



# Finance & Risk Management Committee Meeting

February 15, 2024

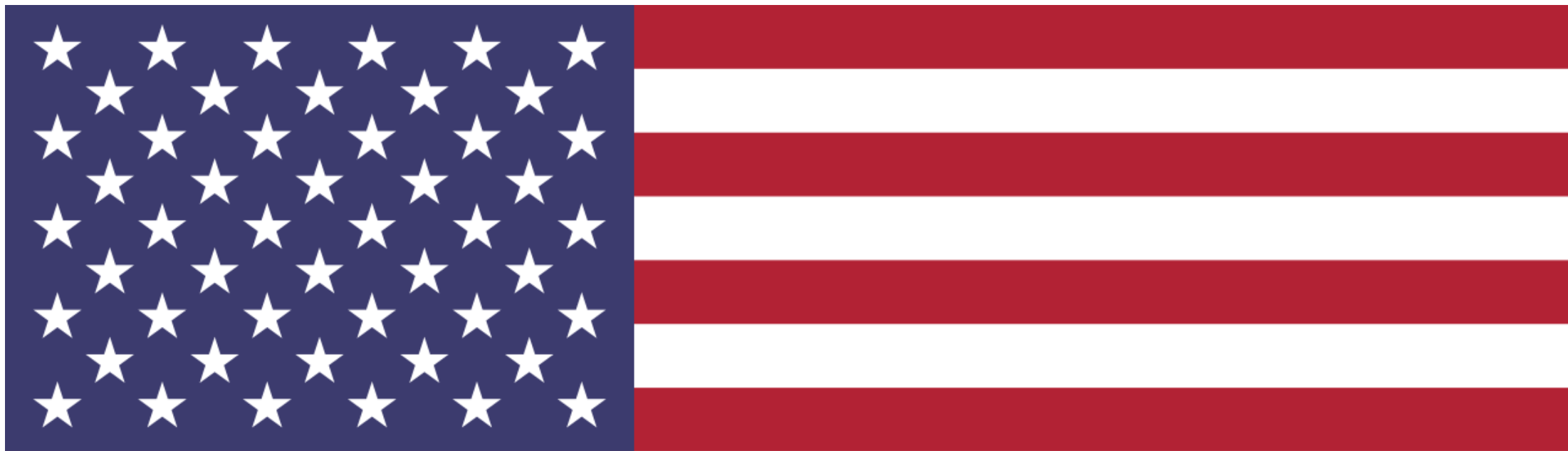




**Welcome  
&  
Call to  
Order**


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# Roll Call



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**Items to  
be Added,  
Withdrawn  
or  
Reordered  
on the  
Agenda**

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# **Public Comment for Items NOT on the Agenda**

# Regular Meeting Agenda

Welcome

Roll Call

Items to be Added, Withdrawn or Reordered on the Agenda

Public Comment for items Not on the Agenda

## REGULAR AGENDA

1. Approval of January 11, 2024 Meeting Minutes
2. Treasurer's Report for Period Ending 12/31/23
3. Approve Mid-Year Budget Amendment
4. Presentation on Clean Energy Prepayment Financing
5. Approve Professional Services Agreement with Chandler Asset Management, Inc. for up to \$250,000 for Financial and Investment Portfolio Management Services through February 2025

Committee Member Announcements

Adjournment

# Item 1

## Approval of January 11, 2024 Meeting Minutes


### Recommendation:

Approve January 11, 2024 Meeting Minutes

Presenter:

Sandra Vences

Deputy Clerk of the Board

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# **Public Comment for Item 1**

# Item 1

## **Recommendation:**

Approve January 11, 2024 Meeting Minutes

# Item 2

## Treasurer's Report for Period Ending 12/31/23

### Recommendation: Receive and File Treasurer's Report for Period Ending 12/31/23

Presenter:

Dr. Eric Washington,  
Chief Financial Officer

# Item 2: Treasurer's Report

## YTD FY24 Budget v. Actual

Results for the period underperformed overall compared to the adopted budget:

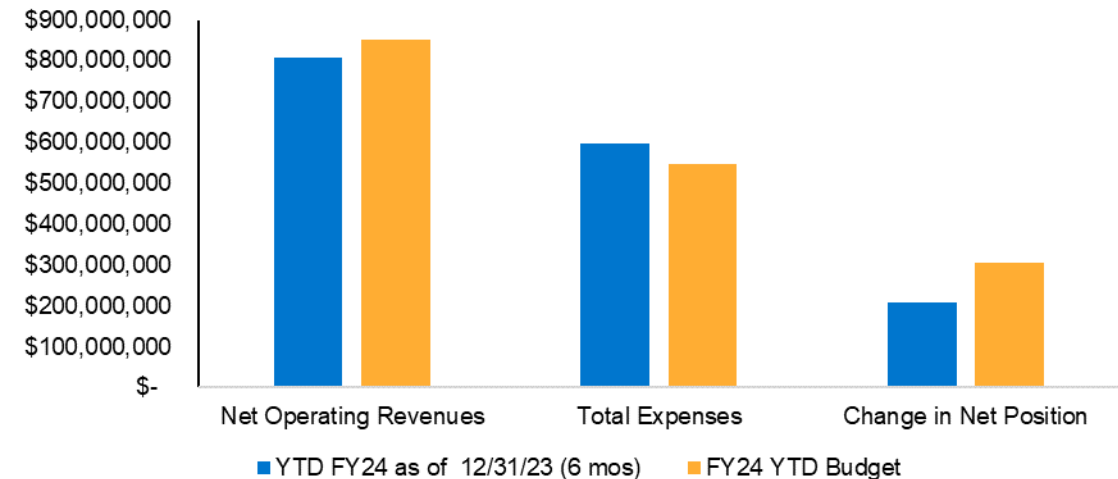
- Net operating revenues 5.0 percentage points under budget.
- Operating expenses came in 9.0 percentage points over budget

Financial results for the YTD FY24:

- \$806.22M in net operating revenues
- \$598.16M in total expenses (includes energy costs of \$583.38M or 72% of net revenues)
- \$208.07M change in YTD net position

Budget Comparison				
	YTD FY24 as of 12/31/23 (6 mos)	FY24 YTD Budget	Budget Variance (\$)	Budget (%)
Net Operating Revenues	\$ 806,222,352	\$ 852,765,001	\$ (46,542,649)	95%
Total Expenses	\$ 598,156,221	\$ 546,502,842	\$ 51,653,379	109%
Change in Net Position	\$ 208,066,131	\$ 306,262,159	\$ (98,196,028)	-32%

YTD FY24 Results v. Budget



# Item 2: Treasurer's Report

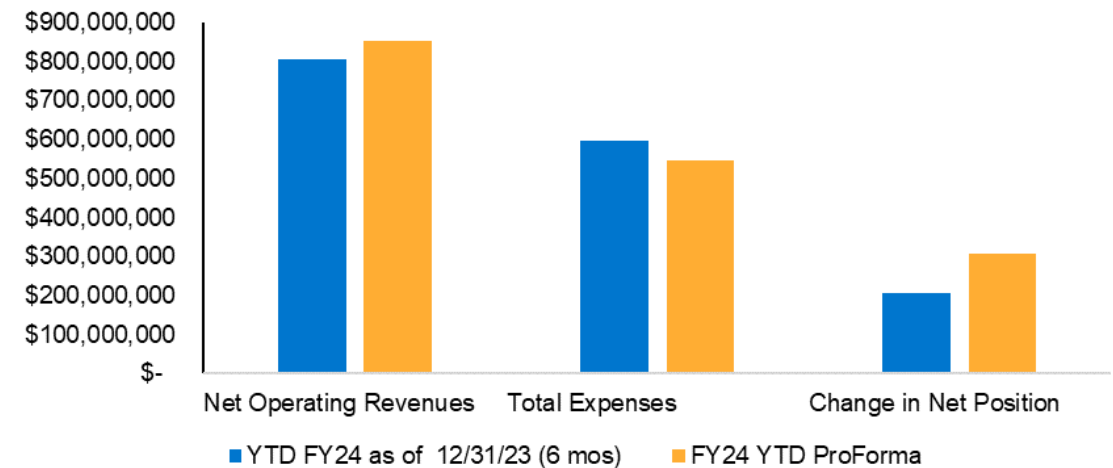
## YTD FY24 Proforma v. Actual

Year-to-date financial results compared to projections:

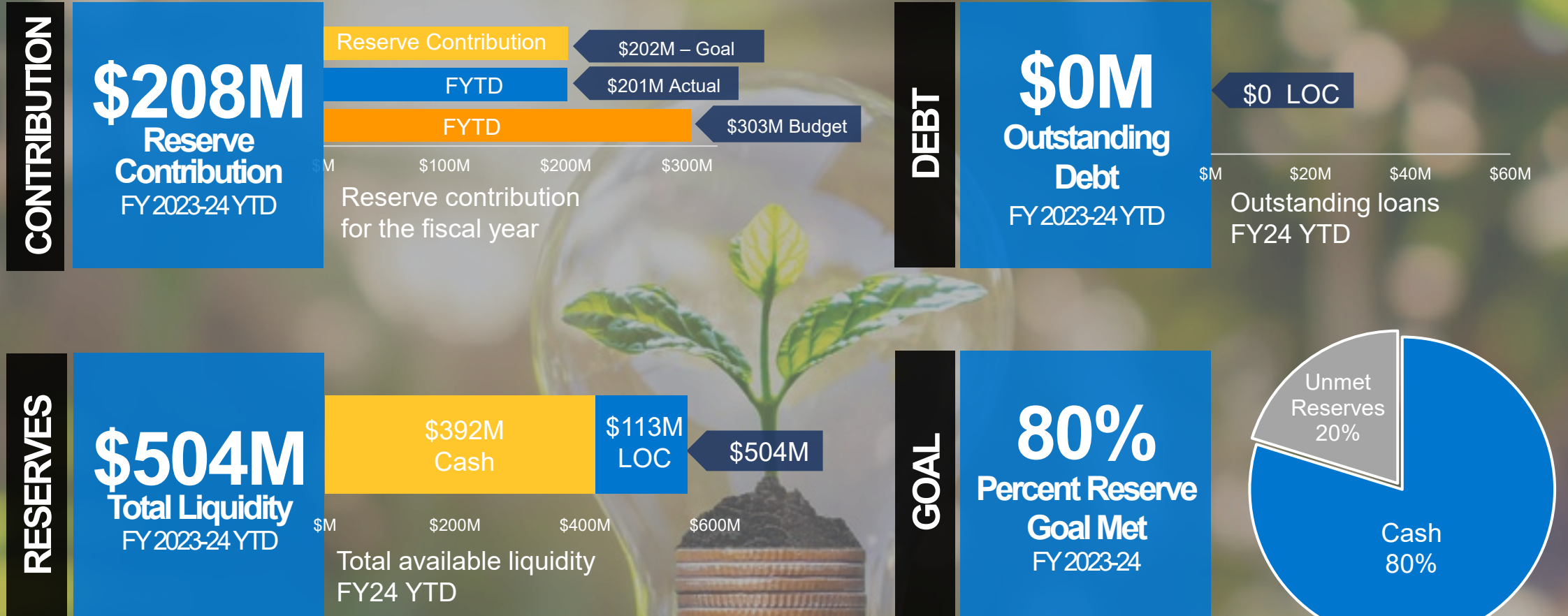
- Net operating revenues were 5% lower than proforma projections
- Total expenses were 10% over the proforma projections
- Change in net position was \$98.81M under the projected

Proforma Comparison					
	YTD FY24 as of 12/31/23 (6 mos)		FY24 YTD ProForma	ProForma Variance (\$)	Proforma (%)
Net Operating Revenues	\$ 806,222,352	\$	852,765,001	\$ (46,542,649)	-5%
Total Expenses	\$ 598,156,221	\$	545,892,659	\$ 52,263,562	10%
<b>Change in Net Position</b>	<b>\$ 208,066,131</b>	<b>\$</b>	<b>306,872,342</b>	<b>\$ (98,806,211)</b>	<b>-32%</b>

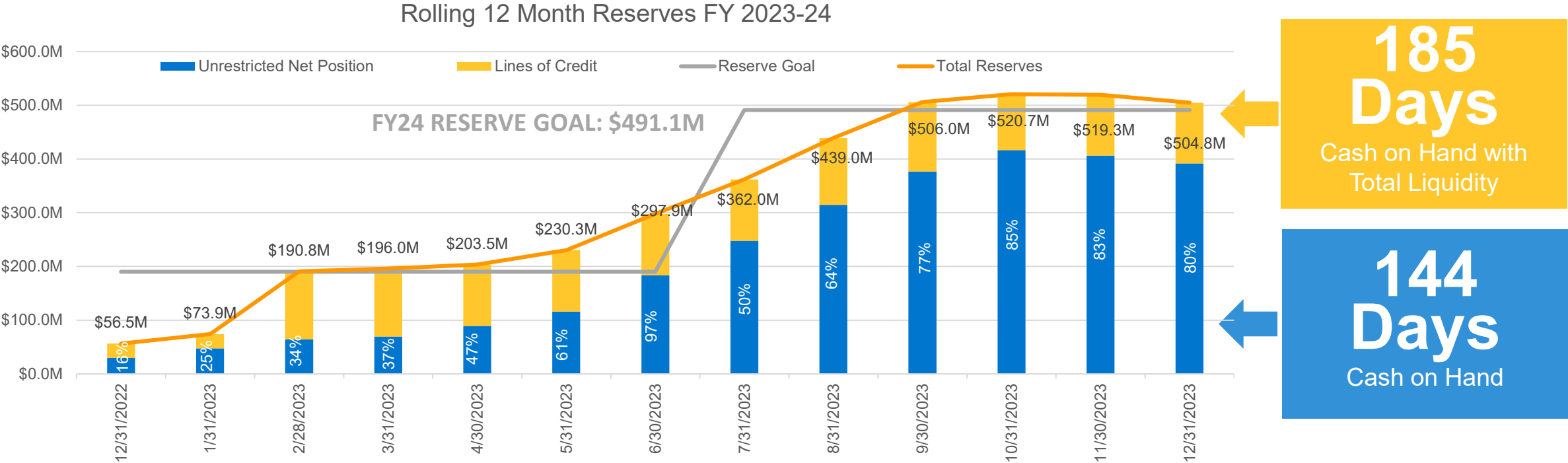
YTD FY24 Results v. Proforma



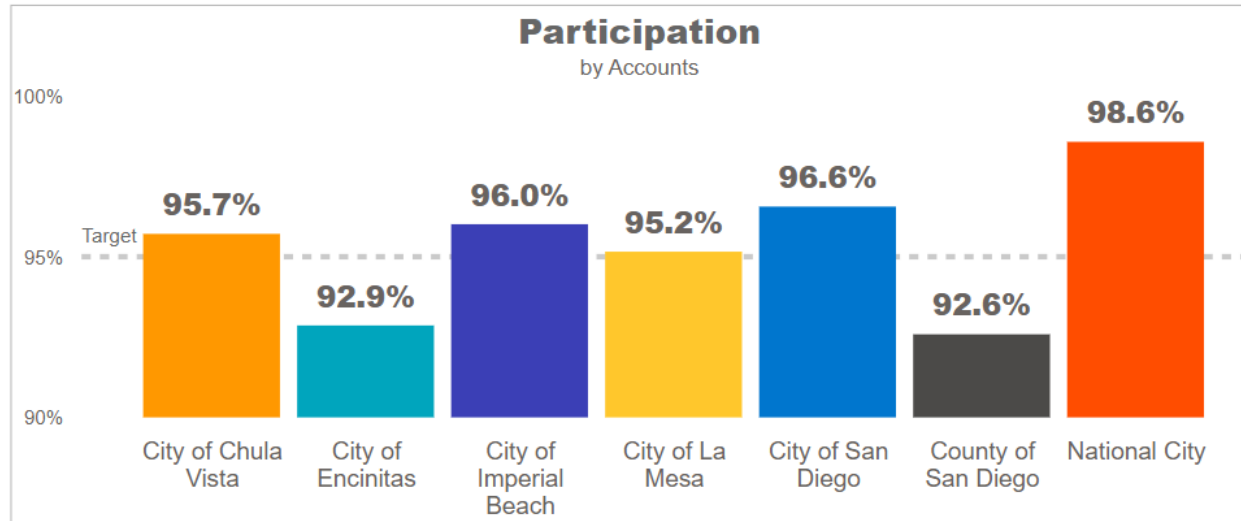
# Item 2: Treasurer's Report




# Item 2: Treasurer's Report



# Item 2: Treasurer's Report



Jurisdiction	Active	Eligible	Opt Outs	Participation
City of Chula Vista	93,479	97,668	4,189	95.7%
City of Encinitas	26,458	28,492	2,034	92.9%
City of Imperial Beach	10,497	10,933	436	96.0%
City of La Mesa	28,002	29,427	1,425	95.2%
City of San Diego	600,474	621,866	21,392	96.6%
County of San Diego	166,292	190,235	14,105	92.6%
National City	18,936	19,444	277	98.6%
<b>Total</b>	<b>944,138</b>	<b>998,065</b>	<b>43,858</b>	<b>95.6%</b>

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# **Public Comment for Item 2**

# Item 2

## **Recommendation:**

Receive and File Treasurer's Report for Period  
Ending 12/31/23

# Item 3

## Approve Mid-Year Budget Amendment

### Recommendation:

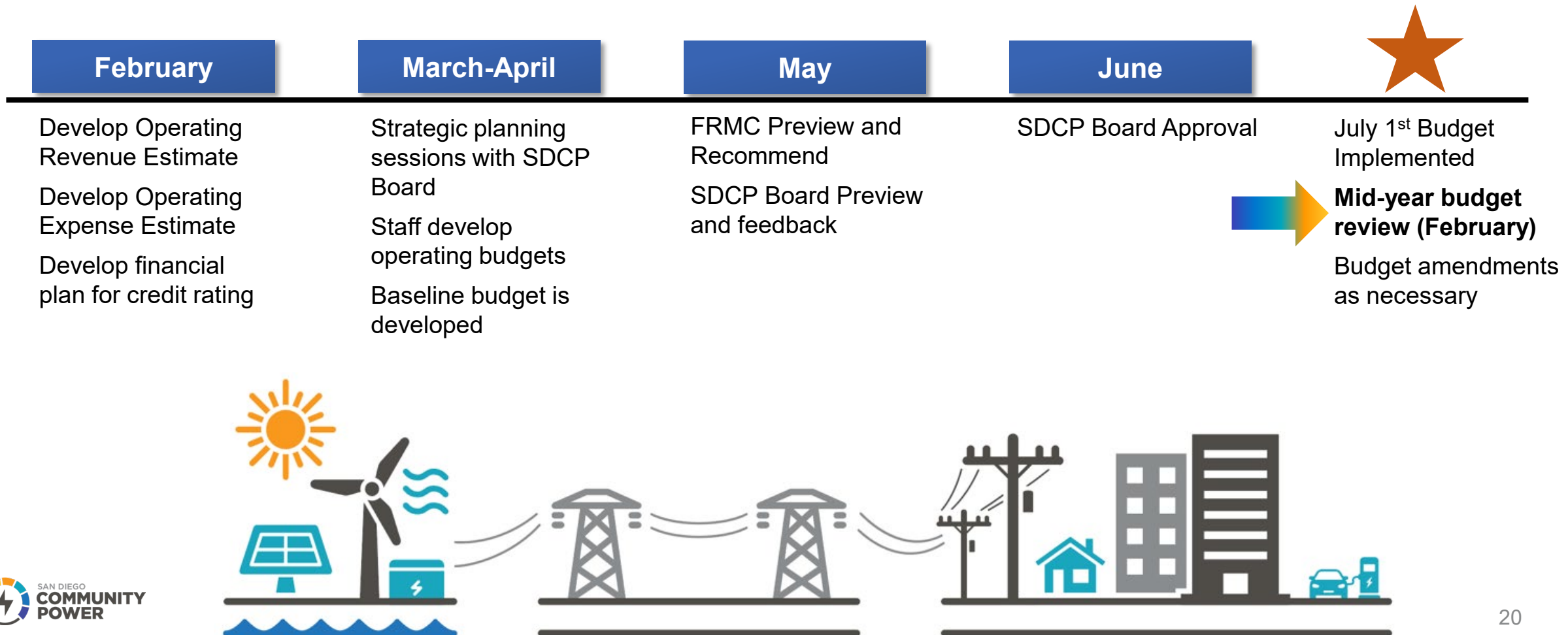
Recommend Board Approval of Mid-Year Budget Amendment

Presenter:

Dr. Eric Washington,  
Chief Financial Officer

# Budget Development Timeline

The adopted schedule for budget development is the following.



# Proposed FY 2023-24 Amended Budget

FY 2024

Net Operating Revenue  
**\$1,292.5 m**

Total Expenses  
**\$1,002.3 m**

Net Position  
**+\$290.4 m**

FY 2024 Amended

Net Operating Revenue  
**\$1,304.3 m**

Total Expenses  
**\$1,071.6 m**

Net Position  
**+\$232.7 m**

# Proposed FY 2023-24 Amended Budget

FY 2024

Net Operating Revenue

**\$1,292.5 m**

**+\$11.8 million**

Approved rate change,  
effective February 1, 2024

Net Operating Revenue

**\$1,304.3 m**

Total Expenses

**\$1,002.3 m**

**+\$69.3 million**

Higher energy costs,  
reduced non-energy costs

Total Expenses

**\$1,071.6 m**

Net Position

**+\$290.4 m**

**-\$57.8 million**

Decrease in net position  
over adopted budget

Net Position








**+\$232.7 m**

FY 2024 Amended

# Budget Amendment Context

Item	FY 24 Adopted Budget	FY 24 Amended Budget	Difference
Gross Revenue	\$1,346,325,552	\$1,365,732,007	\$19,406,455
Less Uncollectibles	(\$53,853,022)	(\$61,457,940)	(\$7,604,918)
<b>Net Revenue</b>	<b>\$1,292,472,530</b>	<b>\$1,304,274,067</b>	<b>\$11,801,537</b>
Cost of Energy	\$948,529,425	\$1,020,844,552	\$72,315,127
Non-Energy Costs	\$47,231,709	\$43,708,093	(\$3,523,616)
<b>Subtotal Operating Expense</b>	<b>\$995,761,134</b>	<b>\$1,064,552,645</b>	<b>\$68,791,511</b>
Debt Service	\$2,437,574	\$2,393,639	(\$43,935)
CIP	\$3,840,002	\$4,655,000	\$814,998
<b>Total Expense</b>	<b>\$1,002,038,710</b>	<b>\$1,071,601,284</b>	<b>\$69,562,574</b>
<b>Net Position</b>	<b>\$290,433,820</b>	<b>\$232,672,783</b>	<b>\$57,761,037</b>


# Budget Changes by Category

	Revenue	Board approved <b>rate change</b> , effective 2/1/24 which increased projected revenue.	Adopted <b>\$1,292 m</b>	Amended <b>\$1,304 m</b>
	Cost of Energy	Increased <b>market power costs</b> affecting all participants and in cost of <b>market power supply</b> .	Adopted <b>\$948.5m</b>	Amended <b>\$1,020 m</b>
	Professional Services	Less than expected usage of Professional Services	Adopted <b>\$22.9m</b>	Amended <b>\$22.3m</b>
	Personnel	Longer than expected lead times to hire new positions.	Adopted <b>\$13.2m</b>	Amended <b>\$11.6m</b>
	Marketing and Outreach	Marketing and Outreach are slightly below budget.	Adopted <b>\$2.9m</b>	Amended <b>\$2.9m</b>
	General and Administrative	Decrease mostly due to less traveling.	Adopted <b>\$7.9m</b>	Amended <b>\$6.8m</b>
	Programs	Decrease due to recategorization to CIP.	Adopted <b>\$0.3m</b>	Amended <b>\$0.1m</b>

Adopted

Amended

Operating Income  
**-\$57.8 m**

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# **Public Comment for Item 3**

# Item 3

## **Recommendation:**

Recommend Board Approval of Mid-Year Budget Amendment

# Item 4

## Presentation on Clean Energy Prepayment Financing

### Recommendation:

Receive and File Presentation on Clean Energy Prepayment Financing.



## Energy Prepayment Discussion

*February 15, 2024*

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PFM Financial Advisors LLC

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555 W. 5th Street  
Suite 3500  
Los Angeles, CA 90013

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213.489.4075



## Prepayment Transaction Overview

- ◆ **Goal** – Reduce cost of power purchases by 8% or more
- ◆ **How** – Leverage use of tax-exempt bonding capacity to secure long-term supply

## Background

- ◆ Codified in the U.S. tax law
- ◆ Used since the 1990s largely for natural gas transactions
- ◆ Over 100 transactions totaling over \$70 billion completed in the U.S. – mostly for gas
- ◆ Ten energy prepayment transactions totaling \$9.8 billion completed last few years for six California Community Choice Aggregators:
  - East Bay Community Energy
  - Silicon Valley Clean Energy
  - Marin Clean Energy
  - Pioneer Community Energy
  - Clean Power Alliance
  - Central Coast Community Energy



## Prepayments That Have Been Completed by Public Utilities in California

Date	Amt. (\$000)	Issuer	Description	Beneficiary
06/2006	230,845	Vernon Nat. Gas Fin Auth	Nat Gas	City of Vernon Elec
01/2007	209,350	Roseville Natural Gas Fin Auth	Nat. Gas	City of Roseville Elec
05/2007	757,055	Northern Ca Gas Auth No. 1	Nat. Gas	SMUD
09/2007	887,360	Long Beach Bond Fin Auth	Nat. Gas	City of Long Beach
10/2007	504,445	So. Ca. Pub. Power Auth	Nat. Gas	Multiple MOUs
10/2007	251,695	Long Beach Bond Fin. Auth	Nat. Gas	City of Long Beach
08/2009	901,620	M-S-R Energy Authority	Nat. Gas	MID/Redding/SVP
10/2009	514,160	So. Ca Pub Power Auth (Windy Flats)	Elec (Wind)	LADWP, Mult. MOUs
04/2010	778,665	Cal. Statewide Comm Dev Auth	Nat. Gas	SMUD
2010/11	394,700	So. Ca Pub Power Auth (Milford 1 & 2)	Elec (Wind)	LADWP, Mult. MOUs
12/2018	539,615	Northern Ca Energy Auth	Gas/Elec	SMUD
Total	<b>\$5,969,510</b>			



## Prepayments That Have Been Completed by CCAs in California

Date	Amt. (\$000)	Issuer	Description	Beneficiary
09/2021	1,234,720	California Community Choice Fin Auth	Elec (Green)	SVCE, EBCE
11/2021	602,655	California Community Choice Fin Auth	Elec (Green)	MCE
06/2022	931,120	California Community Choice Fin Auth	Elec (Green)	EBCE
12/2022	459,640	California Community Choice Fin Auth	Elec (Green)	Pioneer
01/2023	841,550	California Community Choice Fin Auth	Elec (Green)	SVCE
02/2023	998,780	California Community Choice Fin Auth	Elec (Green)	CPA
06/2023	958,290	California Community Choice Fin Auth	Elec (Green)	CPA
08/2023	997,895	California Community Choice Fin Auth	Elec (Green)	EBCE
10/2023	647,750	California Community Choice Fin Auth	Elec (Green)	CCCE
12/2023	1,038,285	California Community Choice Fin Auth	Elec (Green)	MCE
01/2024	1,101,625	California Community Choice Fin Auth	Elec (Green)	SVCE
Total	<b>\$9,812,310</b>			



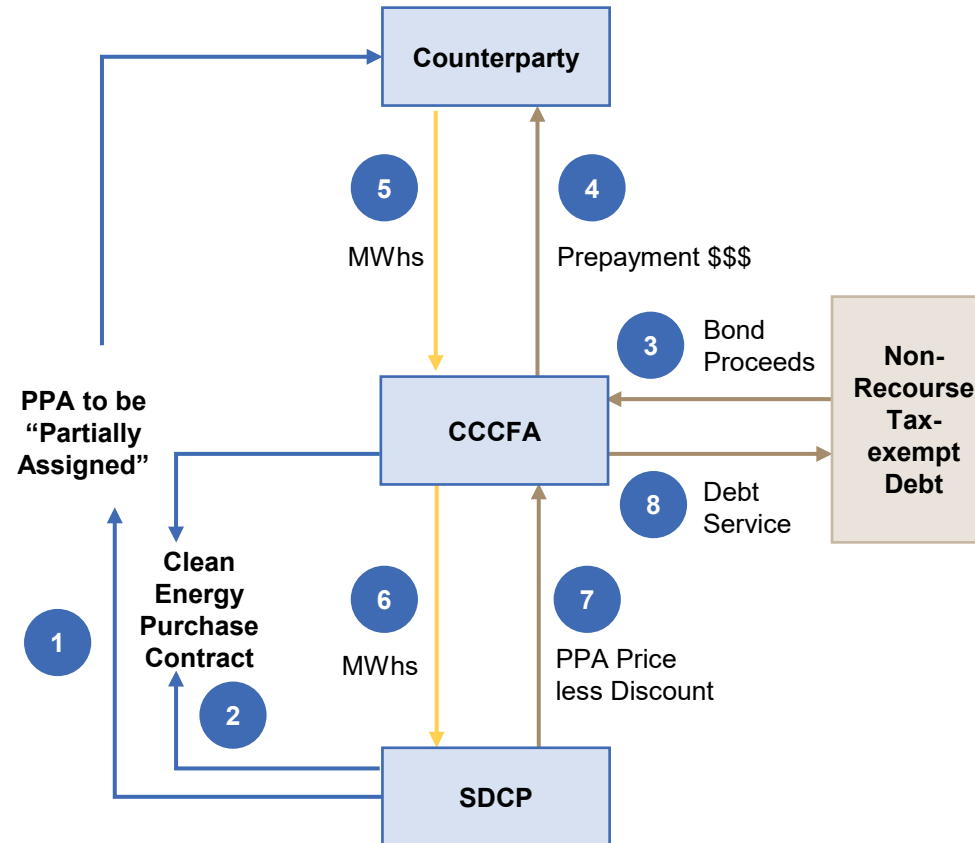
## Entities Involved in an Energy Prepayment Transaction

- ◆ **SDCP** – Has existing Power Purchase Agreement(s) for clean energy
- ◆ **Prepay Counterparty** – Typically a financial institution with a commodity presence or a financial institution partnered with a commodity market participant
- ◆ **Issuer** – Bond issuing entity formed for sole purpose of selling the prepayment bonds, typically a Joint Powers Authority (“JPA”). All other CCAs have used California Community Choice Financing Authority (CCCFA)
- ◆ **Existing Power Supply Counterparty** – Agrees to limited assignment of the existing PPA
- ◆ **Bond Investors** – Purchase the non-recourse tax-exempt prepayment bonds



## Summary of Energy Prepayment Structure Mechanics

- 1) SDCP limited assigns PPA to Counterparty
- 2) SDCP and CCCFA execute a Clean Energy Purchase Contract
- 3) CCCFA issues non-recourse tax-exempt bonds
- 4) CCCFA makes a prepayment to the Counterparty for power supply
- 5) The Counterparty delivers power to CCCFA via a Master Power Supply Agreement
- 6) CCCFA delivers power to SDCP
- 7) SDCP makes payments to CCCFA net of savings
- 8) CCCFA makes debt payments with payments from SDCP





## How are the Savings Generated?

- ◆ The Counterparty values prepayment as an alternate source of capital funding at its higher cost of capital ~ 5%
- ◆ PPA fixed price cash flows of ~\$45MM annually over the life of the deal are discounted at that 5% rate to establish the upfront prepayment amount
- ◆ CCCFA issues tax-exempt bonds to pay the upfront prepayment at a lower interest cost ~ 4.25% versus the counterparty's funding rate of ~5%
- ◆ CCCFA bond payments ~\$40MM annually are lower than the existing ~\$45MM PPA payments
- ◆ ~\$5MM in cashflow savings are generated
- ◆ Savings are quoted net of all upfront and annual transaction expenses

*Numbers are for illustration purposes only.*



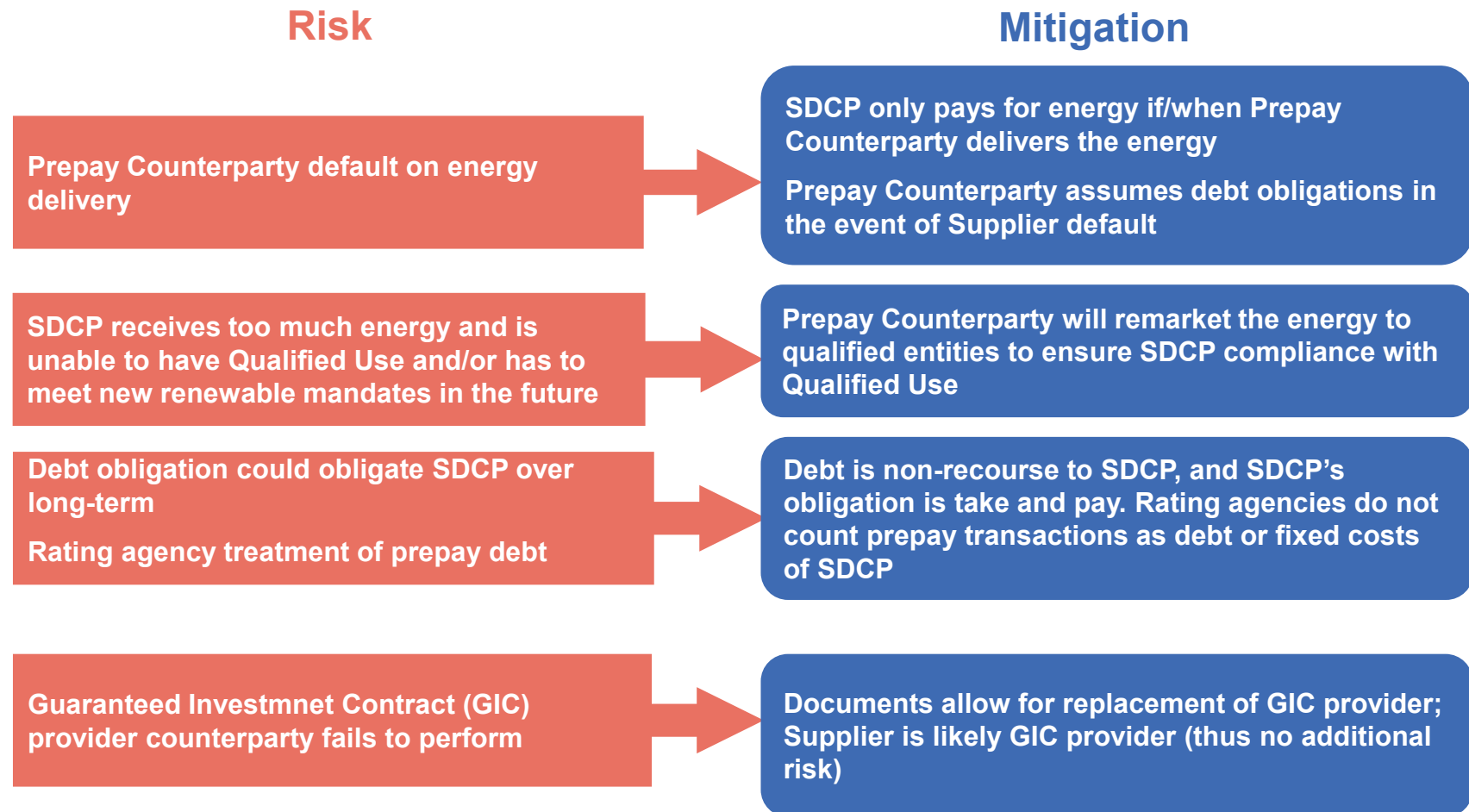
## How Does Limited Assignment of a Power Purchase Agreement Work?

- ◆ SDCP will limited assign certain rights and obligations, including the title and ownership of the energy, under the existing PPA to its Prepay Counterparty
- ◆ Rights not assigned remain with SDCP. No other changes are made to the existing PPA
- ◆ Existing PPA Counterparty would then deliver energy to the Prepay Counterparty who has assumed responsibilities as energy purchaser under the PPA
- ◆ Prepay Counterparty will then sell that energy to CCCFA. CCCFA has a separate agreement with SDCP to sell that energy to SDCP – **at an 8% discount or higher**
- ◆ SDCP will need to negotiate the limited assignment with its Existing PPA Counterparty
  - This will take place via a Limited Assignment Agreement




## Favorable Risk Allocation – “Take-and-Pay” Structure

**Key Risk** – Transaction terminates and SDCP no longer receives expected savings





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# **Public Comment for Item 4**

# Item 4

## **Recommendation:**

Receive and File Presentation on Clean Energy  
Prepayment Financing.

# Item 5

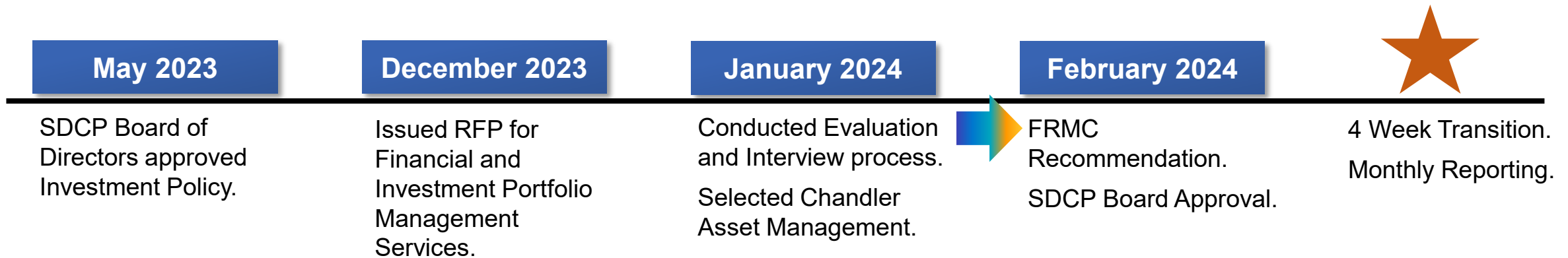
**Approve Professional Services Agreement with Chandler Asset Management, Inc. for up to \$250,000 for Financial and Investment Portfolio Management Services through February 2025**

## **Recommendation:**

Recommend Board Approval of Professional Services Agreement with Chandler Asset Management, Inc. for up to \$250,000 for Financial and Investment Portfolio Management Services through February 2025.

# Finance and Investment Management RFP


The schedule for competitive selection process:



# Finance and Investment Management RFP

## 4 Week Transition Timeline:

Week 1	Week 2	Week 3	Week 4
<ul style="list-style-type: none"><li>• Execute agreement</li><li>• Complete account opening documents</li><li>• Establish or review custodial relationship</li><li>• Determine sources of funding</li></ul>	<ul style="list-style-type: none"><li>• Review investment policy</li><li>• Establish objectives</li><li>• Assess risk parameters</li><li>• Create customized investment strategy</li></ul>	<ul style="list-style-type: none"><li>• Develop funding strategy</li><li>• Connect to custodial account</li><li>• Set up reporting and prepare account statements</li><li>• Establish trading rules with Chandler Compliance Team</li></ul>	<ul style="list-style-type: none"><li>• Execute funding strategy for initial purchases</li><li>• Implement active management</li><li>• Inform FRMC on progress</li></ul>

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# **Public Comment for Item 5**

# Item 5

## **Recommendation:**

Recommend Board Approval of Professional Services Agreement with Chandler Asset Management, Inc. for up to \$250,000 for Financial and Investment Portfolio Management Services through February 2025.

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# **Committee Member Announcements**



**Adjournment**

*Next Regular*  
**Finance & Risk  
Management  
Committee  
Meeting**

**March 21, 2024**

