



Finance & Risk Management Committee Meeting

March 16, 2023






**Welcome
&
Call to
Order**

The background of the image is a close-up photograph of numerous small, vibrant purple flowers, likely from a lupine plant, with green stems and leaves. A large, white, diagonal triangular shape is superimposed over the center of the image, pointing towards the bottom-left corner. The text "Roll Call" is written in a bold, blue, sans-serif font within the white area.

Roll Call



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Withdrawn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

The background of the slide features a close-up photograph of numerous small, vibrant purple flowers, likely lupines, with green stems and leaves. A large, white, diagonal triangular shape is superimposed over the left and center portions of the image, creating a modern, geometric design.

Public Comment for Items NOT on the Agenda

Regular Meeting Agenda

Welcome

Roll Call

Public Comment for items Not on the Agenda

Items to be Added, Withdrawn or Reordered on
the Agenda

REGULAR AGENDA

1. Approval of February 9, 2023 Meeting Minutes
2. Treasurer's Report for Period Ending 1/31/23
3. Presentation of the Proposed Framework of the SDCP
Investment Policy
4. Presentation of the Proposed Framework of the SDCP Debt
Policy

Committee Member Announcements

Adjournment

Item 1

Approval of February 9, 2023 Meeting Minutes

Recommendation: Approve February 9, 2023 Meeting Minutes

Presenter:
Kimberly Isley
Clerk of the Board

Item 2

Treasurer's Report for Period Ending 01/31/23

Recommendation: Receive and File Treasurer's Report for Period Ending 01/31/23

Presenter:

Dr. Eric Washington,
Chief Financial Officer

Item 2: Treasurer's Report

YTD FY23 Budget v. Actual

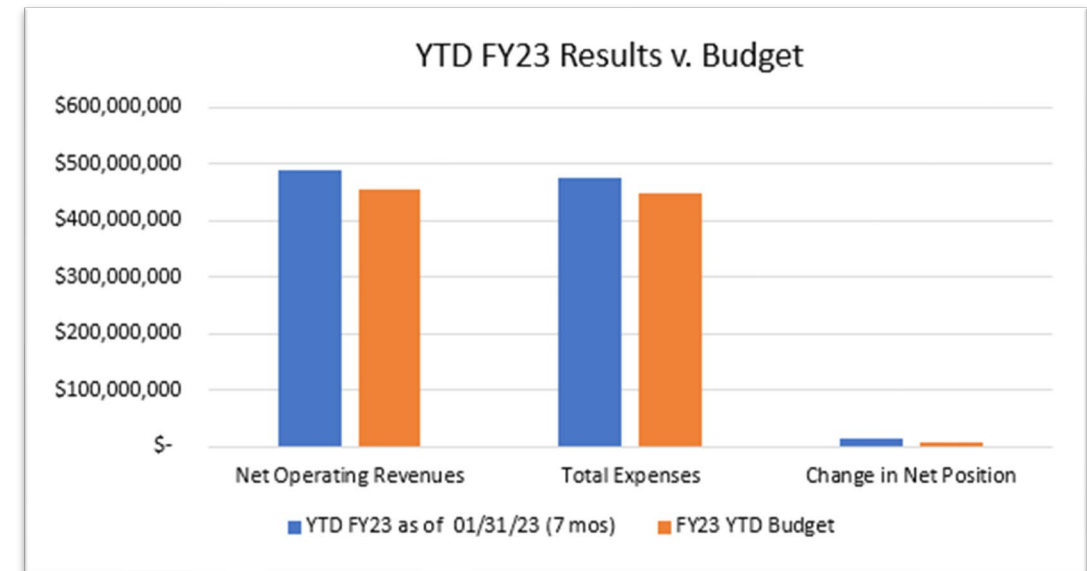
Results for the period performed well overall compared to the adopted budget:

- Net operating revenues 7.0 percentage points over budget.
- Operating expenses came in 6.0 percentage points over budget

Financial results for the YTD FY23:

- \$491.13M in net operating revenues
- \$476.02M in total expenses (includes energy costs of \$461.97M or 94% of net revenues)
- \$15.12M change in YTD net position

Budget Comparison				
	YTD FY23 as of 01/31/23 (7 mos)	FY23 YTD Budget	Budget Variance (\$)	Budget (%)
Net Operating Revenues	\$ 491,133,709	\$ 456,974,905	\$ 34,158,804	107
Total Expenses	\$ 476,018,090	\$ 448,829,094	\$ 27,188,996	106
Change in Net Position	\$ 15,115,619	\$ 8,145,811	\$ 6,969,808	



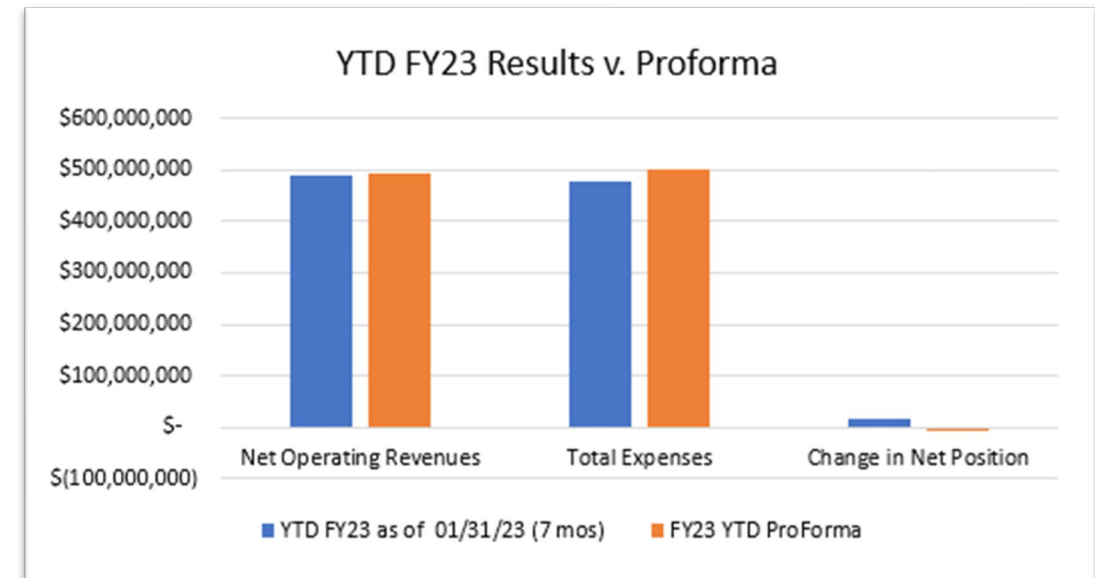
Item 2: Treasurer's Report

YTD FY23 Proforma v. Actual

Year-to-date financial results compared to projections:

- Net operating revenues were in line with the proforma projections
- Total expenses were 4.82% under the proforma projections
- Change in net position was \$23.02M over the projected

Proforma Comparison				
	YTD FY23 as of 01/31/23 (7 mos)	FY23 YTD ProForma	ProForma Variance (\$)	Proforma (%)
Net Operating Revenues	\$ 491,133,709	\$ 492,211,784	\$ (1,078,075)	-0.22%
Total Expenses	\$ 476,018,090	\$ 500,116,145	\$ (24,098,055)	-4.82%
Change in Net Position	\$ 15,115,619	\$ (7,904,361)	\$ 23,019,980	-291.23%

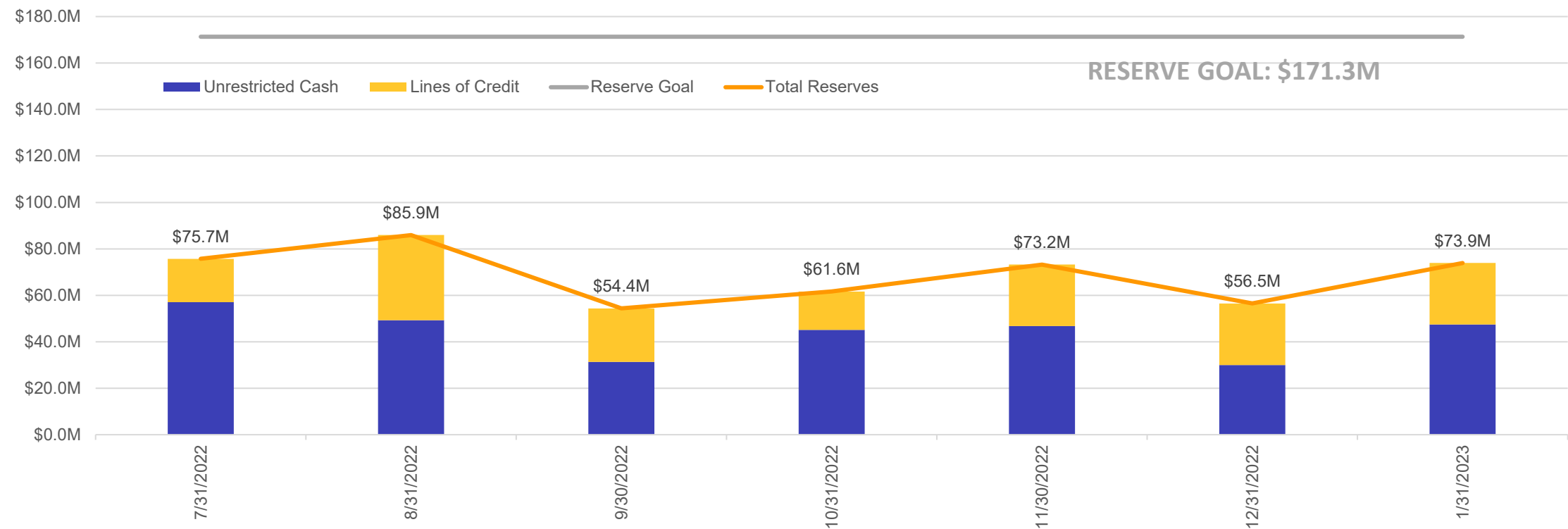


Item 2: Treasurer's Report



Item 2: Treasurer's Report

Year-to-Date Reserves FY 2023



Item 2

Recommendation: Receive and File Treasurer's Report for Period Ending 1/31/23

Item 3

Presentation of the Proposed Framework of the SDCP Investment Policy

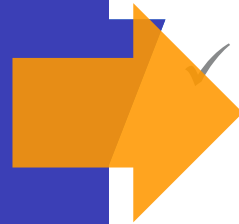
Recommendation: Receive and file presentation on the proposed framework of the SDCP Investment Policy.

Financial Stability

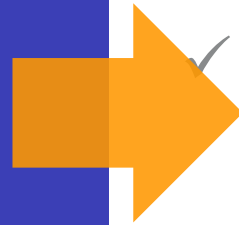
*Practice fiscal strategies to
promote long-term organizational
sustainability*



GOALS



✓ Adopt financial controls and policies to meet or exceed best practices and manage risk.

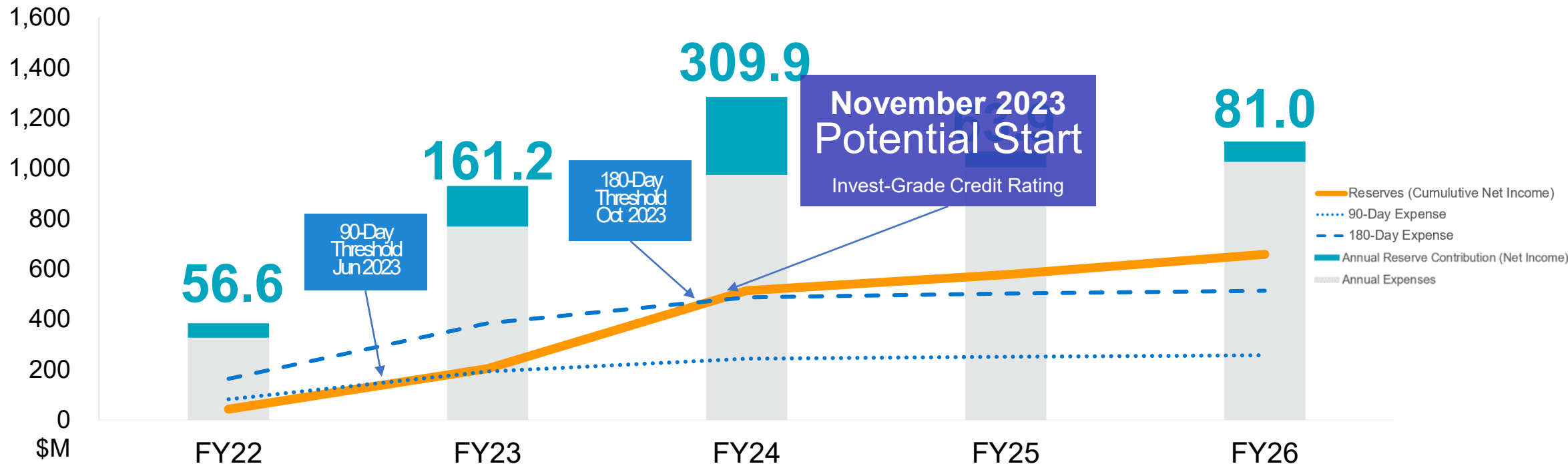


✓ Obtain an investment grade credit rating by Nov 2025.

✓ Adopt plan to increase reserves to \$175M by 10/2023 (90 DCOH) and \$360M by 10/2025 (180 DCOH).

✓ Develop Rate Stabilization Reserve of \$70M to mitigate power cost fluctuations and economic downturns.

January 2023 – Rate Setting

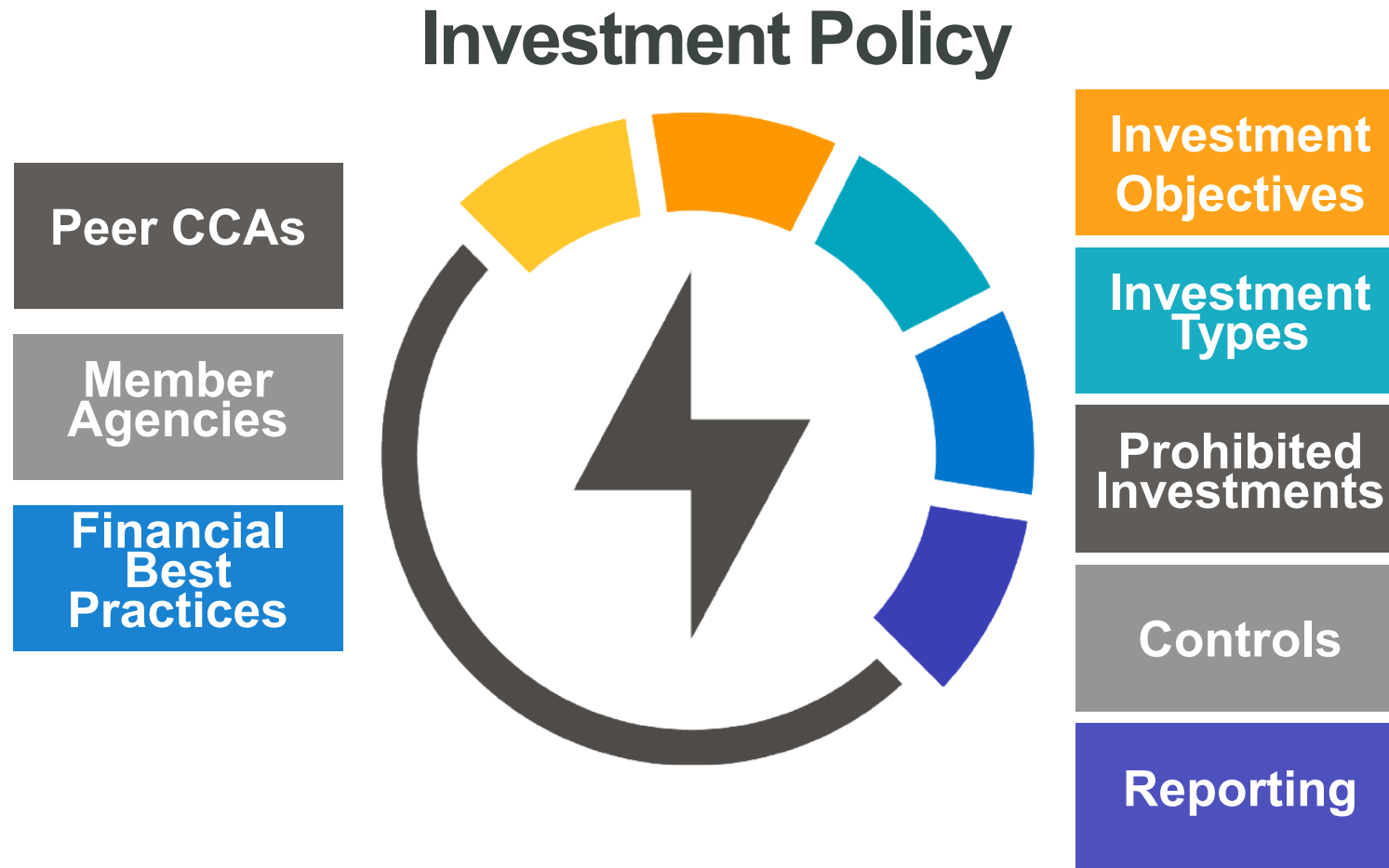


Operating Budget, \$M	FY22	FY23	FY24	FY25	FY26
Net Revenue	383.8	929.8	1,284.0	1,067.9	1,077.0
Total Expense	327.2	768.6	974.1	1,040.9	1,009.0
Annual Reserve (Net Income)	56.6	161.2	309.9	63.9	81.0
Reserves (Cumulative Net Surplus)	42.5	203.7	513.6	577.5	658.6
90-Day Expense Target	81.8	192.2	243.5	251.0	256.5
180-Day Expense	163.6	384.3	487.1	502.0	513.0

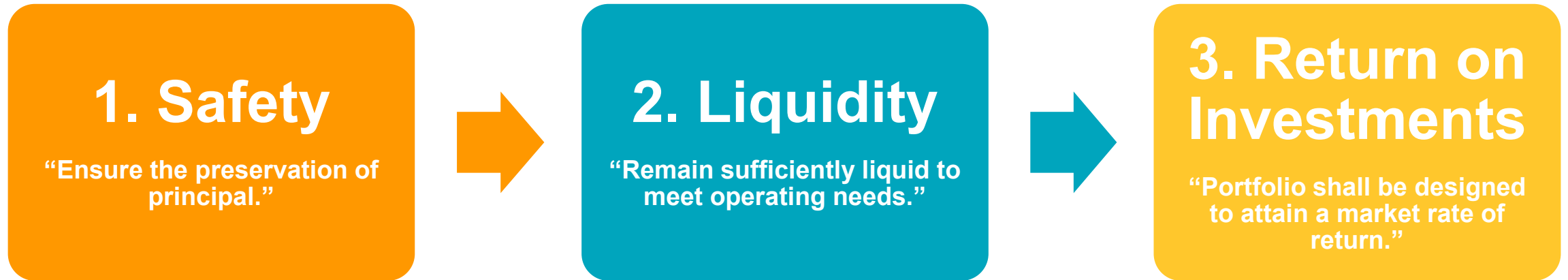
Projections
\$514M to \$660M

Cash Reserves

Development of Investment Policy



Investment Objectives (Safety, Liquidity, Return)



SDCP will manage investments accordance with "Prudent Investor Standard" pursuant to California Government Code 53600.3

Acceptable Investment Types

- ✓ **Deposits at Banks:** Non-interest-bearing and Interest-bearing depository accounts or FDIC insured certificates of deposit with maturities not to exceed 5 years. As per Section 53652, banks must collateralize the deposits of public agencies in amount equal to no less than 110% of as currently stated in the value of the deposits.
- ✓ **Local Agency Investment Fund (LAIF) :** This program offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office investment staff at no additional cost to the taxpayer.
- ✓ **US Treasury Obligations:** Debt obligations issued by the United States Government and secured by the full faith and credit (the power to tax and borrow) of the United State.
- ✓ **Federal Agency Securities:** A low-risk debt obligation that is issued by a U.S. government-sponsored enterprise (GSE) or other federally related entity.
- ✓ **Bankers' Acceptances:** A short-term issuance by a bank that guarantees payment at a later time.
- ✓ **Negotiable Certificates of Deposit:** CDs with a min. face value of \$100K, which can be bought or sold.
- ✓ **Placement Service Deposits:** Funds may be invested in deposits placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States (Section 53601.8).
- ✓ **Money Market Funds:** A type of mutual fund that invests in high-quality, short-term debt instruments, cash, and cash equivalents.
- ✓ **Commercial Paper:** An unsecured, short-term debt instrument issued by corporations.

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**
 - X Foreign Currency Denominated 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:

- ☐ **Control of Collusion**
- ☐ **Clear Delegation of Authority to Subordinate Staff Members**
- ☐ **Delivery-Versus-Payment (DVP)**
- ☐ **Safekeeping and Custody**
- ☐ **Avoidance of Physical Delivered Bearer Securities**
- ☐ **Written Confirmation of Telephone Wire Transfers**
- ☐ **Audits**
- ☐ **Custodian**
- ☐ **Annual Policy Review**
- ☐ **Reporting**
 - ☐ **Monthly**
 - ☐ **Annually**

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

1. 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.



Item 3

Recommendation: Receive and file presentation on the proposed framework of the SDCP Investment Policy.

Item 4

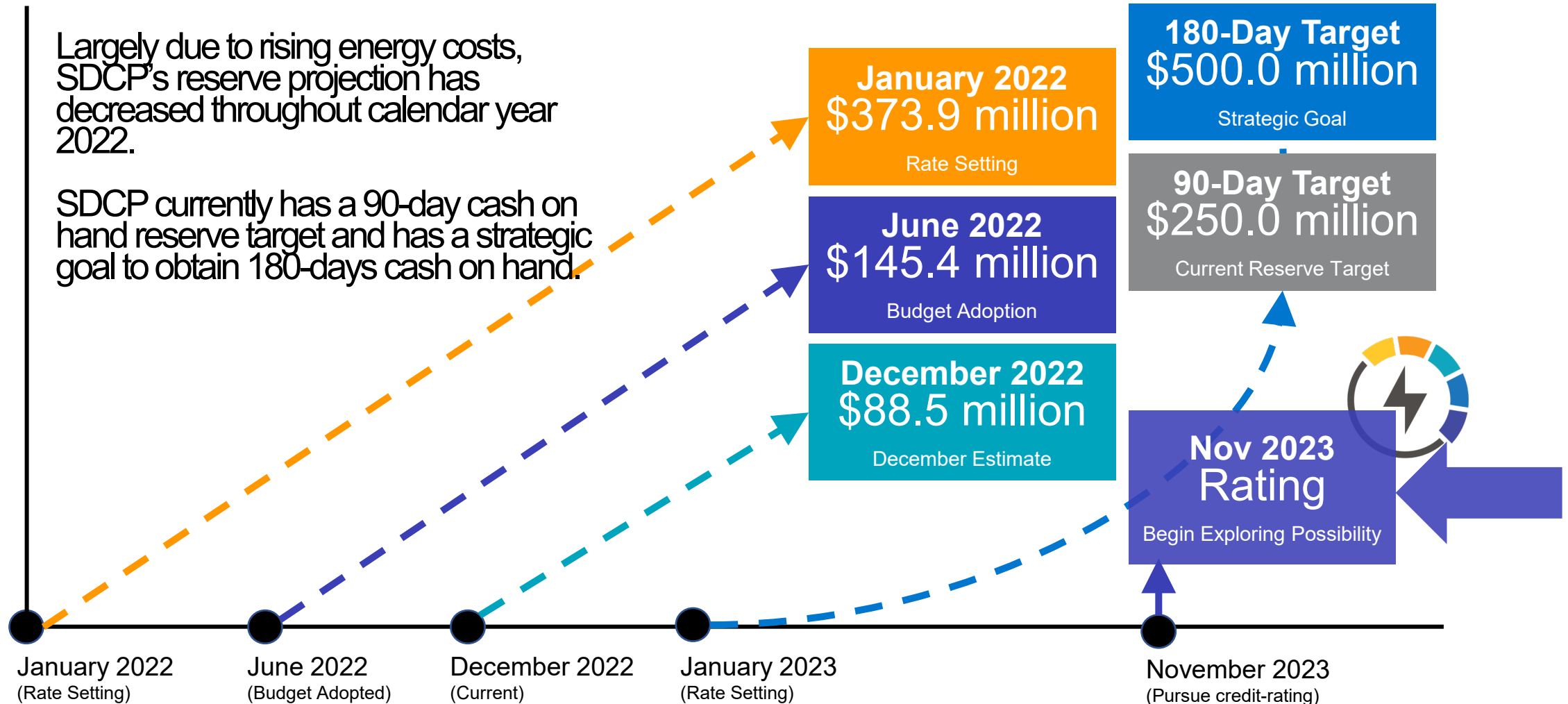
Presentation of the Proposed Framework of the SDCP Debt Policy

Receive and file presentation on the proposed framework of the SDCP Debt Policy.

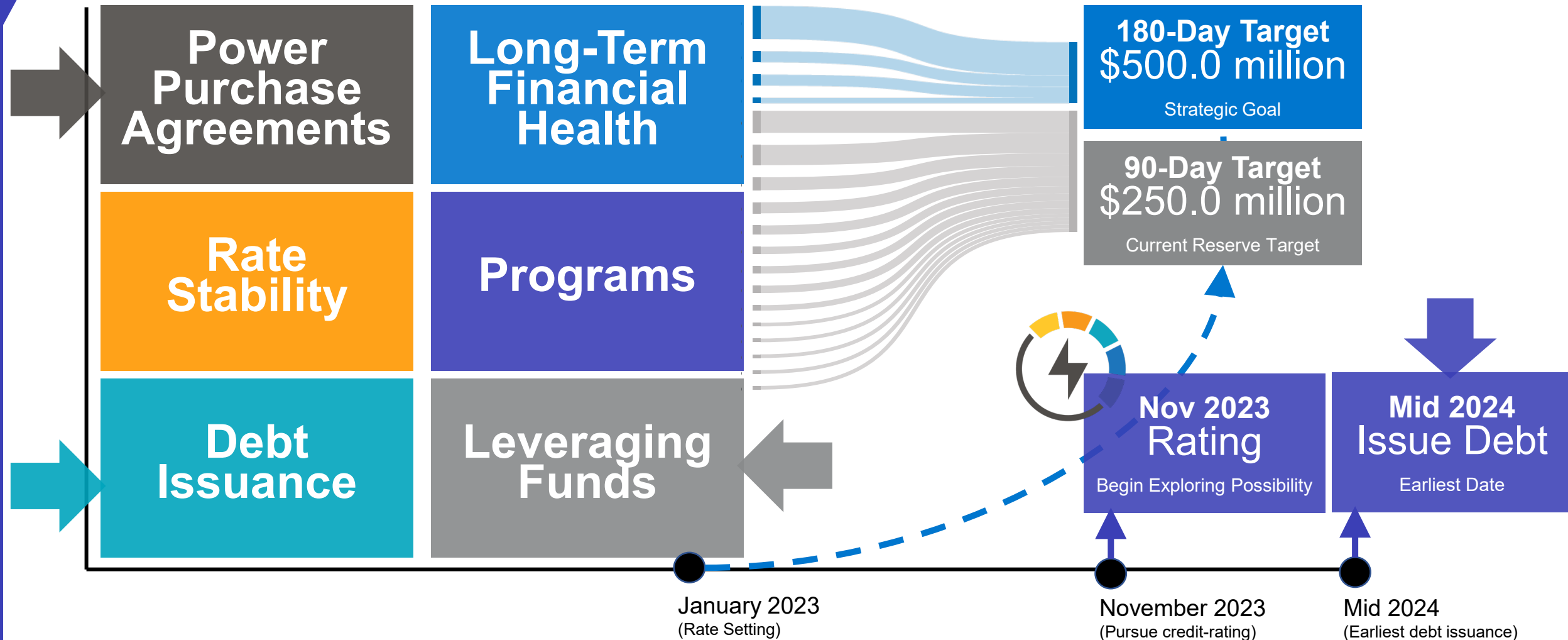
FY25 Year-End Projected Reserves

Largely due to rising energy costs, SDCP's reserve projection has decreased throughout calendar year 2022.

SDCP currently has a 90-day cash on hand reserve target and has a strategic goal to obtain 180-days cash on hand.



Why Reserves?





Energy Portfolio Development

*Provide sufficient, reasonably
priced, clean electricity to our
customers*



GOALS

- ✓ **Manage portfolio to manage risk, cost, and reliability objectives through risk management tools, sufficient staffing, and staff training.**
- ✓ **Develop secure Clean Energy Portfolio with goals of 50% RE (2022), 75% (2027), 85% (2030), and 100% (2035).**
- ✓ **15% of our energy coming from new, distributed infill storage/solar+ storage resources in Member Agencies by 2035.**
- ✓ **600MW of new Local Wholesale Energy and/or Battery Storage Projects (utility scale projects within San Diego and Imperial counties) by 2035**
- ✓ **Support development of innovative energy sources to improve resiliency through pilot programs, grant programs, and partnerships.**
- ✓ **Create high quality local jobs in renewable energy that support healthy families and vibrant communities.**

Development of Debt Policy

Debt Policy



Scope and Authority

- ✓ Governs issuance and management of all bonds and other forms of indebtedness.
- ✓ Compliance with California Government Code Section 8855 and Senate Bill 1029 which **require debt issuers to adopt a local debt policy**.
- ✓ SDCP bond issuances shall be **green bonds**, to the extent possible.
- ✓ **Use of Debt:**
 - ✓ Construction, acquisition, rehabilitation, replacement, or expansion of physical assets.
 - ✓ Refunding of prior outstanding debt.
 - ✓ Other Board-approved needs.

Permitted Debt Types

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.

Long-Term Debt	Short-Term Debt	Variable Rate Debt	Refunding Debt	Types of Debt
Debt issued to finance capital expenditures with the objective of structuring repayment within the expected life of the financed asset.	Primarily used to meet interim funding pending the issuance of long-term debt. Generally has a maturity of less than 7 years and may take several forms, including notes, commercial paper,	It may be appropriate to issue long-term variable rate debt that bears an interest rate that is reset periodically at predetermined intervals.	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.	<ul style="list-style-type: none">✓ Revenue Bonds✓ 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

Tax Exempt and Taxable Bonds

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

Tax-Exempt

- Bonds issued on a federally tax- exempt basis
- Typically issued at lower interest rates, reducing SDCP's cost of borrowing.
- Limited by federal tax law in the uses of tax-exempt bond
 - Require governmental purpose
 - Must be spent on capital improvements
 - Reasonable expectations for spending proceeds at the time of issuance
 - Limiting private use of financed projects

Taxable

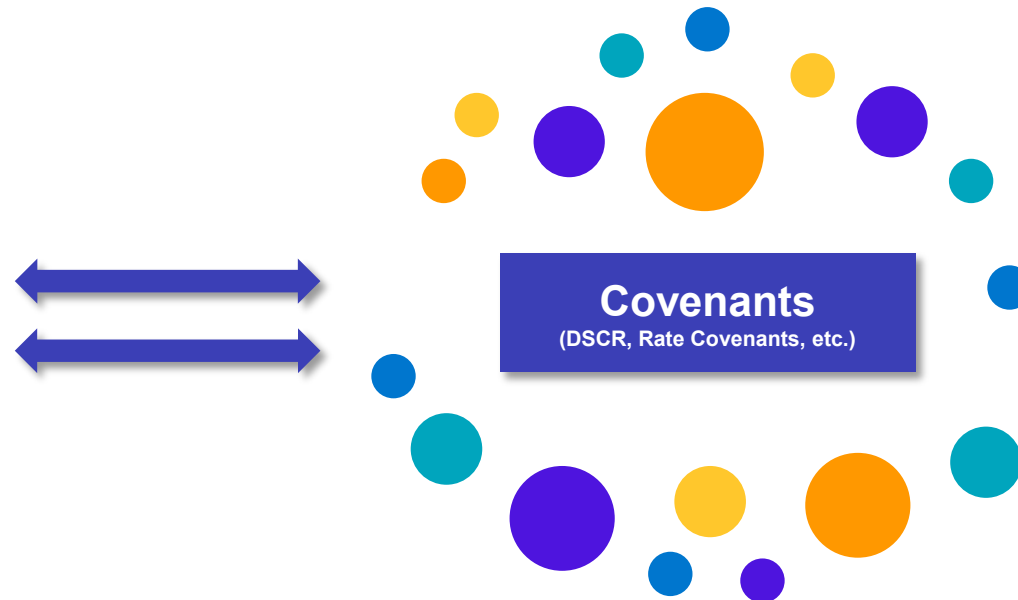
- Not exempt from federal income tax
- Typically issued at higher interest rates
- IRS restrictions do not apply
- Used in situations where the project or purpose of borrowing may not meet federal tax law requirements
- May consider taxable tax credit or direct subsidy bonds that offer lower costs of borrowing through the issuance of taxable debt that is supported by federal subsidy payments on the interest expense

Covenants

When SDCP issues debt, the Agency will have to execute certain types of covenants that may require SDCP to meet certain requirements.

SDCP Additional Bond Tests

1. **Pledged revenues** will be no less than one and a half times (2.0x) the maximum annual principal and interest and debt service for the aggregate outstanding senior lien bonds including the debt service for the new issuance.
2. **Annual debt service** on long-term debt shall not exceed 5% of the Agency's annual total operating expenses.



Example – For illustration purposes only

Example: SDCP issues a \$500 million revenue bond to construct a solar and storage project.

- *Loan amount: \$500,000,000*
- *Interest Rate: 5.00%*
- *Pledged revenues: Ratepayer revenue*
- *Useful life: 20 years*

SDCP Additional Bond Tests

- 1. Pledged revenues** will be no less than one and a half times (2.0x) the maximum annual principal and interest and debt service for the aggregate outstanding senior lien bonds including the debt service for the new issuance.
- 2. Annual debt service** on long-term debt shall not exceed 5% of the Agency's annual total expenses.

Debt Service Schedule

Year	Interest	Principal	Balance
			500,000,000.00
1	25,000,000.00	15,121,293.60	484,878,706.40
2	24,243,935.32	15,877,358.28	469,001,348.12
3	23,450,067.41	16,671,226.19	452,330,121.93
4	22,616,506.10	17,504,787.50	434,825,334.43
5	21,741,266.72	18,380,026.88	416,445,307.55
6	20,822,265.38	19,299,028.22	397,146,279.33
7	19,857,313.97	20,263,979.63	376,882,299.70
8	18,844,114.99	21,277,178.61	355,605,121.09
9	17,780,256.05	22,341,037.55	333,264,083.54
10	16,663,204.18	23,458,089.42	309,805,994.12
11	15,490,299.71	24,630,993.89	285,175,000.23
12	14,258,750.01	25,862,543.59	259,312,456.64
13	12,965,622.83	27,155,670.77	232,156,785.87
14	11,607,839.29	28,513,454.31	203,643,331.56
15	10,182,166.58	29,939,127.02	173,704,204.54
16	8,685,210.23	31,436,083.37	142,268,121.17
17	7,113,406.06	33,007,887.54	109,260,233.63
18	5,463,011.68	34,658,281.92	74,601,951.71
19	3,730,097.59	36,391,196.01	38,210,755.70
20	1,910,537.79	38,210,755.69	0.01
Total Debt Service			302,425,871.89
			500,000,000.00

FY 2024 Projected

Net Revenue
\$1,284 m

Total Expense
\$974 m

Net Position
\$310 m

SDCP Bond Tests

1. Pledged Revenues

FY24 Revenue = \$1,284m
Yearly Debt Service = \$40m
Calculation

$2.0 \times \$40m = \$80m$
 $\$1,284m > \$80m$

Bond Test Passed

2. Annual Debt Service

FY24 Expense = \$974m
Yearly Debt Service = \$40m
Calculation

$\$974m \times 5\% = \$48.7m$
 $\$48.7m > \$40m$

Bond Test Passed

Item 4

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Committee Member Announcements



Adjournment



Next Regular Finance & Risk Management Committee Meeting

April 13, 2023

