# AGENDA

## Meeting of the Finance and Risk Management Committee San Diego Community Power (SDCP)

April 13th, 2023
3:00 p.m.

City of San Diego Metropolitan Operations Complex (MOC II) Auditorium
9192 Topaz Way, San Diego, CA 92123

The meeting will be held in person at the above date, time and location. Finance and Risk Management Committee (FRMC) Members and members of the public may attend in person. Under certain circumstances, FRMC Members may also attend and participate in the meeting virtually pursuant to the Brown Act (Gov. Code § 54953). As a convenience to the public, SDCP provides a call-in option and internet-based option for members of the public to virtually observe and provide public comments at its meetings. Additional details on in-person and virtual public participation are below. Please note that, in the event of a technical issue causing a disruption in the call-in option or internet-based option, the meeting will continue unless otherwise required by law, such as when an FRMC Member is attending the meeting virtually pursuant to certain provisions of the Brown Act.

Note: Any member of the public may provide comments to the Finance and Risk Management Committee on any agenda item. When providing comments to the FRMC, it is requested that you provide your name and city of residence for the record. Commenters are requested to address their comments to the FRMC as a whole through the Chair. Comments may be provided in one of the following manners:

1. Providing Oral Comments During Meeting. Anyone attending in person desiring to address the FRMC is asked to fill out a speaker's slip and present it to the Clerk of the Board or the Secretary. To provide remote comments during the meeting, join the Zoom meeting by computer, mobile phone, or dial-in number. On Zoom video conference by computer or mobile phone, use the "Raise Hand" feature. This will notify the moderator that you wish to speak during a specific item on the agenda or during non-agenda Public Comment. Members of the public will not be shown on video but will be able to speak when called upon. If joining the meeting using the Zoom dial-in number, you can raise your hand by pressing *9. Comments will be limited to three (3) minutes.

2. Written Comments. Written public comments must be submitted prior to the start of the meeting by using this (web form). Please indicate a specific agenda item when submitting your comment. All written comments received prior to the meeting will be provided to the FRMC members in writing. In the discretion of the Chair, the first ten (10) submitted comments shall be stated into the record of the meeting. Comments read at the meeting will be limited to the first 400 words. Comments received after the start of the meeting will be collected, sent to the FRMC members in writing, and be part of the public record.

If you have anything that you wish to be distributed to the FRMC, please provide it via info@sdcommunitypower.org, who will distribute the information to the Members.

compared to $562.58 million budgeted for the period (including $540.67 million budgeted for energy costs). After expenses, SDCP's change in net position of $23.98 million was reported for year-to-date as of 2/28/23. The following is a summary of the actual results compared to the year-to-date Fiscal Year 2023 Budget.

*Table 1: Budget Comparison Versus Actual Results*

| Budget Comparison | | | | | | | |
|---|---|---|---|---|---|---|---|
| | YTD FY23 as of 02/28/23 (8 mos) | | FY23 YTD Budget | | Budget Variance ($) | | Budget (%) |
| Net Operating Revenues | $ | 553,791,653 | $ 558,931,078 | $ | (5,139,425) | | 99% |
| Total Expenses | $ | 529,808,952 | $ 562,578,606 | $ | (32,769,654) | | 94% |
| **Change in Net Position** | **$** | **23,982,701** | **$ (3,647,528)** | **$** | **27,630,229** | | **-658%** |

- Net operating revenues finished $5.14 million (or 1 percentage point) under the budget primarily due to remittances coming lower than expected for February.
- Operating expenses finished $32.77 million (or 6.0 percentage points) under the budget primarily due to credits received from the California Independent Systems Operator (CAISO) during January 2023.

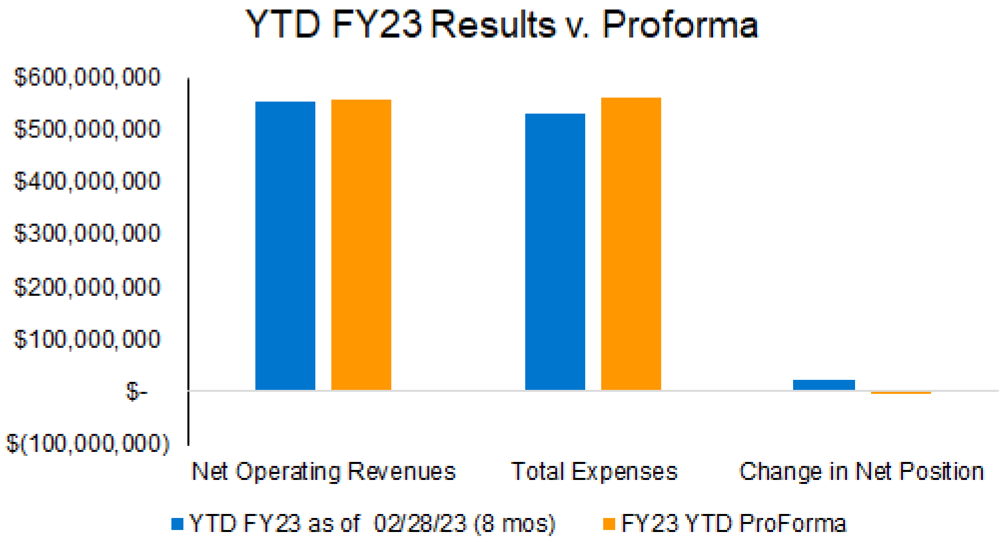
Financial results for the period performed over the projections presented in the year-to-date proforma. SDCP's change in net position exceeded the proforma primarily due to CAISO related credits as earlier referenced.

The following is a summary to actual results compared to the fiscal year-to-date proforma.

*Table 2: Proforma Comparison Versus Actual Results*

| Proforma Comparison | | | | | | | |
|---|---|---|---|---|---|---|---|
| | YTD FY23 as of 02/28/23 (8 mos) | | FY23 YTD ProForma | | ProForma Variance ($) | | Proforma (%) |
| Net Operating Revenues | $ | 553,791,653 | $ 558,931,078 | $ | (5,139,425) | | -1% |
| Total Expenses | $ | 529,808,952 | $ 560,238,664 | $ | (30,429,712) | | -5% |
| **Change in Net Position** | **$** | **23,982,701** | **$ (1,307,586)** | **$** | **25,290,287** | | **-1934%** |

*Figure 1: Proforma versus Actual Results*

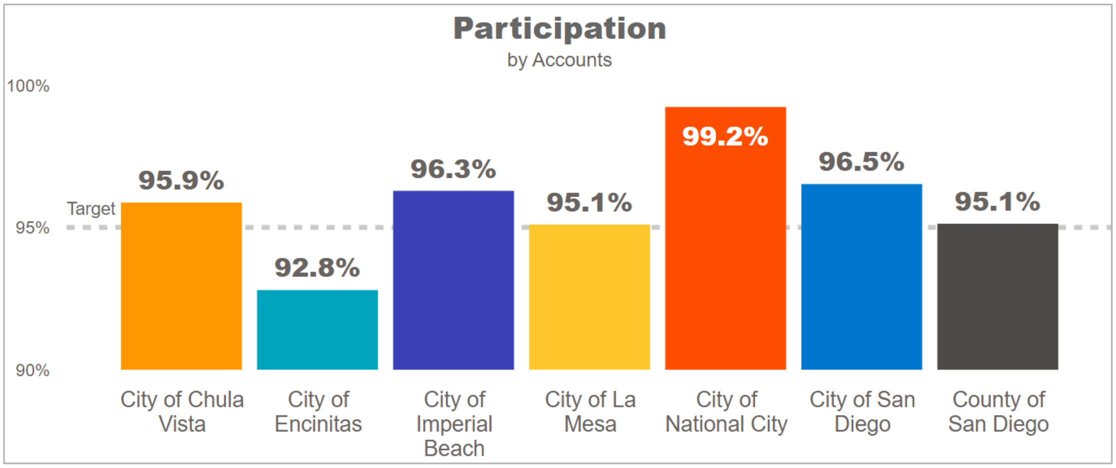



For the period ending 02/28/23, SDCP contributed $23,982,701 to its reserves but was expecting to lose $3,647,528 per the FY 2022-23 amended budget. Total SDCP reserves at the end of the period were $64,513,653 and total available liquidity (including lines of credit) was $190,783,653. SDCP has a total FY 2022-23 year-end reserve target of $171,276,631, which is equivalent to 90-days of total operating expenses.

Staff are also presenting certain key metrics (i.e. participation rates) directly related to risk for FRMC consideration and for regular review moving forward. Additional metrics can be added by request.

## Participation Rates

### Participation by Jurisdiction




| Jurisdiction | Active | Eligible | Opt Outs | Participation |
|---|---|---|---|---|
| **City of Chula Vista** | 92,845 | 96,605 | 3,987 | 95.9% |
| **City of Encinitas** | 26,444 | 28,370 | 2,043 | 92.8% |
| **City of Imperial Beach** | 10,508 | 10,878 | 404 | 96.3% |
| **City of La Mesa** | 27,943 | 29,257 | 1,434 | 95.1% |
| **City of National City** | 0 | 18,256 | 140 | 99.2% |
| **City of San Diego** | 595,363 | 615,857 | 21,410 | 96.5% |
| **County of San Diego** | 0 | 144,027 | 7,013 | 95.1% |
| **Total** | **753,103** | **943,250** | **36,431** | **95.8%** |

## FISCAL IMPACT

N/A

## ATTACHMENTS

Attachment A: 2023 Year-to-Date Period Ended 02/28/23 Financial Statements

MAHER
ACCOUNTANCY

**ACCOUNTANTS' COMPILATION REPORT**

Management
San Diego Community Power

Management is responsible for the accompanying financial statements of San Diego Community Power (a California Joint Powers Authority) which comprise the statement of net position as of February 28, 2023, and the related statement of revenues, expenses, and changes in net position, and the statement of cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the accompanying statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, conclusion, nor provide any assurance on these financial statements.

Management has elected to omit substantially all of the note disclosures required by accounting principles generally accepted in the United States of America in these interim financial statements. San Diego Community Power's annual audited financial statements include the note disclosures omitted from these interim statements. If the omitted disclosures were included in these financial statements, they might influence the user's conclusions about the Authority's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

We are not independent with respect to the Authority because we performed certain accounting services that impaired our independence.

Maher Accountancy
San Rafael, CA
March 24, 2023


1101 Fifth Avenue, Suite 200 San Rafael, CA 94901 415 459 1249 mahercpa.com

# SAN DIEGO COMMUNITY POWER
# STATEMENT OF NET POSITION
# As of February 28, 2023

| | |
|---|---|
| **ASSETS** | |
| Current assets | |
| Cash and cash equivalents | $ 38,515,164 |
| Accounts receivable, net of allowance | 71,296,256 |
| Accrued revenue | 45,655,933 |
| Prepaid expenses | 4,586,581 |
| Deposits | 10,067,109 |
| Total current assets | 170,121,043 |
| Noncurrent assets | |
| Restricted cash | 2,147,000 |
| Deposits | 4,005,000 |
| Total noncurrent assets | 6,152,000 |
| Total assets | 176,273,043 |
| **LIABILITIES** | |
| Current liabilities | |
| Accrued cost of electricity | 81,536,756 |
| Accounts payable | 432,805 |
| Other accrued liabilities | 2,541,461 |
| State surcharges payable | 325,427 |
| Security deposits | 614,873 |
| Interest payable | 63,557 |
| Total current liabilities | 85,514,879 |
| Noncurrent liabilities | |
| Loan to member government | 514,511 |
| Bank note payable | 23,730,000 |
| Total noncurrent liabilities | 24,244,511 |
| Total liabilities | 109,759,390 |
| **NET POSITION** | |
| Restricted for collateral | 2,000,000 |
| Unrestricted | 64,513,653 |
| Total net position | $ 66,513,653 |

**SAN DIEGO COMMUNITY POWER**
**STATEMENT OF REVENUES, EXPENSES**
**AND CHANGES IN NET POSITION**
**Eight Months Ended February 28, 2023**

| | |
|---|---|
| **OPERATING REVENUES** | |
| Electricity sales, net | $ 553,791,653 |
| Total operating revenues | 553,791,653 |
| **OPERATING EXPENSES** | |
| Cost of energy | 513,530,177 |
| Contract services | 9,755,809 |
| Staff compensation | 4,085,641 |
| Other operating expenses | 1,740,711 |
| Total operating expenses | 529,112,338 |
| Operating income (loss) | 24,679,315 |
| **NON-OPERATING REVENUES (EXPENSES)** | |
| Investment income | 269,296 |
| Interest and financing expense | (965,910) |
| Nonoperating revenues (expenses) | (696,614) |
| **CHANGE IN NET POSITION** | 23,982,701 |
| Net position at beginning of period | 42,530,952 |
| Net position at end of period | $ 66,513,653 |

See accountants' compilation report.

# SAN DIEGO COMMUNITY POWER
## STATEMENT OF CASH FLOWS
### Eight Months Ended February 28, 2023

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Receipts from customers | $ 535,553,259 |
| Receipt of security deposits | 53,381,328 |
| Other operating receipts | 10,332,595 |
| Payments to suppliers for electricity | (499,643,790) |
| Payments for goods and services | (10,200,792) |
| Payments to employees for services | (3,814,298) |
| Payments for deposits and collateral | (99,771,506) |
| Payments of state surcharges | (1,394,349) |
| Net cash provided (used) by operating activities | (15,557,553) |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | |
| Proceeds from bank note payable | 43,910,000 |
| Principal payments - bank note payable | (56,520,082) |
| Interest and related expense payments | (1,016,215) |
| Net cash provided (used) by non-capital financing activities | (13,626,297) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest income received | 269,296 |
| Net change in cash and cash equivalents | (28,914,554) |
| Cash and cash equivalents at beginning of period | 69,576,718 |
| Cash and cash equivalents at end of period | $ 40,662,164 |
| **Reconciliation to the Statement of Net Position** | |
| Cash and cash equivalents (unrestricted) | $ 38,515,164 |
| Restricted cash | 2,147,000 |
| Cash and cash equivalents | $ 40,662,164 |

# SAN DIEGO COMMUNITY POWER
# STATEMENT OF CASH FLOWS (continued)
# Eight Months Ended February 28, 2023

## RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

| | |
|---|---|
| Operating income | $ 24,679,315 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | |
| Provision for uncollectible accounts | 5,593,855 |
| (Increase) decrease in: | |
| Accounts receivable | (26,503,121) |
| Accrued revenue | 1,283,682 |
| Prepaid expenses | (125,273) |
| Deposits | (4,381,052) |
| Increase (decrease) in: | |
| Accrued cost of electricity | 24,305,252 |
| Accounts payable | (192,150) |
| Other accrued liabilities | 1,798,225 |
| State surcharges payable | (7,159) |
| Supplier security deposits | (42,009,127) |
| Net cash provided (used) by operating activities | $ (15,557,553) |

MAHER
ACCOUNTANCY

## ACCOUNTANTS' COMPILATION REPORT

Board of Directors
San Diego Community Power

Management is responsible for the accompanying special purpose budgetary comparison schedule of San Diego Community Power (SDCP), a California Joint Powers Authority, for the period ended February 28, 2023, and for determining that the budgetary basis of accounting is an acceptable financial reporting framework. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the accompanying statement nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any assurance on this special purpose budgetary comparison statement.

The special purpose statement is prepared in accordance with the budgetary basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This report is intended for the information of the Board of Directors of SDCP.

Management has elected to omit substantially all of the note disclosures required by accounting principles generally accepted in the United States of America in these interim financial statements. SDCP's annual audited financial statements will include the note disclosures omitted from these interim statements. If the omitted disclosures were included in these financial statements, they might influence the user's conclusions about the Authority's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

We are not independent with respect to SDCP because we performed certain accounting services that impaired our independence.

Maher Accountancy

San Rafael, CA
March 24, 2023



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**SAN DIEGO COMMUNITY POWER**
**Staff Report – Item 3**

To: Financial and Risk Management Committee

From: Eric Washington, Chief Financial Officer

Via: Karin Burns, Chief Executive Officer

Subject: Recommend Board Approval of the SDCP Debt Policy

Date: April 13, 2023

## RECOMMENDATION

Recommend Board approval of the Debt Policy.

## BACKGROUND

On October 1, 2019, the Founding Members of San Diego Community Power (SDCP) adopted the Joint Powers Agreement (JPA) which was amended and restated on December 16, 2021.

Section 3.2.12 of the JPA specifies that the SDCP Board of Directors (Board) may at its discretion adopt rules, regulations, policies, bylaws and procedures governing the operation of SDCP.

Further, Section 4.5.5 of the JPA states that one of the general purposes of the Board is to set policy.

Section 5.10.2(C) of the JPA further states one of the primary purposes of the Financial and Risk Management Committee (FRMC) is to review and recommend to the Board financial policies and procedures to ensure equitable contributions by Parties consistent with a recommendation for Board approval of the Debt Policy herein.

In direct relation to the purpose of the proposed Debt Policy, section 3.2.7 of the JPA states that SDCP at the discretion of the Board may incur debts, liabilities, and obligations, including but not limited to loans from private lending sources pursuant to its temporary borrowing powers authorized by law pursuant to Government Code Section 53850 et seq. and authority under the Act.

Further, section 3.2.8 of the JPA states that SDCP at the discretion of the Board may issue revenue bonds and other forms of indebtedness and per section 3.2.9 may apply for, accept, and receive all licenses, permits, grants, loans or other aids from any federal, state or local public agency.

Finally, California Government Code Section 8855 and Senate Bill 1029, among many things, requires debt issuers to adopt a local debt policy governing the issuance of debt and to enhance the management of government financial resources.

On January 23, 2023, the Board approved a rate adjustment effective February 1, 2023. As part of this approval, the Board received a presentation from staff that outlined that SDCP projected, per the best assumptions at the time which are subject to change, the agency would build 180-days of cash on hand by October 2023. The milestone for building 180-days of cash on hand is one of the major considerations for SDCP to ultimately receive an investment-grade credit rating consistent with the strategic goals adopted by the Board on June 23, 2022.

Upon receipt of an investment-grade credit rating, SDCP may have the ability to issue debt, such as a revenue bond, given that SDCP can demonstrate the ability to meet potential debt payment obligations through the credit rating.

Staff therefore proposed developing a Debt Policy for review and consideration with the FRMC. The FRMC reviewed the initial framework for the Debt Policy at its meeting on March 16, 2023. Staff incorporated feedback from the FRMC and are presenting the draft Debt Policy for potential recommendation to the Board.

## ANALYSIS AND DISCUSSION

The SDCP Board has taken several important steps to potentially achieve an investment-grade credit rating which include, among many items:

1. Developing a Reserve Policy to increase liquidity;
2. Establishing and funding an Operating Reserve;
3. Adopting strategic goals that build to 180-days cash on hand, ultimately leading to an investment-grade credit rating;
4. Approving rates effective February 1, 2023 that potentially allows SDCP to achieve 180-days cash on hand in calendar year 2023.

After an investment-grade credit rating is achieved, SDCP will have an enhanced ability to issue tax-exempt or taxable bonds to finance ownership in energy generation or energy storage asset. Direct asset ownership may provide the opportunity for SDCP to control energy cost.

SDCP is maturing as a global leader, inspiring innovative solutions to climate change by powering our communities with 100% clean energy, and must have access to all the available tools to reach its ambitious strategic goals of 75% renewable energy by 2027, 85% renewable energy by 2030, and 100% renewable energy by 2035 with 15% of SDCP's energy coming from new, distributed infill storage/solar+ storage resources by 2035.

SDCP's ability to issue tax-exempt debt to finance an ownership interest in a generating or storage facility is a distinct advantage over investor-owned utilities and direct access providers. There are no specific asset purchases currently under consideration by staff. The Debt Policy for consideration is a key step to enable SDCP to issue bonds which will ultimately be subject to Board approval as a separate action. The Debt Policy will help SDCP take advantage of ownership opportunities that may arise especially in conjunction with state or federal funding that might be available, for example, through the federal Inflation Reduction Act of 2022.

The proposed Debt Policy will articulate:

1. The situations and steps necessary for the issuance of debt;
2. The types of debt that may be issued; and
3. How the debt fits into SDCP's strategic plan and potential capital investment program.

The proposed debt policy has been reviewed by legal. The policy can evolve over time to adapt to changes in market practices and federal and state regulations. All of the current necessary state law requirements are incorporated.

The Debt Policy also includes sections to:

1. Facilitate decision making;
2. Establish basic parameters and principles; and
3. Other aspects to guide future Boards, staff and consultants.

California Government Code Section 8855 and Senate Bill 1029 require debt issuers to adopt a local debt policy governing the issuance of debt. The policy includes elements that are required by state law. In addition to these requirements, staff are proposing additional requirements as follows:

- **Green Bonds**: To the extent possible, SDCP bond issuances shall be green bonds. A green bond is a type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects.
- **1.5x Max Annual Debt Service**: While the specific formulation of the Additional Bonds Test may vary depending on the type of bonds being contemplated, the SDCP will utilize an Additional Bonds which establishes a limitation on new issuances such that the pledged revenues are no less than one and a half times (1.5x) the maximum annual principal and interest and debt service for the aggregate outstanding senior lien bonds including the debt service for the new issuance.
- **5% Annual Debt Service Limit**: The Agency will also seek to maintain aggregate annual debt service on long-term debt at a level not-to-exceed 5% of the Agency's annual total operating expenses. The actual terms and conditions specific to each debt issue will be controlled by the applicable documents.

All changes or updates to the SDCP Debt Policy will require Board approval.

## FISCAL IMPACT

There are no fiscal impacts to recommend Board approval of the Debt Policy given that debt will not be issued as part of this action.

## ATTACHMENTS

Attachment A: Debt Policy (Draft)

Policy Number: XXX-XXX

Original Adoption Date: XXX XX, 2023

**Subject:** Debt Policy

**Purpose:** This Debt Policy ("Policy") establishes San Diego Community Power's ("SDCP") Debt Policy. The Policy articulates: (1) the situations and steps necessary for the issuance of debt; (2) the types of debt that may be issued; and (3) how the debt fits into SDCP's capital investment program (CIP), Community Power Plan, integrated resource plan, or strategic policy goals.

This Policy is adopted pursuant to Senate Bill 1029 (Hertzberg, 2016) and Government Code Section 8855 et seq. and must be adopted or amended by resolution. The SDCP Board of Directors ("Board") is required to adopt a formal Debt Policy before any debt can be used.

**Background**

The SDCP Board adopts budgets and establishes and adjusts rates, as appropriate, each fiscal year to provide sufficient revenues to pay all operating expenses, make required payments and comply with commitments on all other debts or financial obligations of the Agency.

SDCP is committed to long-term financial planning, maintaining appropriate reserve levels, and employing prudent practices in governance, management, and budget administration. The SDCP Board further adopted its Strategic Plan on June 23, 2022, which included the goal to adopt financial controls and policies to meet or exceed best practices and manage risk.

SDCP utilizes financial policies that foster financial stability, support fiscal discipline, and enable SDCP to maintain strong investment-grade credit ratings.

This Policy confirms the commitment of the SDCP Board, management, staff, advisors and other decision makers to adhere to sound financial management practices, including full and timely repayment of all borrowings, allowing continuing ready access to the capital markets to achieve the most effective cost of capital within prudent risk parameters. The goals and objectives of this Policy are as follows:

- Maintain cost-effective access to capital markets
- Maintain a prudent level of financial risk

- Preserve future financial flexibility
- Finance capital projects, acquisitions, or improvements in a timely and cost-effective manner
- Manage debt effectively within SDCP Board established objectives and parameters
- Maintain strong credit ratings and good investor relations
- Maintain compliance with all relevant laws, reporting, and disclosure requirements
- Foster integrity in the debt management process

Further, this Policy is intended to comply with the regulatory requirements of California Government Code Section 8855 and Senate Bill 1029 which, among many things, requires debt issuers to adopt a local debt policy governing the issuance of debt and to enhance the management of government financial resources.

**Scope and Authority**

This Policy shall govern the issuance and management of all bonds and other forms of indebtedness of SDCP, together with any credit, liquidity, or other security instruments and agreements that may be executed in connection with the issuance of bonds and other forms of indebtedness ("bonds" or "debt"). It also considers certain financial targets which SDCP and its Board may contemplate in the future in order to continue to implement its capital investment program and to support cost-effective borrowing.

While this Policy specifically governs debt issued directly by SDCP, SDCP may consider joint arrangements with other municipal issuers or private parties to finance a project when it serves SDCP's policy objectives. SDCP is authorized to join together with other municipal agencies to create a separate entity, such as a joint powers authority, to issue debt on behalf of SDCP or the project participants. Typically, joint venture debt is repaid through revenues generated by the project, and SDCP will be liable only for its share of debt service, as specified in a contract executed in connection with the joint venture debt. If the potential for a joint venture does exist, SDCP will examine and negotiate the financial arrangements, obligations, liabilities, tax issues and other factors that may arise in the context of impacts on SDCP and its direct debt obligations using this Policy and financial best practices as guidance. SDCP will comply with state law limitations and in general, avoid joint procurement situations if SDCP lends it credit or enhances the credit of another entity, unless doing so will result in other net tangible benefits to SDCP. Further, as with all SDCP debt, any joint venture debt would be subject to evaluation and authorization of the Board.

While adherence to this Policy is generally required, it is recognized that changes in the capital markets, SDCP programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to best achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the SDCP Board is obtained.

This Policy shall be reviewed at least annually as described below and presented to the SCDP Board for approval of any changes as appropriate. This Policy will remain in effect as amended or restated in the future by the Board.

Notwithstanding anything in this Policy to the contrary, the failure of SDCP to comply with any provisions of this Policy shall not affect the authorization, validity, or enforceability of any debt or other forms of indebtedness that are otherwise issued in accordance with law.

**Use of Debt**

To achieve its objectives, SDCP may consider debt financing for the construction, acquisition, rehabilitation, replacement, or expansion of physical assets, including real and personal property, equipment, furnishings, and improvements. Debt may also be issued for other Board-approved needs or for the refunding of prior outstanding debt.

For example, SDCP may consider the use of debt to finance ownership interest in generating or storage assets if it is determined to be a cost-effective alternative to a standard power purchase agreement or if asset ownership may afford synergies between SDCP'S other objectives (e.g., resiliency, GHG free energy, etc.) or additional measurable advantages in terms of operational efficiency.

SDCP, under the direction of the Board, will retain full flexibility in determining the best funding approach on a case-by-case basis.

**Types of Debt**

Types of bond issuance, further described in the Appendix, include:

- **New Money**: Debt may be incurred to provide for capital financing for future capital expenditures or reimbursement of prior expenditures.
- **Refunding**: Refunding bonds may be issued to realize debt service savings, restructure outstanding debt, modify covenants, or for other debt management purposes. Absent significant non-economic factors, refunding transactions contemplated solely for debt service savings must produce a minimum aggregate

net present value debt service savings of at least 3% of the par value of the refunded bonds, calculated using the refunding issue's true interest cost ("TIC") as the discount rate. SDCP will work with its Municipal Advisor ("MA") to assess potential refunding opportunities.

Bonds may be issued as taxable or federally tax-exempt:

- **Tax-Exempt**: Interest received by bondholders of SDCP's bonds issued on a federally tax- exempt basis is exempt from federal income tax, and so typically may be issued at lower interest rates, reducing SDCP's cost of borrowing. Additional interest rate advantages may be available for bank qualified bonds (where SDCP will issue less than $10 million of tax- exempt bonds in a year). However, SDCP is limited by federal tax law in the uses of tax- exempt bond proceeds and must comply with additional federal tax law requirements during the full term of any bond issue. Uses of proceeds typically require a governmental purpose and must be spent on capital improvements rather than operating expenses. Tax implications include having reasonable expectations for spending proceeds at the time of issuance, limiting private use of financed projects, and complying with arbitrage restrictions on the bond proceeds.
- **Taxable**: Taxable debt's interest is not exempt from federal income tax, and so is typically issued at higher interest rates than tax-exempt debt. However, the IRS restrictions described above do not apply, and so SDCP may wish to use taxable debt in situations where the project or purpose of borrowing may not meet federal tax law requirements. SDCP may also consider taxable tax credit or direct subsidy bonds, such as Clean Renewable Energy Bonds, Qualified Energy Conservation Bonds, etc., that offer lower costs of borrowing to SDCP through the issuance of taxable debt that is supported by federal subsidy payments on the interest expense to SDCP.

**Method of Sale**

SDCP may choose to issue bonds using either a competitive or negotiated sale process. SDCP may also sell bonds by means of a private placement or direct sale with a financial institution or other accredited investor when this method is expected to result in cost savings or provide other advantages compared to a traditional public offering. SDCP staff will work with its Municipal Advisor to determine the most appropriate method of sale for each issuance. Please see the Appendix for a detailed description of the different methods of sale that SDCP may consider.

**Structure and Term**

The repayment schedule of a bond issue can vary greatly from one sale to another. The same is true for other debt instruments. SDCP will consider which structures meet SDCP's strategic goals, are cost effective, minimize the new debt's impact on SDCP's overall debt service schedule, future debt capacity, and other factors when deciding how to structure new debt. In addition to debt amortization terms, structuring options may include the addition and procurement of credit enhancement, the establishment of reserves, the use of capitalized interest, and call or redemption options.

In structuring debt service, SDCP shall consider (1) current and forecasted revenues and any anticipated changes to rates, charges and operating expenses, (2) future borrowing plans, (3) meeting the Credit Considerations described in the next section, and (4) feedback from the Municipal Advisor and rating agencies on a structure's potential impacts to SDCP's credit worthiness. Generally, but not a requirement under this Policy, SDCP prefers level debt service over time. SDCP, consistent with tax law, will not structure debt with a maturity date that materially exceeds the average useful life of the assets or improvements being financed.

**Green Bonds**

To the extent possible, SDCP bond issuances shall be green bonds. A green bond is a type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects. These bonds are typically asset-linked and backed by the issuing entity's balance sheet, so they usually carry the same credit rating as their issuers' other debt obligations.

**Credit Considerations**

When SDCP issues debt, the Agency will have to execute certain bond documentation and agreements (herein generally referred to as 'indentures') that will bind SDCP to specific terms or requirements. Generally speaking, SDCP will agree to abide by certain covenants written in the indenture which describes in detail the obligations and responsibilities of SDCP and the rights of the bondholders which are designed to protect bondholders by setting standards by which SDCP agrees to comply. These types of covenants may require SDCP to meet certain requirements or, conversely, may forbid SDCP from undertaking certain activities that would jeopardize SDCP's ability to repay its debt. An indenture defines SDCP's contractual obligations and determines the parameters of SDCP's permissible financial behavior.

The incorporation of effective bond covenants into SDCP's future bond issues and respective documentation signal a commitment to abide by stated financial and operating parameters over the long-term and contribute towards SDCP's ability to maintain strong financial health. Credit ratings are ultimately statements about the likelihood of full and timely debt repayment. Because bond covenants govern an issuer's ongoing financial behavior, the analysis of bond/indenture covenants and their impact on the risk profile of a bond is an integral part of the credit rating process.

Credit ratings are fundamentally forward-looking opinions on the relative default risk associated with a particular issuer and its debt obligations. Credit ratings have a significant impact on the interest rates for SDCP debt, and therefore SDCP will work to address the cost and benefits of obtaining and maintaining strong credit ratings. Depending on the lien structure of the debt, some, or all, of the following factors may be included in its bond documentation in order to obtain and maintain strong credit ratings that would broaden the appeal of and lower the cost of debt issued by SDCP.

- **Debt Service Coverage Ratio**: The ability of an agency to pay debt service (i.e. principal and interest on debt obligations) when due is often measured by how much cash flow is available, after payment of operating expenses, to cover debt service payments (Debt Service Coverage Ratio). Debt Service Coverage Ratio is a common financial metric used in the utility industry and is used by the rating agencies and investors to determine the ability of a utility to fulfill its debt obligations and ensure that the utility generates sufficient revenues to make its debt secure. SDCP's future indentures will likely require cash flow in excess of debt service, or a Debt Service Coverage Ratio greater than 1.0x. Many public agencies target a Debt Service Coverage Ratio in its financial and debt policies higher than the minimum required by its indenture to improve debt ratings and lower their costs of borrowing. Should SDCP establish a minimum Debt Service Coverage Ratio in its future indentures, the Board may consider establishing a target ratio in this Policy that is higher than the legal minimum. Note, that a failure by SDCP to meet a target ratio proposed in this Policy will not result in a default under the indenture so long as the minimum Debt Service Coverage Ratio is achieved.
- **Rate Covenant**: A rate covenant is a promise to set rates or fees at levels that are set to recover sufficient revenues at a designated threshold level to cover operating expenses and debt service payments. This designated threshold level is the same as the Debt Service Coverage Ratio discussed previously. SDCP may develop one or more rate covenants in order to measure and govern operating performance. As noted, future indentures may establish minimum levels of coverage and SDCP's Board-adopted financial policies may establish internal goals that exceed these minimum coverage requirements.

- **Additional Bonds Test**: If SDCP were to issue bonds or other debt obligations, the indentures governing those obligations may have covenants that stipulate whether SDCP may sell additional bonds in the future that share that same pledged revenue stream as security. SDCP may develop conditions or standards in its indentures that describe the parameters whereby SDCP could issue additional bonds (referred to as an "additional bonds test"). This test is intended to ensure that future bond issuance does not reduce bondholder security by placing too high a burden on the revenue stream. The additional bonds test may require that SDCP demonstrate that it has sufficient revenues to meet or exceed the designated Debt Service Coverage Ratio before additional bonds can be issued.

  While the specific formulation of the Additional Bonds Test may vary depending on the type of bonds being contemplated, the SDCP will utilize an Additional Bonds which establishes a limitation on new issuances such that the pledged revenues are no less than one and a half times (1.5x) the maximum annual principal and interest and debt service for the aggregate outstanding senior lien bonds including the debt service for the new issuance.

  The Agency will also seek to maintain aggregate annual debt service on long-term debt at a level not-to-exceed 5% of the Agency's annual total operating expenses. The actual terms and conditions specific to each debt issue will be controlled by the applicable documents.

- **Reserves**: SDCP may maintain reserves including those in compliance with GASB 62 such as the adopted Operating Reserve Fund to act as a rate stabilization fund that can help mitigate the impacts of revenue variability. Depending on whether or not SDCP incorporates a rate stabilization fund reserve into its indentures, this reserve may be used to help meet Debt Service Coverage Ratio requirements during times of revenue shortfalls. This fund can be a valuable tool to manage and mitigate the risk related to any Debt Service Coverage Ratio requirements included in future indentures and to address revenue and rate volatility. There are other reserves that the Board may consider adopting in the future that, for example, may be utilized for paying debt service, for funding specific capital projects, or for emergency purposes etc.

- **Additional Ratio Targets**: In the future the Board will continue to monitor this Policy and will establish enhancements to further strengthen the financial ratios and targets of SDCP. For example, while not a ratio included in Indenture covenants, another ratio that can help measure SDCP's financial health and position is the ratio of debt-funded capital to overall capital spending (i.e., debt to pay-go spending). Prudent use of debt financing rather than pay-go funding of capital projects can facilitate better allocation of resources over time and ensure payment equity across generations for the use of long-term assets.

**Financing Team and Professional Services**

SDCP will assemble a financing team that will provide advice and support for the development and implementation of debt issuance as well as ongoing analysis and support. The financing team will include both SDCP staff and outside professional consultants. When required by SDCP's procurement policy, SDCP will use a competitive process through a Request for Proposal ("RFP") in the retention of professional consultants. Otherwise, SDCP will adhere to its best practices in contracting to procure such vendors. The professional consultants selected by SDCP could be engaged to help develop a credit strategy, issue debt and/or assist SDCP with its compliance with applicable federal and state statutes, and Internal Revenue Code at the time of issuance as well as on a continuing basis. Please see the Appendix for a detailed description of the outside professional consultants SDCP may include on its financing team.

**Debt Administration**

The Chief Executive Officer ("CEO"), or designee shall make recommendations on budget, stabilization transfers and rate adjustments. The Chief Financial Officer shall be responsible for the administration and implementation of this Policy and will have day-to-day responsibility for structuring, implementing and managing SDCP's debt program.

**Internal Control Procedures**

When issuing debt, in addition to complying with the terms of this Policy, SDCP shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post- issuance compliance, and investment of bond proceeds. Please see the Appendix for a detailed description of SDCP's internal control procedures.

**Post-Issuance Administration**

SDCP will comply with requirements pertaining to initial bond disclosure, continuing disclosure, tax-exemption, post-issuance compliance, and investment of bond proceeds. This includes any continuing disclosure undertakings under Securities and Exchange Commission ("SEC") Rule 15c2-12; tax covenants and related federal tax compliance requirements such as arbitrage restrictions and rebate requirements; and all California State reporting requirements. Please see the Appendix for a detailed description of SDCP's Post-Issuance Compliance Policy and additional information on SDCP's post-compliance procedures.

**Training**

The Chief Financial Officer shall provide training the members of SDCP staff involved in the tax compliance and the initial or continuing disclosure process in coordination with the CEO, and the SDCP Board regarding their respective responsibilities for disclosure and tax compliance.

The Chief Financial Officer, or designee, shall arrange for periodic disclosure and tax training sessions conducted by SDCP's disclosure counsel or other professionals (e.g., seminars) which shall include education regarding disclosure policies, SDCP's disclosure obligations under applicable federal and state securities and tax laws, and the tax compliance and disclosure responsibilities of SDCP.

**Policy Review**

In coordination with the CEO, the Chief Financial Officer, or designee, will be responsible for regularly reviewing and updating this Policy, and shall present any recommended revisions to the Board for consideration and adoption.

## APPENDIX

### Permitted Types of Debt

SDCP may legally issue both short-term and long-term debt, through either a direct loan or through the public market, using the debt instruments described below. SDCP in consultation with its internal Counsel, Bond Counsel and Municipal Advisors, shall determine the most appropriate instrument for a proposed debt offering.

SDCP may issue the following types of tax-exempt or taxable Debt:

- **Long-Term Debt**: Long-term debt generally includes debt issued to finance capital expenditures with the objective of structuring repayment within the expected life of the financed asset. Debt may be used as a tool for rate stabilization as repayment of the debt is spread over the useful life of the financed project. Long-term bonds may bear interest at fixed or variable rates or structured with level debt service payments or otherwise with term maturities. Long-term revenue bonds are a type of debt that may be entered into by SDCP and which may be secured by a lien on the revenues of SDCP. SDCP may also enter into long-term loans with state or federal agencies. These loans typically have fixed interest rates. Government loan programs may offer favorable interest rates and terms, and should be considered as alternatives to market rate debt when available. The use of long-term debt will be evaluated with pay-as-you-go capital investment and would not be expected (absent extraordinary circumstances) to fund non-capital operational expenditures or operating deficits.
- **Short-Term Debt**: Short-term debt generally has a maturity of less than 7 years and may take several forms, including notes, commercial paper, direct bank loans and other short- term products with either fixed or variable rates. Short-term debt products are flexible cash management tools that are primarily used to meet interim funding (pending the issuance of long-term debt). When approving short-term debt products, the Board may limit SDCP's percentage of short-term debt when compared to its long-term debt portfolio taking into account future market access, term-out provisions and retail rate stability.
- **Variable-Rate Debt**: In addition to interim financing, which includes commercial paper and similar short-term borrowing programs, it may be appropriate to issue long-term variable rate debt that bears an interest rate that is reset periodically at predetermined intervals, including entering into revolving credit facilities, to diversify the debt portfolio, to reduce interest costs, and to improve the match of variable rate assets (such as short-term investments and reserves) to liabilities. The amount of variable rate debt will generally not exceed a net 20% after

consideration of investments and cash equivalents of the outstanding debt portfolio of SDCP.

- **Refunding Debt**: Refunding bonds may be issued to refinance existing bonds to achieve debt service savings, restructure the type of debt outstanding, modify SDCP's covenants to bondholders, restructure future debt service payments, take advantage of market opportunities, or to reduce exposure to certain counterparties. SDCP will work with its Municipal Advisor (MA) to assess potential savings and determine whether refunding bond issuance is warranted. If refunding bonds are being contemplated solely for debt service savings, the refunding should generally result in a reduction in average annual debt service or provide an overall savings target (net of all costs) set by the Board at the time it approves the financing. This savings target may be adjusted depending on the remaining term of the debt or under circumstances where the number of refunding options is then limited by federal tax law.

SDCP may consider the following types of fixed or variable rate debt:

- Revenue Bonds secured by general revenues or project revenues
- Commercial Paper or other Interim Funding Notes
- Capital Leases
- Certificates of Participation/Lease Revenue Bonds
- Installment Sale or Purchase Agreements Revenue Bonds
- Bond or Grant Anticipation Notes
- Tax and Revenue Anticipation Notes
- State and Federal Loans and Grants
- Direct Bank Loans or Lines of Credit
- Public Private Partnerships

This list is not meant to be inclusive of all options that may be available to SDCP as different circumstances may dictate. SDCP may from time to time find that other types of debt would be beneficial to further its purposes and may approve such debt without an amendment to this Policy.

**Method of Sale**

SDCP may choose to issue bonds using either a competitive or negotiated sale process. SDCP may also sell bonds by means of a private placement or direct sale with a financial institution or other accredited investor when this method is demonstrated to result in cost savings or provide other advantages relative to a traditional public offering. SDCP staff will work with its Municipal Advisor to determine the most appropriate method of sale for each issuance.

- **Competitive Sale**: SDCP may elect to sell bonds in the public market on a competitive basis depending on market conditions, required size of issuance and relative complexity of structure. The Bonds are marketed to a wide audience of investment banking (underwriting) firms. The underwriter is selected based on its bid for the securities. SDCP will award the sale of the competitively sold bonds on the basis of the lowest true interest cost basis. Pursuant to this policy, The Chief Financial Officer, or designee, is authorized to sign the bid form on behalf of the SDCP fixing the interest rates on bonds sold on a competitive basis.
- **Negotiated Sale**: SDCP may elect to sell bonds in the public market on a negotiated basis depending on market conditions, required size of issuance and relative complexity of structure. SDCP staff selects the underwriter, or team of underwriters, of its securities in advance of the bond sale on the basis of responses to a proposal review. With the assistance of the Municipal Advisor (MA), SDCP staff works with the underwriter to bring the issue to market and negotiates all rates and terms of the sale. In advance of the sale, SDCP staff will determine compensation for and liability of each underwriter employed and the designation rules and priority of orders under which the sale itself will be conducted. Pursuant to this policy, the Chief Financial Officer or designee will be authorized to sign the bond purchase agreement on behalf of SDCP, fixing the interest rates on bonds sold on a negotiated basis.
- **Private placement**: SDCP may elect to issue debt on a private placement basis. Such method shall be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or if it is determined that access to the public market is unavailable and/or timing considerations require that a financing be completed more quickly than required for a competitive or negotiated sale.

**Financing Team and Professional Services**

SDCP will assemble a financing team that will provide advice and support for the best execution of each debt transaction. The financing team may consist of multiple parties with distinct responsibilities and is generally comprised of both SDCP staff and outside professional consultants. These outside professional consultants may include:

- **Municipal Advisors**: SDCP shall utilize the services of independent MAs in connection with debt-related issuances or projects. SDCP's MA will not serve as an underwriter on negotiated bond sales of SDCP.
- **Underwriters**: SDCP will utilize an underwriter in the sale of bonds on a competitive or negotiated basis. An underwriter is a financial services firm that acquires (by purchase) bonds for resale in the public bond markets. For a

negotiated sale, SDCP will select an underwriter through a request for proposal process; basing the selection on value for SDCP including capital structure, underwriting capabilities, demonstrated expertise and experience as well as proposed fees. SDCP may also select an underwriting firm to act as placement agent in connection with a private placement of bonds. In a competitive sale, bonds are offered for sale at a designated date and time, and multiple underwriters may submit bids. The bonds are awarded to the underwriter (or group of underwriters) that submit the lowest bid.

- **Disclosure Counsel**: SDCP will endeavor to provide complete and appropriate disclosure of financial and legal condition in the issuance of debt. SDCP will also take steps and adopt policies in order to provide for compliance with continuing disclosure requirements. Disclosure counsel, which may be Bond Counsel, shall be responsible for assisting SDCP in the preparation of the Preliminary and Final Official Statements and any other disclosure documents. SDCP will select, through a request for proposal process, and retain qualified and experienced counsel in achieving this objective of appropriate disclosure.
- **Bond Counsel**: SDCP will retain qualified and experienced legal counsel as representation of SDCP to provide the customary opinions required for the issuance of bonds and other financial obligations. Bond counsel shall be responsible for developing the legal documents required for each transaction and draft and review documentation sufficient to provide approving legal opinions. Bond counsel will render customary approving legal and tax opinions for each transaction.
- **Trustee**: SDCP may select through a request for proposal process the services of a financial institution, acting through its trust division, to act as trustee. The trustee may hold, invest and disburse financing proceeds as directed by SDCP. The trustee will act as registrar as well as the paying agent for SDCP debt. The Chief Financial Officer or designee shall monitor the services rendered by the trustee.

**Internal Control Procedures**

All debt transactions must be approved by the Board of Directors. The proceeds of bond sales will be invested until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made consistent with the following guidelines: (1) compliance with federal tax arbitrage requirements, as applicable; (2) safety of principal; (3) liquidity; (4) diversity; and (5) return on investment or yield, and may be held as cash. SDCP's Investment Policy guidelines and bond indentures will govern objectives and criteria for investment of bond proceeds. The Treasurer will oversee the investment of bond proceeds consistent with the foregoing guidelines.

Proceeds of debt will be held either by a third-party trustee or by SDCP. The trustee will disburse bond proceeds to SDCP upon submission of one or more written requisitions signed by an authorized SDCP officer. If the funds are held directly by SDCP, they must be held and accounted for in a separate fund or account, the expenditure of which will be documented by SDCP and subject to established internal controls consistent with SDCP's applicable policies and procedures. These procedures will include, in connection with each requisition or expenditure of proceeds held by SDCP, a written record of the particular capital project or program or other expense to which the funds drawn were applied or allocated.

For bond proceeds that are meant to reimburse SDCP for previous expenditures, SDCP staff will provide documentation that conform to tax requirements and other applicable regulations. To support this certification, staff will analyze capital expenditures and establish that requirements are met before the bond issuance takes place and maintain a written record of such analysis and the amount reimbursed to each particular capital project or program or other expense to which such reimbursed proceeds are to be allocated.

For bond proceeds intended to provide funding for ongoing or upcoming capital expenditures, SDCP staff will monitor the expenditure process. Staff will analyze the use of proceeds on an annual basis or more frequently, if deemed appropriate, until the proceeds are completely spent and will perform monitoring and record-keeping in accordance with SDCP's accounting guidelines and other applicable regulatory requirements.

Refunding bond proceeds are generally held by a third-party trustee or fiscal agent to be applied in connection with written directions generally prepared by bond counsel. SDCP will maintain records of the directions to the trustee, and will review of fund statements and other records received from, the trustee.

**Post-Issuance Administration**

SDCP will comply with requirements pertaining to initial bond disclosure, continuing disclosure, tax-exemption, post-issuance compliance, and investment of bond proceeds. This includes any continuing disclosure undertakings under SEC Rule 15c2-12; tax covenants and related federal tax compliance requirements such as arbitrage restrictions and rebate requirements; and all California State reporting requirements.

- **Post-Issuance Compliance Policy**: SDCP will adopt a Post-Issuance Compliance Policy (“PICP”) to provide for ongoing monitoring and reporting with respect to compliance with SEC requirements for publicly offered indebtedness and with tax regulations applicable to tax-exempt debt. The PICP will provide for the federal disclosure requirements, responsibility for reporting, training, and describe procedures for compliance with continuing disclosure agreements entered into for each such series of bonds from the date they are issued until the bonds are no longer outstanding. The PICP may be administratively adopted and amended without approval of the Board.
- **Financial Disclosure**: SDCP will comply with applicable deliverable obligations and financial disclosure requirements, as specified in any and all bond and debt-related documents. Staff has developed and will maintain an updated schedule of the requirements in compliance with SDCP’s internal record-keeping processes. SDCP will post required documents to the Municipal Securities Rulemaking Board’s (“MSRB”) Electronic Municipal Market Access (“EMMA”) website as required on a timely basis. SDCP, at its discretion, may also post documents voluntarily to EMMA. SDCP will provide financial disclosure to rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, comprehensible, financial information using the appropriate channels/policies/procedures. The Chief Financial Officer is responsible for monitoring the compliance by SDCP of applicable disclosure requirements. SDCP also may contract with an outside service provider to monitor disclosure postings.
- **Tax Compliance**: SDCP will comply with applicable federal arbitrage and rebate regulations related to its bonds and other debt instruments. These responsibilities include monitoring the investment and expenditure of bond proceeds, maintaining a system of record-keeping and reporting and contracting for the services of outside arbitrage consultants as necessary. SDCP will establish and implement post-issuance procedures to guide its compliance with these requirements. The Chief Financial Officer is responsible for monitoring the compliance by SDCP of applicable tax requirements for debt issued on a tax-exempt basis.
- **Record Keeping**: A copy of all debt-related records shall be retained at SDCP’s offices or otherwise electronically. At a minimum, these records shall include all official statements, bid documents, bond documents/transcripts, indentures, resolutions, trustee statements, leases, and title reports for each financing (to the extent available). The following documents shall be maintained for the term of each issue of bonds (including refunding bonds) plus at least three years:
    - A copy of the bond closing transcript(s) and other relevant documentation delivered to SDCP at or in connection with closing of the issue of bonds;

- A copy of material documents relating to capital expenditures financed or refinanced by bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, draw requests for bond proceeds and evidence as to the amount and date for each draw down of bond proceeds, as well as documents relating to costs paid or reimbursed with bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with bond proceeds, including a final allocation of bond proceeds;
- A copy of all contracts and arrangements involving the use of bond-financed or refinanced assets; and
- A copy of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements, in connection with any investment agreements, and copies of all bidding documents, if any.