

GoTo Meeting Information:
<https://global.gotomeeting.com/join/658835933>

Telephonic Meeting Information:

United States: +1 (224) 501-3412
Access Code: 658-835-933

AGENDA

M-S-R Public Power Agency meetings are currently being conducted via webinar for all representatives pursuant to Executive Orders signed by Governor Gavin Newsom related to the ongoing COVID-19 pandemic. Members of the public may join the Committee meeting by utilizing GoTo Meeting's webinar feature or through a phone line provided in the meeting agenda. Members of the public will continue to have the opportunity to provide public input via the webinar or phone features. Members of the public may also email their comments to the General Manager by 3 p.m. on the day prior to the Committee meeting. Public comment can be emailed to msr_general.manager@gmail.com. All public comments submitted by email on time will be read during the Committee meeting in the public input section of the agenda. Any member of the public who desires to address the Committee on any item considered by the Committee at this meeting before or during the Committee's consideration of that item shall so advise the Chair and shall thereupon be given an opportunity to do so.

1. Call to Order
2. Roll Call
3. *Approval of Minutes of Meeting of August 5, 2019* (attached, Martin Hopper)
4. *Discussion and Possible Action Regarding Agency Working Capital Policies* (attached, Martin Hopper)

5. Public Comment
6. *Confirm date and time of next meeting*
7. Adjourn

ALTERNATE FORMATS OF THIS AGENDA WILL BE MADE AVAILABLE UPON
REQUEST TO QUALIFIED INDIVIDUALS WITH DISABILITIES.



M-S-R PUBLIC POWER AGENCY

**DRAFT MINUTES
SPECIAL MEETING OF THE
FINANCIAL MANAGEMENT COMMITTEE
AUGUST 5, 2019**

The Financial Management Committee of the M-S-R Public Power Agency (M-S-R PPA) met telephonically for a Special Meeting on August 5, 2019, with telephonic meeting locations as follows: Modesto Irrigation District, 1231 Eleventh Street, Modesto, CA 95354; City of Santa Clara – Electric Department, 881 Martin Avenue, Santa Clara, CA 95050; and City of Redding – Electric Utility, 3611 Avtech Parkway, Redding, CA 96049. Present from Modesto Irrigation District (MID) were Scott Van Vuren (by telephone); present from Santa Clara was May Qiu (by telephone); and present from Redding was Joe Bowers by (telephone). Also participating by telephone was General Manager Martin R. Hopper; and Frank Perdue, and Natalie Perkins of Montague DeRose and Associates, LLC (MDR).

Mr. Hopper acted as chairperson and called the meeting to order at 2:55 PM. A quorum was attained with the Member representatives being Mr. Van Vuren, Ms. Qiu and Mr. Bowers.

The Committee then reviewed the draft minutes of its meeting of March 8, 2018. It was moved by Representative Qiu and seconded by Representative Bowers to approve the minutes of the March 8, 2018 meeting. On the call of the roll, the motion carried unanimously

The Chair then called for Public Comment. There being none, the Chair announced that unless required by emergent business, the next meeting of this committee will be its

annual meeting on May 6, 2020, at 2:57 PM. The meeting was then adjourned by Mr. Hopper at 4:07 P.M.

Respectfully Submitted,

Martin R. Hopper
General Manager

Macintosh HD:Users:martinhopper:My Laptop Documents:M-S-R Public Power Agency:Financial Management
Committee:Minutes:2019:MSR PPA FMC Minutes 8-5-2019.doc

DRAFT

M-S-R Public Power Agency Staff Report

Date: June 5, 2020

From: Martin R. Hopper, General Manager

To: M-S-R PPA Financial Management Committee

Subject: Discussion and Possible Action Regarding Agency Working Capital Policies

Commission Assignment:

The Commission has requested the General Manager review the Agency's working capital policies and present recommended updates for consideration. The initial draft report (as revised pursuant to discussions at the May 7, 2020 M-S-R PPA Technical Committee meeting) provided an overview of existing policies, reconciled funds on-hand to existing policies, surveyed best practices, and provided an initial sample reconciliation of funds to proposed new policies. A copy of the revised initial draft report is attached.

Commission Review and Input to Date:

At its May 20, 2020 meeting, the Commission reviewed the revised initial draft report and provided the following feedback:

- Supported the concept of a strategic reserve with appropriate tranches dedicated to particular functions;
- Reserve policy should be sufficiently flexible to address changing circumstances and not be overly prescriptive;
- Initial reserve levels should be sufficient to support an expectation that the Agency will not need future member cash calls to build reserves or fund legacy liability expenses; and
- Existing reserves will not, unless required to address emergency needs, be rebated to members until all legacy liabilities are satisfied.

An updated progress report addressing these points is to be presented to the Commission at its July 22, 2020 meeting with the expectation of adopting the final policy at the September 30, 2020 meeting.

Input Required From Financial Management Committee:

1. Review of updated Financial Advisor recommendations regarding best practices and Rating Agency criteria – to be available late June 10, 2020.
2. Discussion of comparable Member Working Capital Requirements:
 - a. What are they and how are they enforced?
 - b. Are they harmonious with best practices and bounds recommended by Financial Advisor?
3. Identify concerns and comments to address in July 22, 2020 update of General Manager's Report to Commission.

M-S-R Public Power Agency Staff Report

Date: May 12, 2020

From: Martin R. Hopper, General Manager

To: M-S-R PPA Commission

Subject: Discussion and Possible Action Regarding Agency Working Capital Policies

Introduction:

The Commission has requested the General Manager review the Agency's working capital policies and present recommended updates for consideration. This report provides an overview of existing policies, reconciles funds on-hand to existing policies, surveys best practices, makes recommendations regarding policy revisions, and recommends reconciliations of funds to proposed new policies.

Existing Policies:

The Agency's existing policies are described in Section III (B) Working Capital and Member Payments, of the Policies and Procedures Manual adopted by the M-S-R PPA Commission September 19, 2018, as follows:

“To allow the Agency to invoice the Members monthly for actual generation and variable costs incurred in the prior month and not utilize estimated invoices billed in advance of expenditures, the Agency maintains a nominal 60-day working capital reserve in its Operating Fund.¹ The Agency also has created a Member Cash Call Reserve Account (MCCRA) whereby funds may be accumulated at the direction of the Commission for unexpected operation and maintenance expenses, repair costs, capital improvements, replacements, or betterments related to M-S-R Projects, and to reduce debt or make debt service payments.² The Agency's fixed costs, including Debt Service payments are invoiced monthly at one-twelfth of the total amounts adopted in the Annual Budget and trued-up after the close of the fiscal year. Working capital requirements are reviewed on an annual basis as part of the preparation of the Annual Budget. Member payments are made by wire transfer or electronic equivalent pursuant to a policy previously implemented for M-S-R PPA on the basis of administrative efficiency.³ In 2016, the Commission adopted a policy designating various uses and transfers of reserves and working capital related to the payment of existing

¹ Resolution No. 2013-07, Adopted October 16, 2013, Regarding Working Capital Policy.

² Resolution No. 99-01, Adopted November 17, 1999 Establishing a Member Cash Call Reserve Account Policy and a Member Cash Call Reserve Account.

³ M-S-R PPA Director's administrative directive dated June 8, 2007.

and potential San Juan Project Legacy Liabilities.⁴

The Agency also maintains a Debt Service Coverage Revolving Fund as established pursuant to Resolutions 2016-01 and 2016-02 with a Funding Requirement of \$3,300,000 and is specified to be a sub-account of the Operating Fund.

Reconciliation of Operating Fund:

The following tabulation is based on funds reported in the March 31, 2020, M-S-R PPA Treasurer’s Report:

Description	Balance	Notes
General Fund (Gross)	\$41,200,000	Market Value
Member Cash Call Reserve Account (MCCRA)	\$200,000	
Debt Service Coverage Revolving Fund	\$2,200,000	Annual Funding Requirement of \$3,300,000 collected \$275,000 per month – Disbursed July 1 each year
San Juan Legacy Liability Designation per Resolution 2016-04 – Remaining Balance	\$6,000,000	Original Amount \$14,300,000 less disbursements of \$8,251,015 to Trusts and on-going Legacy Liability expenses to date
Reserve & Contingency Fund (Per Indenture)	\$4,400,000	
Net Working Capital Available	\$28,400,003	
Budgeted Expenses	\$82,300,000	
Days On-Hand	126	

Best Practices:

The Agency’s Financial Advisor has surveyed industry standards and notes Government Finance Offices Association baseline 90-days of operating expenses, S&P looks for a range of 90 – 150 days for A-rated retail electric utilities, or a median of 220-days for A+ rated utilities, Moody’s specifies a range of 90 – 150 days for A-rated joint action agencies and Fitch specifies a minimum of 90 days liquidity in its public power rating criteria. Although M-S-R PPA’s historic 60-day criteria has proven sufficient to maintain an A-rating (or better), the Agency’s credit strength has relied on strong take-or-pay off-take contracts with its Members coupled with a comprehensive rate covenant. As the avowed goal of the Agency is to never cash-call the Members for future Legacy Liability expense and to maintain after-the-fact billings to the members for operating expenses and purchase power, the Agency would be advised to maintain conservative rather than aggressive liquidity levels.

The Agency’s Financial Advisor has suggested the Agency consider a Master or Strategic Reserve consisting of Sub-Reserves for working capital for day-to-day Agency operations (non-purchase power), purchase power, and legacy liabilities. The criteria for

⁴ Resolution No. 2016-04, Adopted November 16, 2016, Regarding Use and Transfers of Reserves and Working Capital.

the Strategic Reserve can be specified in simple terms of days O&M expenses or built-up from the specifics of the three sub-reserves.

An example of such a build-up and a sample allocation based on the Agency's current Operating Funds is as follows:

Fund	Low Range	High Range	Sample Allocation	Notes
General Working Capital	\$8,200,000	\$13,600,000	\$10,900,000	Low/High = 90 days/150 days Sample = 120 days
Purchase Power	\$12,100,000	\$20,200,000	\$16,200,000	Low/High = 90 days/150 days Sample = 120 days
Legacy Liabilities:				
Reclamation - WSJM	\$17,700,000	\$19,500,000	\$18,600,000	Low/High = Existing Trust/10% Premium Over Existing Trust YE 12/31/20 Requirements. Sample = Mid-Point.
Reclamation Mgmt - PNM	\$500,000	\$700,000	\$600,000	Low/High = PV/Nominal PNM Mgmt. Sample = Nominal w/ 1.75% Earnings.
Reclamation Trust Balance	(\$17,700,000)	(\$17,700,000)	(\$17,700,000)	As of 3/31/20
Decommissioning	\$9,700,000	\$21,500,000	\$14,800,000	Case: RIP Followed by Demolition @ 25-Yrs. Low/High = NPV ARO/Nominal ARO. Sample = Nominal w/ 1.75% Earnings.
Liability Insurance	\$1,200,000	\$2,700,000	\$2,100,000	Low/High = 30-Year PV Premiums/30-Year Nominal Premiums. Sample = Nominal w/ 1.75% Earnings.
Decommissioning Trust Balance	(\$2,200,000)	(\$2,200,000)	(\$2,200,000)	As of 3/31/20
Environmental	\$300,000	\$600,000	\$500,000	Low/High = 30-Year PV Premiums/30-Year Nominal Premiums. Sample = Nominal w/ 1.75% Earnings.
Total Net Legacy Liability	\$9,500,000	\$25,100,000	\$16,700,000	
Total Strategic Reserve	\$29,800,000	\$58,900,000	\$43,800,000	Note: Operating Fund + Final Debt Service Coverage Revolving Fund = \$42,300,000
Budgeted Expenses	\$82,300,000	\$82,300,000	\$82,300,000	
Equivalent O&M Days	132	261	194	

Recommendation:

Direct General Manager to develop criteria for the suggested Strategic Reserves tranches for consideration by the Commission at its next meeting.