



SCPPA

FINANCE COMMITTEE MEETING

December 5, 2022



Southern California Public Power Authority

December 2022 Finance Committee Materials

PFM Financial Advisors LLC

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7. Magnolia Power Project Interest Rate Swaps



Magnolia Swaps Overview

- ◆ SCPPA maintains two fixed-payer swaps connected to the Magnolia project, which hedge the Series 2020-3 VRDOs, which are currently in daily mode
 - \$145,455,000 of the 2020-3 Bonds are currently outstanding
- ◆ As of 11/29, both swaps had small negative mark-to-market values
 - The swap termination value comes at an additional trading spread (cost), which has recently ranged from 6 to 11 bps for SIFMA based swaps
 - Nonetheless, SCPPA could still terminate both swaps at a relatively low cost
 - Assuming an 8 bps trading spread, current estimated termination values are ~(770K) for the BNY swap and ~(650K) for the JPM swap (meaning SCPPA would make a payment)

Variable-Rate Program Fact Sheet		
Bond Series	Series 2020-3	
Bond Delivery Date	4/28/2020	
Security Type	VRDOs	
Tax Status	Tax-Exempt	
Mode	Daily	
Remarketing Agent	US Bank	
Bond Insurer	-	
Liquidity Provider	US Bank	
Form of Liquidity Support	Letter of Credit	
Liquidity Cost	32.00 bps	
Liquidity Termination	5/1/2023	
Remarketing Fee	7.0 bps	
Original Par Amount	\$147,130,000	
Current Par Amount	\$145,455,000	
Final Maturity	7/1/2036	
Swap Description		
Hedge Status	Hedged	Hedged
Swap Counterparty	BNY Mellon	JP Morgan
Original Swap Notional Amount (most recent trade)	\$83,290,000	\$63,840,000
Current Notional	\$82,095,000	\$63,360,000
Trade Date /	05/01/2020	08/30/2017
Newest Amendment Date		
Swap Termination Date	7/1/2036	7/1/2036
Swap Pay Rate	3.125%	3.139%
Swap Receipt Rate	100% of SIFMA	100% of SIFMA



Current Magnolia 2020-3 Cashflow

- In 2014, SCPPA passed a Resolution allowing it to terminate the one of either swap if the termination value is below \$2 million
 - SCPPA could pass another resolution to authorize termination of the other swap relatively quickly
- The following slides explore two options for terminating the swaps and compare the resulting cashflows to 1) the “projected” 2020-3 cashflow, and 2) the “budgeted” 2020-3 cashflow

Projected Cashflow	Budgeted Cashflow
<ul style="list-style-type: none">• Anticipated payments, based on the assumptions below• Debt service calculated at fixed swap rates of 3.125% and 3.139%• 32 bps annual LOC fee• 7 bps annual remarketing fee• -12 bps basis between the 2020-3 VRDB resets and the floating swap rate (average since 2020)• \$150,000 LOC renewal fees paid on 5/1/2023, 7/1/2026, 7/1/2029, and 7/1/2032	<ul style="list-style-type: none">• Budgeted amounts for payments, based on current SCPPA collections• Debt service calculated at fixed swap rates of 3.125% and 3.139%• Annual support costs of \$670,000 for LOC and remarketing fees

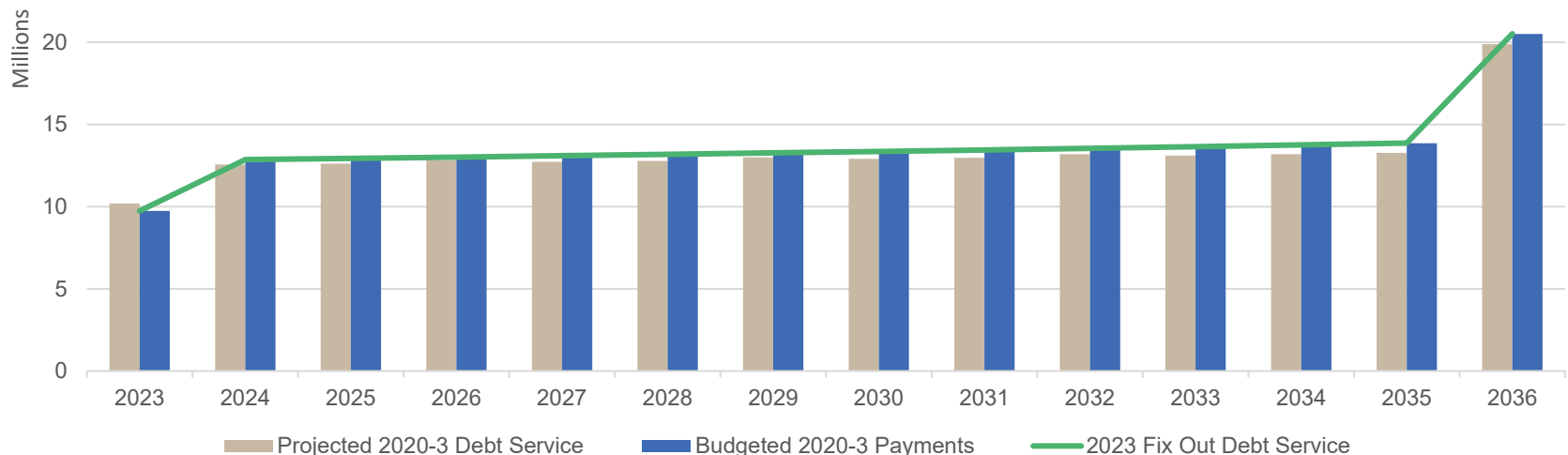
- The total budgeted cashflow is ~\$4.8M higher than the projected cashflow



Magnolia Swaps Termination – Option 1

- SCPPA could elect to simultaneously terminate both swaps and fix out the underlying 2020-3 VRDBs by issuing fixed-rate bonds
- At current rates, a swap termination and fix out results in a cashflow that is ~\$5.0 million more than currently projected 2020-3 debt service (including support costs), or an *additional ~\$373K per year*
 - When compared to currently budgeted amounts, the new cashflow is ~\$168K more, translating to an *additional ~\$13K per year*
 - This analysis assumes the bonds are fixed out with 5-year callable debt

Cashflow Comparison

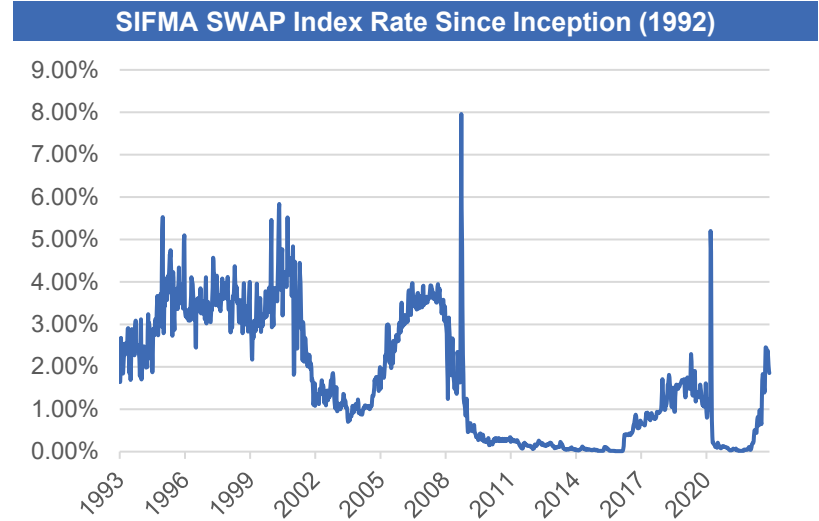


Projected 2020-3 Debt Service assumes swap rates, plus support costs of 27 bps, plus \$150K LOC replacement fees every 3 years. Budgeted 2020-3 payments assumes debt service at swap rates, plus \$670K annually for LOC and remarketing fees.



Magnolia Swaps Termination – Option 2

- SCPPA also has the option to terminate both swaps and leave the underlying bonds outstanding as unhedged variable rate debt
- Since the 2020-3 bonds were first remarketed in 2020, the bonds have reset on average 12 bps better than SIFMA
- Assuming the bonds reset at the highest reset rate for 2022, plus 100 bps, reflecting anticipated Fed Fund increases, SCPPA would realize dissavings compared to the projected cashflow



Cashflow Comparison			
	2022 YTD Max Reset (9/30/2022)	2022 YTD Max Reset + 100 bps	SIFMA Average Since Inception (1992)
SIFMA Rate	2.46%	-	1.76%
Assumed VRDB Rate	2.40%	3.40%	1.64%
Total Debt Service at Assumed Rate	177,908,548	189,290,111	169,258,561
Δ vs. Projected Cashflow	(7,342,958)	4,038,605	(15,992,945)
Avg. Δ per year	(547,301)	301,014	(1,192,021)
Δ vs. Budgeted Cashflow	(12,179,679)	(798,117)	(20,829,667)
Avg. Δ per year	(907,802)	(59,487)	(1,552,522)

Total debt service at assumed rate includes 32 bps LOC fee, 7 bps remarketing fee, plus \$150K LOC replacement fees every 3 years. Assumes termination occurs on 2/1/2023.



Magnolia Swaps Termination Value Sensitivities

- Rate movement will impact the termination value
- The sensitivities below assume SIFMA swap rates go up/down 50 bps and the taxable swap discount curve increases/decreases by the corresponding amount, after adjusting for TE/taxable ratios
 - Sensitivities are largely unchanged since 10/31, since swap rates have not seen much change

	Estimated Termination Value (8 bps trading spread)	Change in termination value	
	<i>Rates as of 11/29/2022</i>	+50 bps	- 50 bps
BNY Swap	(\$771,460)	~\$1.95M	~(\$2.07M)
JPM Swap	(\$646,787)	~\$1.77M	~(\$1.89M)



8. Market and Variable Rate Debt Obligation (VRDO) Update

Data, rates, and related statistics and charts are as of November 29, 2022, unless otherwise indicated



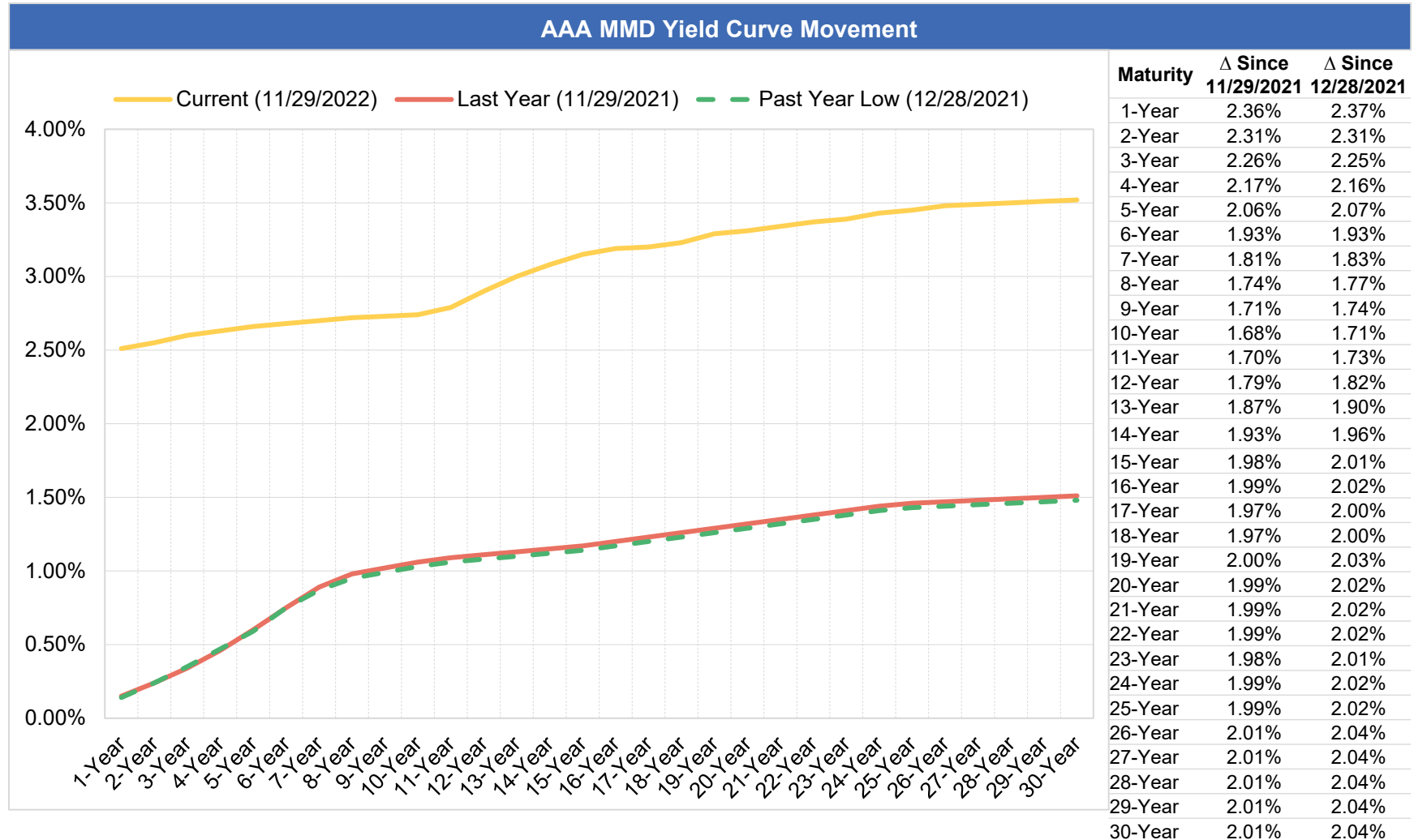
Market Overview Since November 7th

Date	DJIA	10-Yr MMD	10-Yr Tsy	30-Yr MMD	30-Yr Tsy
7-Nov	32,827	3.34%	4.22%	4.06%	4.34%
30-Nov	34,590	2.71%	3.68%	3.52%	3.80%
Δ	1,763	(0.63%)	(0.54%)	(0.54%)	(0.54%)

- The first week of November, the FOMC raised Fed Funds by another 75 bps, as largely anticipated
 - Powell's comments in the subsequent press conference indicated the terminal rate will likely be higher than previously expected and the Fed is unlikely to pivot to rate cuts in 2023
- October CPI released on 11/10 came in at 7.7%, down from 8.2% for September and below expectations of 7.9%, boosting sentiment that the Fed could ease up on economic tightening
 - Although some Fed officials have maintained hawkish positions, others indicated that rate increases might slow
 - This was further bolstered by PPI data that came in softer than expected the following week; year-over-year growth was 8%, the lowest level since July 2021
 - Both treasuries and AAA MMD have experienced significant drops over the course of the month, and investors are showing greater motivation to buy municipal bonds
- Nonetheless, policymakers warn that it is very premature to consider pausing monetary tightening
 - European Central Bank President Lagarde noted they would keep hiking interest rates and may even need to restrict growth to rein in inflation
 - Unrest in China is raising concerns of slowing economic growth
 - Municipal bond fund outflows continue, with ICI reporting net outflows of \$1.7B for the week ending 11/22



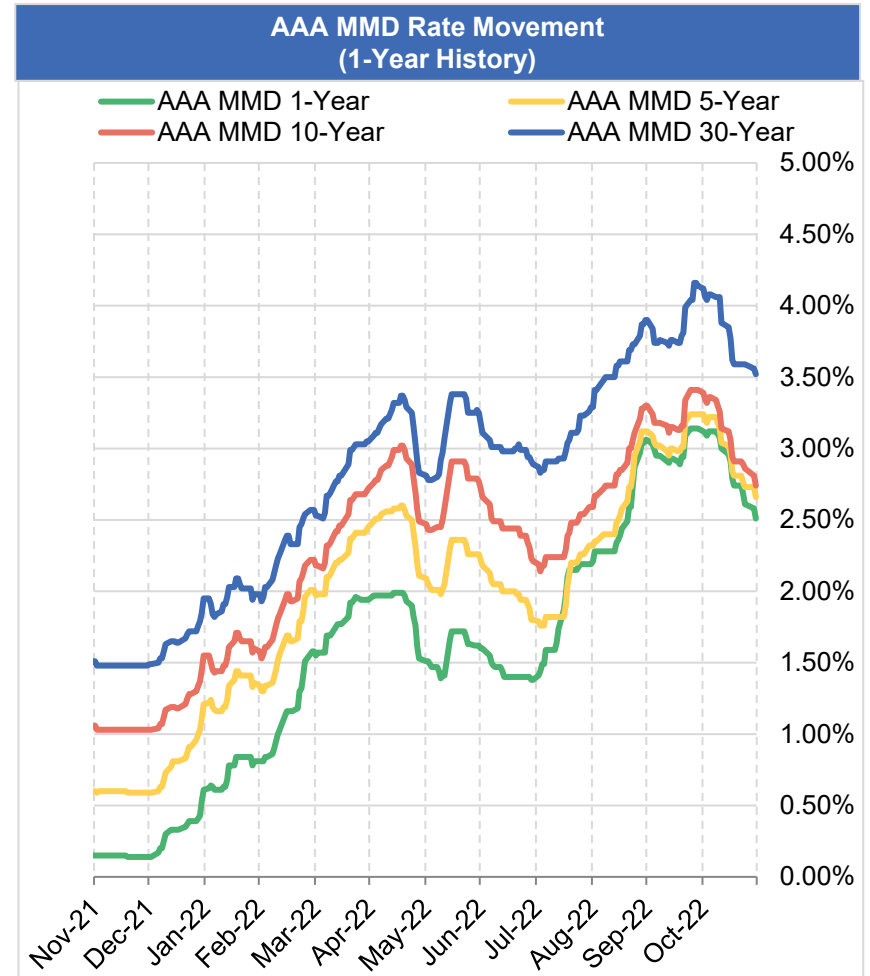
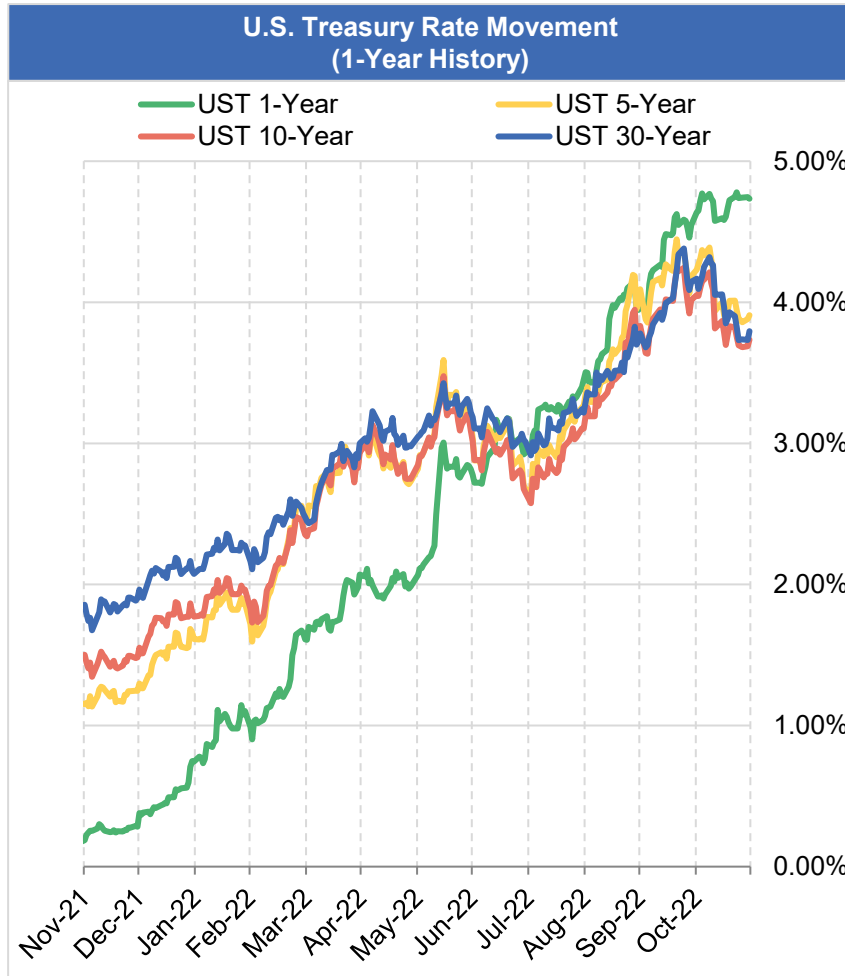
Recent AAA MMD Yield Curve Movement



Source: Bloomberg, PFM Research



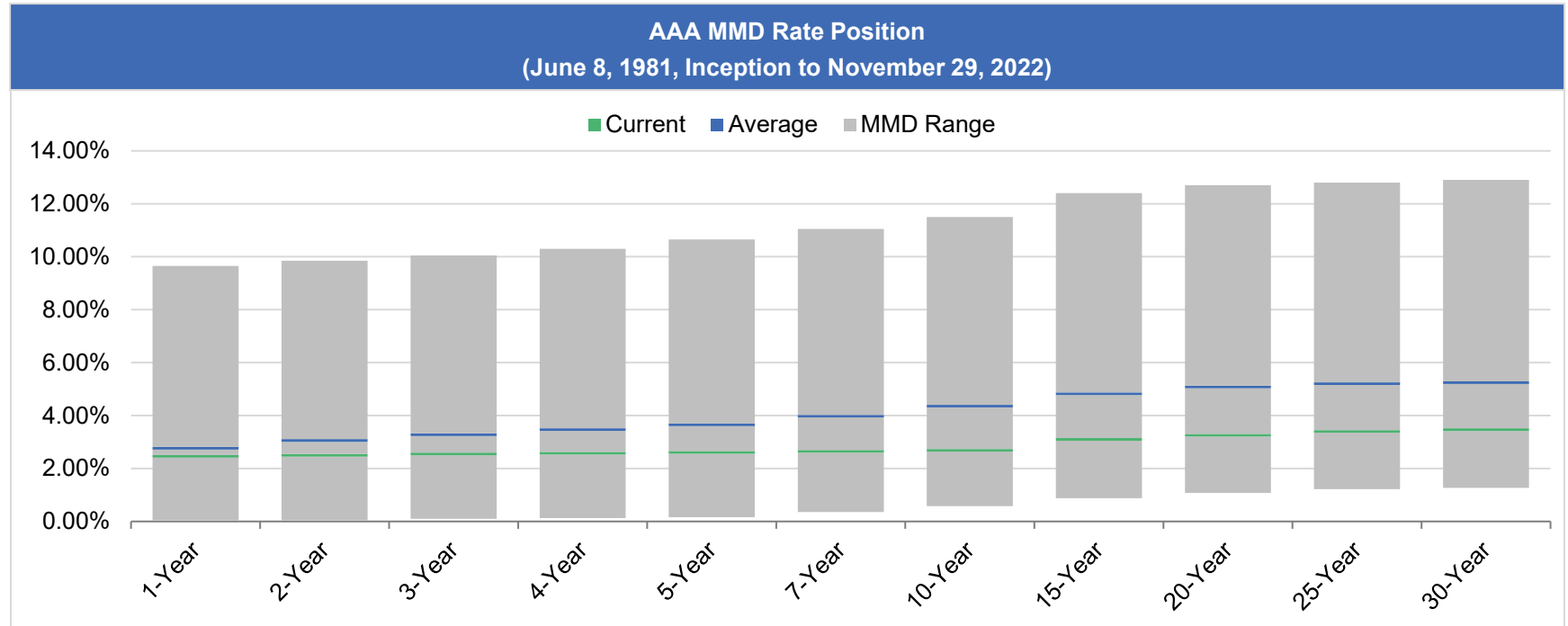
U.S. Treasury & AAA MMD Rate Movement



Source: Bloomberg, PFM Research



AAA MMD Position Since Inception



Summary of November 29, 2022 vs. Historical (since Inception) MMD Rates											
Statistic	1-Year	2-Year	3-Year	4-Year	5-Year	7-Year	10-Year	15-Year	20-Year	25-Year	30-Year
November 29, 2022	2.51%	2.55%	2.60%	2.63%	2.66%	2.70%	2.74%	3.15%	3.31%	3.45%	3.52%
Historical Average	2.82%	3.11%	3.33%	3.52%	3.70%	4.03%	4.41%	4.87%	5.13%	5.26%	5.29%
Spread to Average	-0.31%	-0.56%	-0.73%	-0.89%	-1.04%	-1.33%	-1.67%	-1.72%	-1.82%	-1.81%	-1.77%
Minimum	0.05%	0.05%	0.10%	0.13%	0.16%	0.36%	0.58%	0.88%	1.08%	1.22%	1.27%
Maximum	9.65%	9.85%	10.05%	10.30%	10.65%	11.05%	11.50%	12.40%	12.70%	12.80%	12.90%
% of Time Lower	45.32%	42.94%	40.79%	38.89%	36.66%	33.04%	27.38%	25.89%	24.00%	23.70%	23.70%

Source: Bloomberg, PFM Research



Interest Rate Forecasts

- ◆ The market currently anticipates slowing rate hikes in December of 50 bps

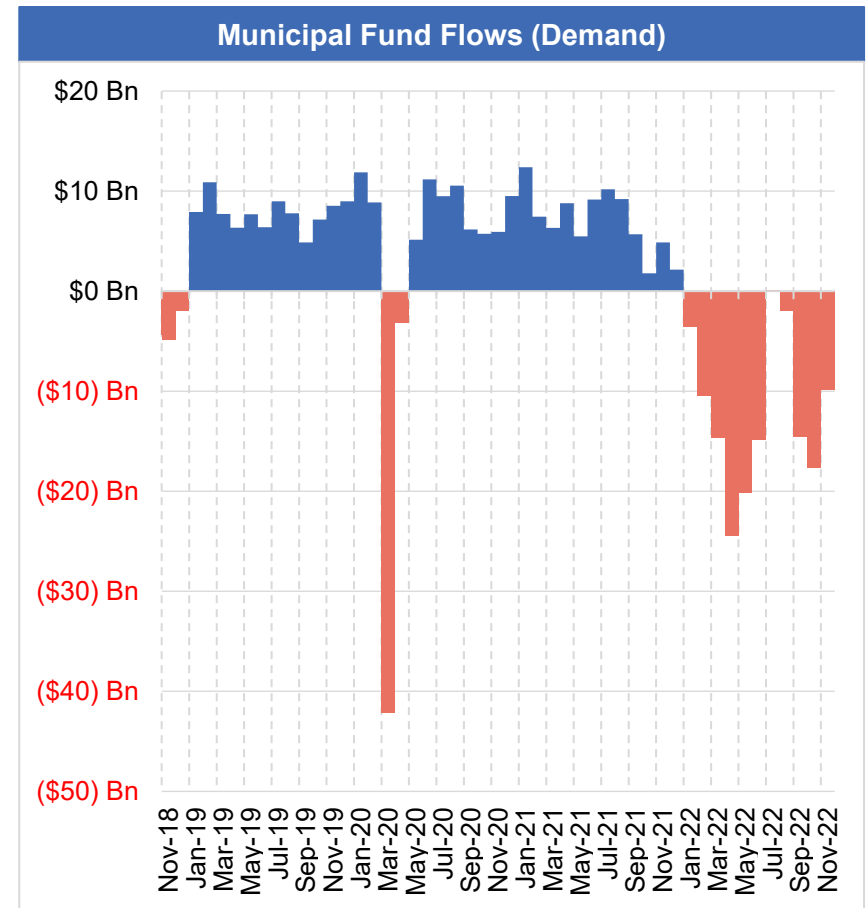
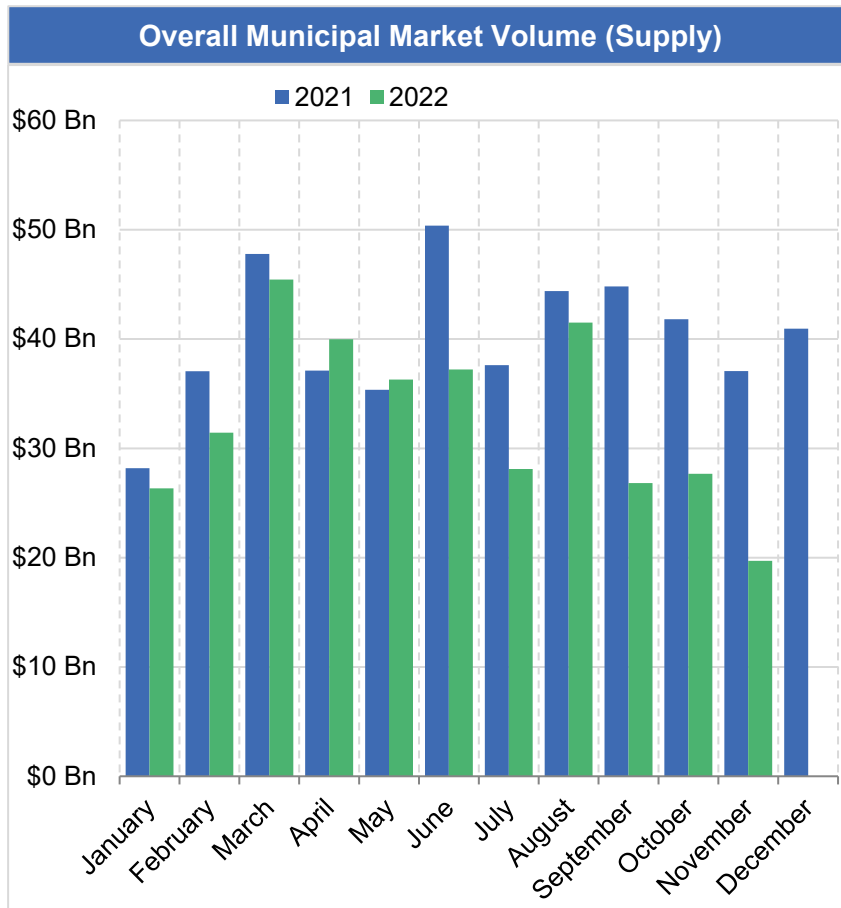
The Street's Interest Rate Forecast (As of November 28, 2022)										
Average Forecasts	Current	Q4 22	Q4 Δ vs. Current	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24
30-Year UST	3.72%	4.17%	0.45%	4.12%	4.00%	3.88%	3.74%	3.63%	3.54%	3.51%
10-Year UST	3.69%	4.03%	0.34%	4.01%	3.89%	3.74%	3.52%	3.41%	3.32%	3.23%
2-Year UST	4.47%	4.56%	0.09%	4.56%	4.36%	4.08%	3.74%	3.48%	3.33%	3.11%
3M Term SOFR	4.40%	4.46%	0.06%	4.81%	4.79%	4.64%	4.34%	4.11%	3.83%	3.49%
Fed Funds Target Rate (Lower)	3.75%	4.25%	0.50%	4.73%	4.73%	4.63%	4.40%	3.90%	3.53%	3.12%
Fed Funds Δ Since November FC Meeting	0.00%	0.00%		0.15%	0.22%	0.28%	0.28%	0.21%	0.16%	0.07%

Source: Bloomberg



Municipal Market Supply & Demand

- Municipal bond fund outflows continued through November but slowed compared to October. New issuance volume was down 46.8% year-over-year in November, and year-to-date new issuance volume was 18.4% lower than 2021 issuance through November

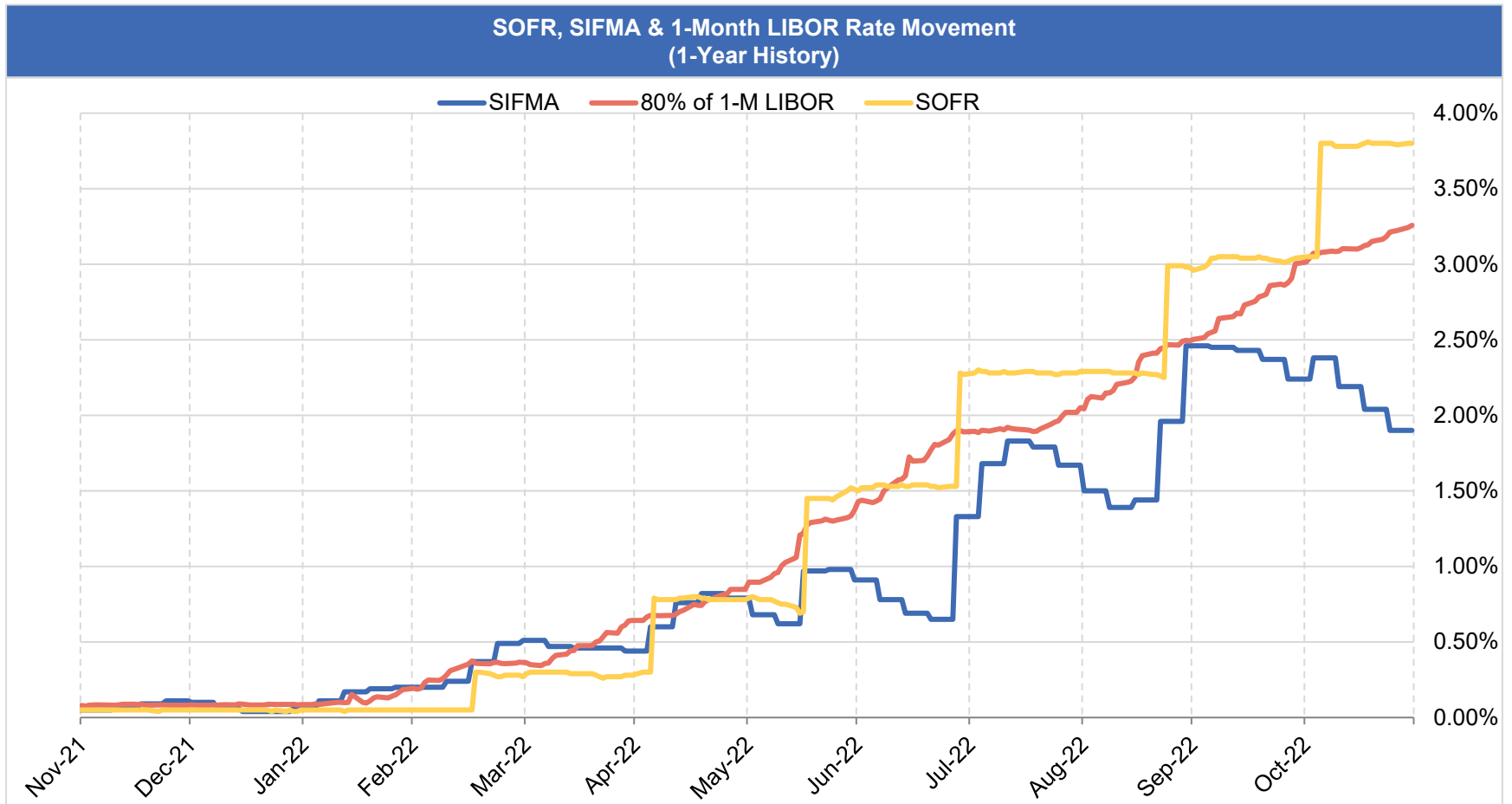


Source: Bond Buyer, Investment Company Institute



SOFR, SIFMA & 1-Month LIBOR Rate Movement

- Following the November Fed Fund rate hike, SOFR experienced another jump and 1-M LIBOR continued its steady growth. However, SIFMA has shown consistent decreases since the November FOMC meeting.



Source: Bloomberg, PFM Research



October Variable-Rate Resets

Magnolia Power Project A, Refunding Revenue Bonds, 2020-3			
Variable Rate Daily Resets – November 2022			
11/01/2022 1.30% – 94 bps vs. SIFMA Approximate Net Cost 2.191%	11/09/2022 0.80% – 139 bps vs. SIFMA Approximate Net Cost 1.741%	11/21/2022 0.55% – 149 bps vs. SIFMA Approximate Net Cost 1.641%	11/30/2022 0.70% – 115 bps vs. SIFMA Approximate Net Cost 1.981%
11/02/2022 1.25% – 113 bps vs. SIFMA Approximate Net Cost 2.001%	11/14/2022 0.77% – 142 bps vs. SIFMA Approximate Net Cost 1.711%	11/22/2022 0.52% – 152 bps vs. SIFMA Approximate Net Cost 1.611%	
11/03/2022 1.20% – 118 bps vs. SIFMA Approximate Net Cost 1.951%	11/15/2022 0.72% – 147 bps vs. SIFMA Approximate Net Cost 1.661%	11/23/2022 0.52% – 138 bps vs. SIFMA Approximate Net Cost 1.751%	
11/04/2022 1.10% – 128 bps vs. SIFMA Approximate Net Cost 1.851%	11/16/2022 0.65% – 139 bps vs. SIFMA Approximate Net Cost 1.741%	11/25/2022 0.51% – 139 bps vs. SIFMA Approximate Net Cost 1.741%	
11/07/2022 1.00% – 138 bps vs. SIFMA Approximate Net Cost 1.751%	11/17/2022 0.60% – 144 bps vs. SIFMA Approximate Net Cost 1.691%	11/28/2022 0.50% – 140 bps vs. SIFMA Approximate Net Cost 1.731%	
11/08/2022 0.93% – 145 bps vs. SIFMA Approximate Net Cost 1.681%	11/18/2022 0.55% – 149 bps vs. SIFMA Approximate Net Cost 1.641%	11/29/2022 0.58% – 132 bps vs. SIFMA Approximate Net Cost 1.811%	

Source: EMMA, PFM/SCPPA



SCPPA's Swap Portfolio

Swap Valuations							
Project	Associated Bonds	SCPPA Pays	SCPPA Receives	Maturity Date	Initial Notional (most recent trade)	Bank Counterparty	Valuation
MG	Series 2009	3.1390%	SIFMA Swap Index	7/1/2036	\$63,840,000	JPMorgan Chase Bank, N.A.	(\$272,317.63)
MG	Series 2009	3.1250%	SIFMA Swap Index	7/1/2036	\$110,888,878	The Bank of New York Mellon	(\$356,076.51)
MG	-	SIFMA Swap Index	80.4% of 3-Month LIBOR	7/1/2036	\$100,000,000	Barclays Bank PLC	(\$1,253,962.94)
MG	-	SIFMA Swap Index	81.0% of 3-Month LIBOR	7/1/2036	\$100,000,000	Royal Bank of Canada	(\$1,100,095.32)
GP	Series 2007B	5.0475%	67% of 3 Month LIBOR + 1.47%	11/1/2035	\$36,000,000	J. Aron & Company	(\$4,215,661.90)

Source: PFM SwapViewer
As of 11/29/2022



9. Unsolicited Proposals



Summary of Unsolicited Proposals Received

- October 22, 2022, Goldman Sachs:
 - SCPPA Magnolia Update: LIBOR transition, comparison of swap and tax-exempt rates, swap unwind analysis
 - A fix out with 10-year callable debt could generate savings
- November 14, 2022, Goldman Sachs:
 - SCPPA Magnolia Update: LIBOR transition, comparison of swap and tax-exempt rates, swap unwind analysis
 - A fix out with 10-year and 5-year callable debt both generate small dissavings overall
- November 16, 2022, Goldman Sachs:
 - Alternative Liquidity Facility Memo: Synthetic Tax-Exempt Revolver
 - Could create a “synthetic liquidity facility” by issuing fixed rate bonds with a fixed-to-floating rate swap
 - Investing proceeds in demand deposit SLGS would reduce negative carry and provide spending flexibility
- November 28, 2022, RBC Capital Markets:
 - Discussion of refunding opportunities: overview of projects and call dates
 - No savings under current market conditions
 - Magnolia US Bank LOC has an upcoming expiration date in May 2023
 - BABs Subsidy Considerations: overview of potential elimination of BABs subsidy through 2026 or longer, financing options, Linden 2010B BAB refunding analysis
 - Tax-exempt refunding of Linden 2010B BABs could generate savings, assuming subsidy is eliminated through 2026
 - Municipal Market Update



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