

Finance & Risk Management Committee Meeting

May 18, 2023















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Items to be Added, Withdrawn or Reordered on the Agenda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 April 13, 2023 Meeting Minutes
- 2. Treasurer's Report for Period Ending 3/31/23
- 3. Recommend Board Approval of the SDCP Investment Policy
- 4. Presentation and Discussion of the FY 2023-24 Operating Budget

Committee Member Announcements

Adjournment

Approval of April 13, 2023 Meeting Minutes

Recommendation: Approve April 13, 2023 Meeting Minutes

<u>Presenter:</u>
Kimberly Isley
Clerk of the Board





Treasurer's Report for Period Ending 02/28/23

Recommendation: Receive and File Treasurer's Report for Period Ending 02/28/23

Presenter:

Dr. Eric Washington, Chief Financial Officer



YTD FY23 Budget v. Actual

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

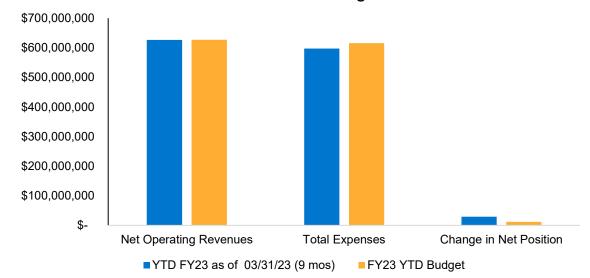
- Net operating revenues < 1.0 percentage points under budget.
- Operating expenses came in 3.0 percentage points under budget

Financial results for the YTD FY23:

- \$626.58M in net operating revenues
- \$597.38M in total expenses (includes energy costs of \$578.67M or 92% of net revenues)
- \$29.2M change in YTD net position

Budget Comparison									
YTD FY23 as of FY23 YTD Budget							Dudget (9/)		
	03/3	03/31/23 (9 mos)		Budget		/ariance (\$)	Budget (%)		
Net Operating Revenues	\$	626,575,487	\$	626,873,096	\$	(297,609)	100%		
Total Expenses	\$	597,380,308	\$	615,328,166	\$	(17,947,858)	97%		
Change in Net Position	\$	29,195,179	\$	11,544,930	\$	17,650,249	153%		

YTD FY23 Results v. Budget



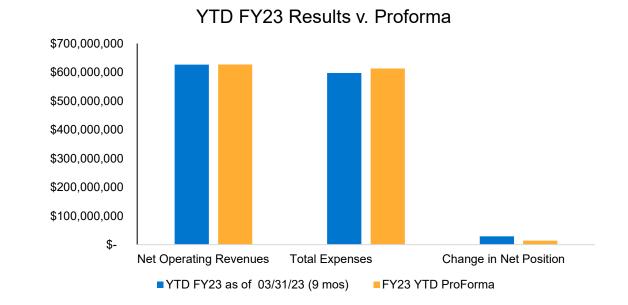


YTD FY23 Proforma v. Actual

Year-to-date financial results compared to projections:

- Net operating revenues were < 1% lower than proforma projections
- Total expenses were 3% under the proforma projections
- Change in net position was \$15.3M over the projected

Proforma Comparison									
	YTD FY23 as of FY23 YTD ProForma								
	03/31/23 (9 mos)			ProForma		/ariance (\$)	(%)		
Net Operating Revenues	\$	626,575,487	\$	626,873,096	\$	(297,609)	0%		
Total Expenses	\$	597,380,308	\$	612,975,166	\$	(15,594,858)	-3%		
Change in Net Position	\$	29,195,179	\$	13,897,930	\$	15,297,249	110%		



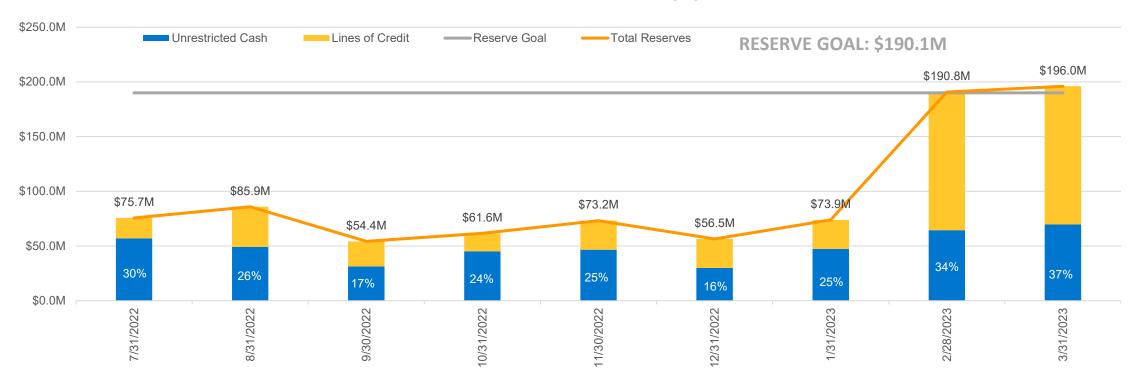




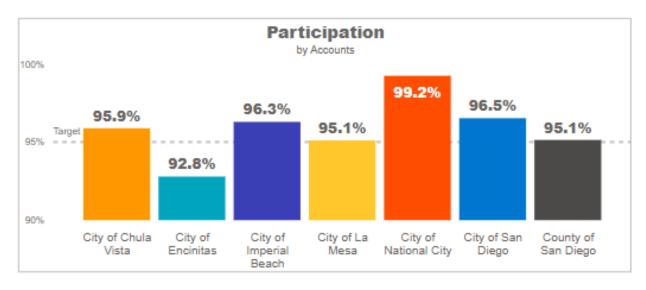


\$190M Reserve Target FY23

Year-to-Date Reserves FY 2023







Jurisdiction	Active	Eligible	Opt Outs	Participation
City of Chula Vista	92,845	96,605	3,983	95.9%
City of Encinitas	26,444	28,370	2,046	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	21,405	96.5%
County of San Diego	0	144,027	7,013	95.1%
Total	753,103	943,250	36,425	95.8%





Recommendation: Receive and File Treasurer's Report for Period Ending 03/31/23



Approval of SDCP Investment Policy

Recommendation: Recommend board approval of the SDCP Investment Policy.



Development of Investment Policy

Investment Policy

Peer CCAs

Member Agencies

Financial Best Practices



Investment Objectives

Investment Types

Prohibited Investments

Controls

Reporting



Investment Objectives (Safety, Liquidity, Return, Standard of Care)





Acceptable Investment Types

All Authorized investment types for SDCP are pursuant to California Government Code 53601.

- **Deposits at Banks**
- Local Agency Investment Fund (LAIF)
- **US Treasury Obligations**
- Federal Agency Securities
- **Bankers' Acceptances**
- Negotiable Certificates of Deposit
- Placement Service Deposits
- Money Market Funds
- Commercial Paper





Acceptable Investment Types

All Authorized investment types for SDCP are pursuant to California Government Code 53601.

Acceptable Investment Types	Maximum	Maximum Maturity		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating	
,	Gov. Code	SDCP Policy	Gov. Code	SDCP Policy	Gov. Code	SDCP Policy	Gov. Code	SDCP Policy	
Bankers' Acceptances	180 Days	180 Days	40%	40%	30%	5%	None	A-1	
Local Agency Investment Fund	N/A	N/A	None	None	None	None	None	None	
US Treasury Obligations	5 Years	5 Years	None	None	None	None	None	None	
Federal Agency Securities	30 Years	30 Years	25%	25%	None	None	None	None	
Deposits at Banks	2 Years	2 Years	10%	10%	None	None	Α	Α	
Negotiable Certificate of Deposit	2 Years	2 Years	10%	10%	None	None	None	None	
Placement Service Deposits	2 Years	2 Years	10%	10%	None	None	Α	Α	
Money Market Funds	N/A	N/A	20%	20%	10%	10%	AAAm	AAAm	
Commercial Paper	270 Days	270 Days	40%	40%	10%	10%	A-1	A-1	



Prohibited Investment Types

Pursuant to Section 53601.6, SDCP shall not invest Funds in any security that could result in a zero-interest accrual, or less, if held to maturity. These prohibited investments include, but are not limited to:

- **X** Inverse Floaters
- **X** Range Notes
- **X** Mortgage-derived Interest-only Strips

In addition SDCP will prohibit the following investment types:

- **X** Foreign Currency
- **X** Crypto Asset Securities
- X Trading securities for the sole purpose of speculating on the future direction of

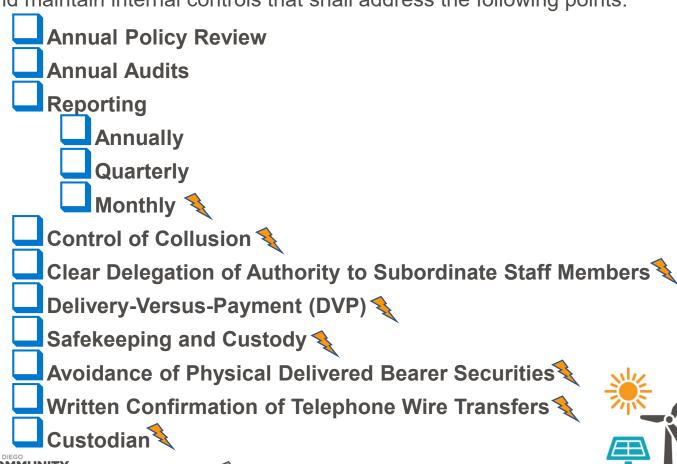
interest rates.

X Purchasing or selling securities on margin.



Internal Controls and Reporting

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. Accordingly, the Treasurer shall establish and maintain internal controls that shall address the following points:



The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that:

- The cost of a control should not exceed the benefits likely to be derived; and
- 2. The valuation of costs and benefits requires estimates and judgments by management.











Recommendation: Recommend board approval of the SDCP Investment Policy.



Presentation and Discussion of the FY 2023-24 Operating Budget

Recommendation: Receive staff presentation and preliminary draft of the FY 2023-24 Operating Budget



Budget Principles for FY 2023-24



- Maintain a fiscally responsible and sustainable budget.
- Ensure sufficient funding to continue to grow and deliver the level of service needed for the public.
- Build SDCP reserves and develop policies that consider future economic conditions.
- Provide an easier to understand and userfriendly operating budget for both internal and external users.
- Engage the SDCP Board, constituent groups, and the public in the budget process and inform them about sustainable energy needs.
- Keep the SDCP Board of Directors and Executive Team informed on the fiscal condition of SDCP.
- Develop a budget that will ultimately prioritize people, transparency, and our communities.

Budget - Highlights

- First full fiscal year of **full enrollment** from Phase 1, 2, 3 and 4.
- Thoughtfully scale the agency by adding 23 staff to grow to 59 total staff.
- Continued outreach through community events, sponsorships and advertising to inform customers about SDCP.
- Addition of Capital Investment Plan
 (CIP) to shift programs and projects over
 multi-year periods.



SAN DIEGO COMMUNITY POWER

Operating Budget

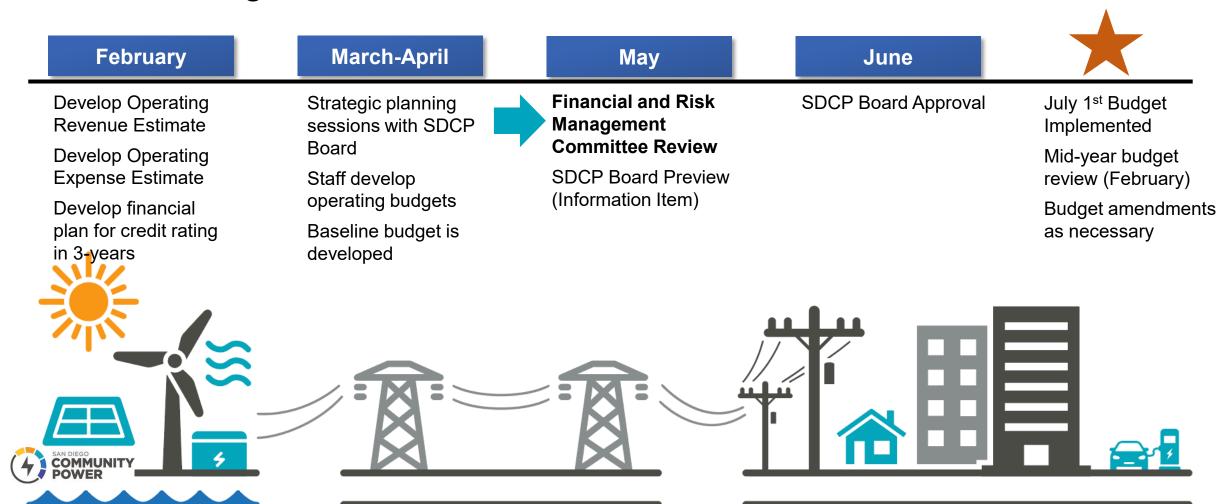
Fiscal Year 2023-24

Proposed Draft June 22, 2023



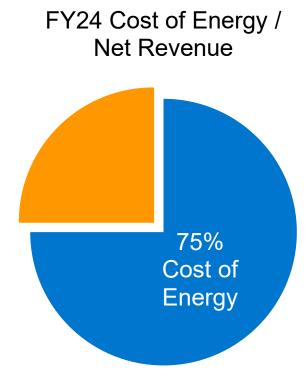
Budget Development for FY 2023-24

The Board adopted schedule for budget development is the following.



Budget – Summary

ltem	FY 23 Amended	FY 24 Proposed
	Budget, \$M	Budget, \$M
Gross Revenue	939.2	1,346.3
Less Uncollectible Accounts	(9.4)	(53.9)
Net Revenue	929.8	1,292.4
Cost of Energy	738.8	971.6
Non-Energy Costs	32.0	47.1
Subtotal Operating Expense	770.8	1,018.7
Debt Service	1.3	2.4
Capital Investment Program	0.0	4.2
Total Expense	772.1	1,025.3
Net Position	157.7	267.1
Cumulative Net Position	200.2	467.3
Days Cash on Hand	94.8	167.4





FY 2024-28 Capital Investment Plan (CIP)



Planning Document

Community Power Plan

Short-Term Program Types Leverage Funds

Helps Community Anticipate Needs

Distributed Resource Planning



FY 2024-28 Capital Investment Plan (CIP)

A M

	Budget		D = 1			5-Year CIP
Program, \$000	FY24	FY25	FY26	FY27	FY28	Total (Proposed)
CPUC Green Tariffs	335.23	FY 2024-28	CIP: 2.50			1,062.50
Member Agency Grants	380.00	First year is	appropr	iated in the	budget pro	ocesś,900.00
Building Electrification Education	0.01	0.01	0.01	0.01	0.01	0.05
Customer Education	350.00	Years two the appropriate		are pianne	a and not	1,750.00
Building and Housing Stock	250.00		250.00			1,250.00
Community Grants	500.00		Program	s are consid	ered multi-	year _{2,500.00}
PUC Energy Efficiency Program	250.00	efforts				1,250.00
Customer Program Pilots	2,000.00	Funds appro	priated in	the budget	will be in a	continuing
Local Dev. Feasibility Studies	100.00	fund to be a				
Total	4,175.2			4,042.5	4,042.5	20,122.55



Budget – Reserves

ltem		FY 24 Proposed Budget, \$M	FY 23 Amended, \$M
Gross Revenue	е	1,346.3	939.2
Net Revenue		1,292.4	929.8
Subtotal Opera	ating Expense	1,018.7	770.8
Total Expense)	1,025.3	772.1
Net Position		267.1	157.7
Days Cash on	Hand	167.4	
revenue and Operating/Wo equivalent to expenses hel	llocate up to 15% of gross hually toward building an orking Capital Reserve o 90 days of total operating ld as unrestricted cash.	Total \$467.3 m (212.7 days cash on hand w/ LOC FY 24 \$267.1 m FY23 \$157.7 m	Goal (90-Days)
SAN DIEGO COMMUNITY POWER	FY24 Reserves Year-end	\$56.6 m	\$201.9 m

FY 21/22 **(\$14.1 m)**

Proposed FY 2023-24 Budget

Budget Changes by Category



Revenue

Phase 1-4 enrollment for entire FY24 included, Board approved rate change on 1/23/23.

FY24 \$1,292.4m

FY23 \$929.8m



Cost of Energy

Increased energy load with full Phase 1-4 enrollment. All forward energy prices updated.

FY24 \$971.6m

FY23 \$738.8m



Professional Services

Calpine and SDG&E fees higher with increased enrollment.

FY24 \$22.9m

FY23 \$17.3m



Personnel

Recruitment strategy of 23 new staff growing the agency to 59 total staff.

FY24 \$13.4m

FY23 \$7.4m



Marketing and Outreach

Reduction primarily due to lower printing costs related to mandatory enrollment mailers.

FY24 \$3.0m

FY23 \$4.2m

FY23



General and Administrative Increased G&A budget to support operating and staff growth anticipated for

FY23 \$1.9m



Programs

Programs budgeted included in CIP as continuing projects. Overall admin in operating.

FY24 \$0.3m

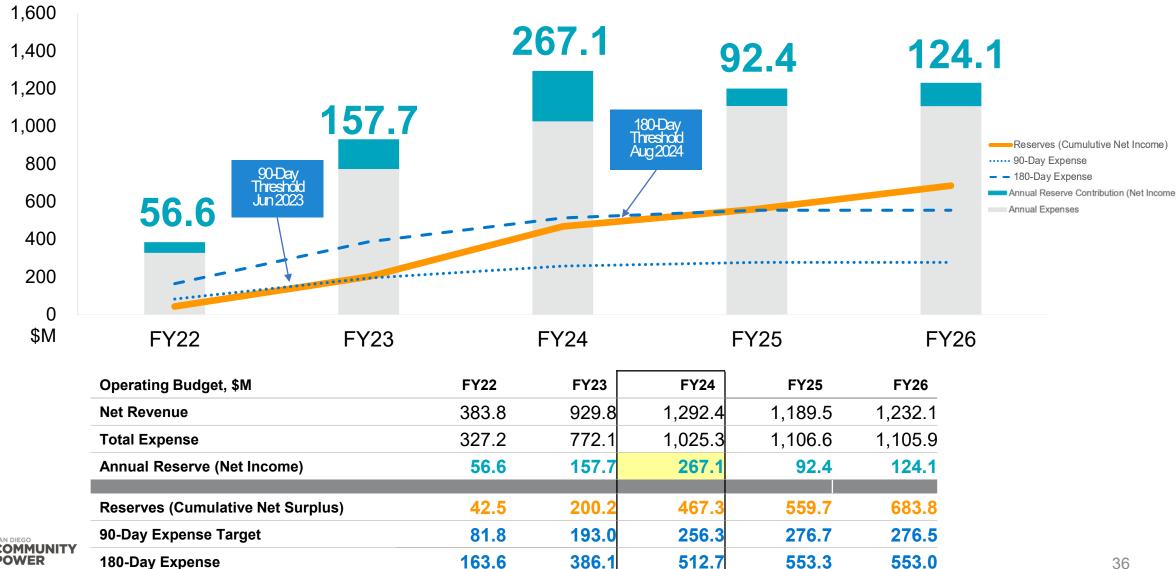
FY24

\$7.5m

\$1.3m



Updated ProForma Projections





Budget Context – Reserve Comparison

Reserves help with:

Contingencies

- Power supply shocks
- Maintain rate competition
- economic downturns

Cash Availability

Used to bridge temporary low levels of cash

Interest

Avoids interest expense with borrowing debt

Credit Rating

- Favorable terms with vendors
- Helps with issuing debt (bonds, commercial paper...)



CCCE S&P ('A' Issuer Credit

Rating)

MBCP minimum target is 30% of total, with a goal of 50% of total operating budget expenditures. The max reserve is 75% of total op. budget expenditures.

180 days Of Operating

\$209.1m Based on FY23 Operating Expense

CPA

Non-Investment Grade Credit Rating

CPA minimum reserve target equal to 30%, with a maximum reserve target of 50% of total op. budget expenditures. Reserves shall not exceed 60%.

180 days

Of Operating Expense

Expense

\$457.8m

Based on FY23 Operating Expense

MCE

Fitch (BBB+/Stable)

MCE's goal of securing 240 days liquidity on hand (includes lines of credit).

240 days

Of Operating Expense \$463.0m

Based on FY24 Operating Expense

PCE

Fitch (BBB+/Stable)

PCE's goal of securing one hundred eighty (180) days of total operating expenses.

180 days

Of Operating Expense \$150.6m

Based on FY24 Operating Expense

SDCP

Non-Investment Grade Credit Rating

SDCP will allocate up to 15% of gross revenue annually toward building an Operating/Working Capital Reserve equivalent to 90 days of total operating expenses.

90 days

Of Operating Expense **\$256.3m**

Based on FY24 Proposed Expense

Budget – Personnel

	SDCP (Existing/	Marin Clean	Clean Power		Peninsula	Central Coast
Department	Proposed)	Energy	Alliance	Energy	Clean Energy	Com. Energy
Existing SDCP Staff	36	-	-	-	-	-
Data Analytics and Account Services	6	16	12	11	8	7
Executive Team	-	5	6	2	3	8
Finance	3	4	9	3	2	3
Human Resources	1	5	3	3	6	6
Operations	1	6	1	4	7	3
Power Services	4	7	15	8	7	4
Programs	1	16	4	7	8	2
Regulatory and Legislative	3	10	11	8	8	2
Public Affairs	4	16	5	8	3	7
Total	59	85	66	54	41	35



Budget – CCA Comparison

Community Choice Aggregator	Years Est. (JPA eff. Date)	Customer Accounts*	Cost of Energy, \$M**	Non-Energy Costs, \$M	Net Ratepayer Revenue, \$M	Energy Costs/Net Revenue (%)
Clean Power Alliance	Jun 2017	1,005,000	1,238.00	55.56	1,498.00	83%
San Diego Community Power	Oct 2019	897,445	971.61	54.06	1,292.47	75%
East Bay Community Energy	Dec 2016	635,000	523.99	38.67	769.94	68%
Marin Clean Energy	Dec 2008	580,000	495.31	36.51	628.69	79%
Central Coast Community Energy	Mar 2018	430,000	377.92	40.23	429.00	88%
Peninsula Clean Energy	Feb 2016	310,919	264.21	30.22	367.78	72%

^{*}Customer accounts citations: CPA: May 2023 Board Meeting Agenda, EBCE: Press Release 11/17/22, MCE: Website "FAQ" What is MCE?, 3CE: Website "About 3CE", PCE: Board Meeting April 2023.



^{**}Cost of energy, non-energy costs and ratepayer revenue are from FY23 adopted budgets. CPA from 4/26/23 Finance Committee FY24 draft budget. SDCP from proposed FY24 budget.

^{***}SDCP includes CIP and debt service costs whereas most other CCAs do have minimal or zero debt service costs.



Recommendation: Receive staff presentation and preliminary draft of the FY 2023-24 Operating Budget









Next Regular Finance & Risk Management Committee Meeting

June 8, 2023

