



Policy Number: F21\_001

Original Adoption Date: June 24, 2021  
Revision Date: February 24, 2022

**Subject:** Financial Reserves Policy

**Purpose:** San Diego Community Power (SDCP) will maintain Financial Reserves as described in this policy to:

- Meet SDCP's strategic objectives
- Secure favorable terms with vendors, including power producers
- Secure a standalone investment grade credit rating
- Provide funds to cover unanticipated expenditures

**Policy Guidelines:** 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 (including power supply expenses) to be held as unrestricted cash. Unrestricted cash is defined as total cash less restricted cash held in accounts that are restricted from use due to collateral requirements or by covenant requirements. SDCP will establish rates and adopt budgets that provide for a growing Operation/Working Capital Reserve that meets the above target funding levels.

**Fund Balance Review:** The fund balance and annual contributions will be reviewed on an annual basis as part of SDCP's budget process. The fund balance will also be reviewed at the completion of SDCP's annual audit to reconcile the fund balance.

**Exceeding Target Fund Balance:** If reserve funds exceed target levels, the Board may use excess funds for capital projects, financing programs, paying down existing debt, rate reductions, or other strategic purposes.

#### **Conditions for Use of Reserves**

- For purposes of this policy, the "use of reserves" is defined as a projected or estimated reduction in the amount of the Operating/Working Capital Reserve by the end of a fiscal year below the sum of the balance of the Operating/Working Capital Reserve at the commencement of the fiscal year plus the projected addition to the Operating/Working Capital Reserve in the budget for the current fiscal year.
- Temporary reductions in the Operating/Working Capital Reserve for cash flow purposes to even out the expected peaks or dips in revenues and expenditures are normal cyclical occurrences to be expected during the fiscal year, and do

not constitute a use of reserves. Transfers to and from the Operating/Working Capital Reserve to account for such temporary cash flow fluctuations is within the discretion of the CFO.

- The CEO will have the discretion to authorize the use of reserves during the fiscal year up to the lesser of 10% of the year's total budgeted cost, or \$40 million, for the following purposes:
  1. Cover increases in power supply expenses due to spikes in costs and/or due to higher customer demand;
  2. Provide necessary funds to make up for unanticipated revenue shortfalls;
  3. Meet any margin or collateral posting requirements under energy supply contracts; and
  4. Provide resources to meet emergency expenditures.
- If further use of reserves are necessary or desirable to manage the operations of SDCP, the CEO must present recommendations to the Board and the Board must authorize such use.
- Any use of the reserves under the CEO's authority shall be reported to the Board at the next regularly scheduled meeting.

**Policy Review:** SDCP staff will complete a review of this Financial Reserve Policy annually to ensure that the policy meets the needs of the organization.