



AGENDA

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

May 18, 2023
1:00 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.

The public may participate using the following remote options:

Teleconference Meeting Webinar <https://zoom.us/j/93476863568> Telephone (Audio Only)

(669) 900-6833 or (253) 215-8782 | Webinar ID: 934 7686 3568

Welcome

Roll Call

Public Comment for Items Not on the Agenda

Items to be Added, Withdrawn, or Reordered on the Agenda

MEETING AGENDA

1. Approval of April 13, 2023 Meeting Minutes

Recommendation: Approve the April 13, 2023 Meeting Minutes

2. Review of Treasurer's Report for Period Ending 3/31/23

Recommendation: Receive and File Treasurer's Report for Period Ending 3/31/23

3. Approval of SDCP Investment Policy

Recommendation: Recommend board approval of the SDCP Investment Policy

4. Presentation and Discussion of the FY 2023-24 Operating Budget

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

Committee Member Announcements

Committee Members may briefly provide information to other members and the public. There is to be no discussion or action taken on comments made by Directors unless authorized by law.

Adjournment

Copies of the agenda and agenda packet are available at <https://sdcommunitypower.org/resources/meeting-notes/>. Late-arriving documents related to a Board meeting item which are distributed to a majority of the Members prior to or during the Board meeting are available for public review as required by law. Public records, including agenda-related documents, can be requested electronically at info@sdcommunitypower.org or by mail to SDCP, PO BOX 12716, San Diego, CA 92112. The documents may also be posted at the above website. Such public records are also available for inspection, by appointment, at San Diego Community Power, 2488 Historic Decatur Road, Suite 250, San Diego, CA 92106. Please contact info@sdcommunitypower.org to arrange an appointment.



**Finance and Risk Management Committee
San Diego Community Power (SDCP)**

9192 Topaz Way
San Diego, California 92123

MINUTES
April 13, 2023

The Committee minutes are prepared and ordered to correspond to the Committee Agenda. Agenda Items can be taken out of order during the meeting.

The Agenda Items were considered in the order presented.

CALL TO ORDER

Chair McCann (Chula Vista) called the Finance and Risk Management Committee meeting to order at 4:03 p.m.

ROLL CALL

PRESENT: Alternate Director Fisher (Imperial Beach), Director Parent (La Mesa), Chair McCann (Chula Vista)

ABSENT: None

Also Present: Chief Executive Officer ("CEO") Burns, Chief Financial Officer ("CFO")/Treasurer Washington, Assistant General Counsel Shepherd

PUBLIC COMMENTS

There were no public comments.

ITEMS TO BE ADDED, WITHDRAWN, OR REORDERED ON THE AGENDA

There were no items to be added, withdrawn, or reordered.

MEETING AGENDA

1. Approval of March 16, 2023 Meeting Minutes

ACTION: Motioned by Director Parent (La Mesa) and seconded by Alternate Director Fisher (Imperial Beach) to approve the March 16, 2023 Meeting Minutes.

Vote: 3-0

Yes: Alternate Director Fisher (Imperial Beach), Director Parent (La Mesa), Chair McCann (Chula Vista)

No: None

Abstained: None

Absent: None

2. Review of Treasurer's Report for Period Ending February 28, 2023

CFO/Treasurer Washington presented the Treasurer's Report for Period Ending February 28, 2023.

Committee questions and comment ensued.

ACTION: Motioned by Alternate Director Fisher (Imperial Beach) and seconded by Chair McCann (Chula Vista) to advance the Treasurer's Report for Period Ending February 28, 2023 to the Board of Directors.

Vote: 3-0

Yes: Alternate Director Fisher (Imperial Beach), Director Parent (La Mesa), Chair McCann (Chula Vista)

No: None

Abstained: None

Absent: None

3. Presentation of the Proposed Framework of the SDCP Debt Policy

CFO/Treasurer Washington and Finance Manager Manglicmot presented the Framework of the SDCP Debt Policy

Committee questions and comments ensued.

ACTION: Motioned by Director Parent (La Mesa) and seconded by Alternate Director Fisher (Imperial Beach) to advance the SDCP Debt Policy to the Board of Directors.

Vote: 3-0

Yes: Alternate Director Fisher (Imperial Beach), Director Parent (La Mesa), Chair McCann (Chula Vista)

No: None

Abstained: None
Absent: None

COMMITTEE MEMBER ANNOUNCEMENTS

There were no announcements.

ADJOURNMENT

Chair McCann (Chula Vista) adjourned the meeting at 4:36 p.m.



SAN DIEGO COMMUNITY POWER Staff Report – Item 2

To: Financial and Risk Management Committee

From: Eric W. Washington, Chief Financial Officer

Via: Karin Burns, Chief Executive Officer

Subject: Treasurer's Report –Presentation of Financial Results for Fiscal Year
2023 Period ended 03/31/23

Date: May 18, 2023

RECOMMENDATION

Receive and File Report.

BACKGROUND

San Diego Community Power (SDCP) maintains its accounting records on a full accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) as applicable to governmental enterprise funds.

SDCP has prepared its year-to-date financial statements for the period ended March 31, 2023, along with budgetary comparisons. Certified Public Accountants (CPAs) generally issue three levels of financial statements: audit, review and compilation. SDCP's monthly financial statements are issued as a compilation given that an audited financial statement has significantly higher lead times and costs to produce. SDCP's annual financial statements are issued as an audit. By comparison, none of SDCP's member agencies issue monthly reports either as a compilation, review, or audit.

In a compilation engagement such as with SDCP's monthly financial statements issued through the Treasurer's Report, the objective is to assist management in presenting financial information in the form of financial statements without undertaking to provide any assurance that there are no material modifications that should be made to the financial statements so they will conform to the acceptable financial reporting framework. Further, in a compilation, given the limited engagement, disclosures are omitted and per the Statements on Standards for Accounting and Review Services paragraph 80.27b, it is recommended that a statement be included that if the omitted disclosures (and the statement of cash flows, if applicable) were included in the financial statements, they might influence the user's conclusions about the entity's financial position, results of operations, and cash flows (or the equivalent for presentations other than GAAP). This statement is included in SDCP's financial statement.

SDCP additionally reports monthly metrics during its Board meetings as part of its Update on Back-Office Operations. Moving forward, as part of the Treasurer's Report, certain key metrics related to risk are planned to be presented during Financial and Risk Management Committee (FRMC) meetings.

ANALYSIS AND DISCUSSION

Actual financial results for the period ended 03/31/23: \$626.58 million in net operating revenues were reported compared to \$626.87 million budgeted for the period. \$597.38 million in total expenses were reported (including \$578.67 million in energy costs) compared to \$612.98 million budgeted for the period (including \$590.68 million budgeted for energy costs). After expenses, SDCP's change in net position of \$29.2 million was reported for Fiscal Year 2023. The following is a summary of the actual results compared to the Fiscal Year 2023 Budget.

Table 1: Budget Comparison Versus Actual Results

Budget Comparison					
	YTD FY23 as of 03/31/23 (9 mos)	FY23 YTD Budget	Budget Variance (\$)	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%	

- Net operating revenues finished \$297.61 thousand (or less than 1 percentage point) under the budget primarily due to remittances coming lower than expected in prior periods that were largely offset by California Climate Credits received in March.
- Operating expenses finished \$17.95 million (or 3.0 percentage points) under the budget primarily due to savings from all operating expense categories and, in particular, from credits received from the California Independent Systems Operator (CAISO) that were realized in January 2023. SDCP did, however, have significant CAISO fees in March 2023 which reduced overall year-to-date savings.

Financial results for the period outperformed the projections presented in the year-to-date proforma. SDCP's change in net position was 110% over the projection primarily due to savings in energy-related costs from CAISO credits previously mentioned.

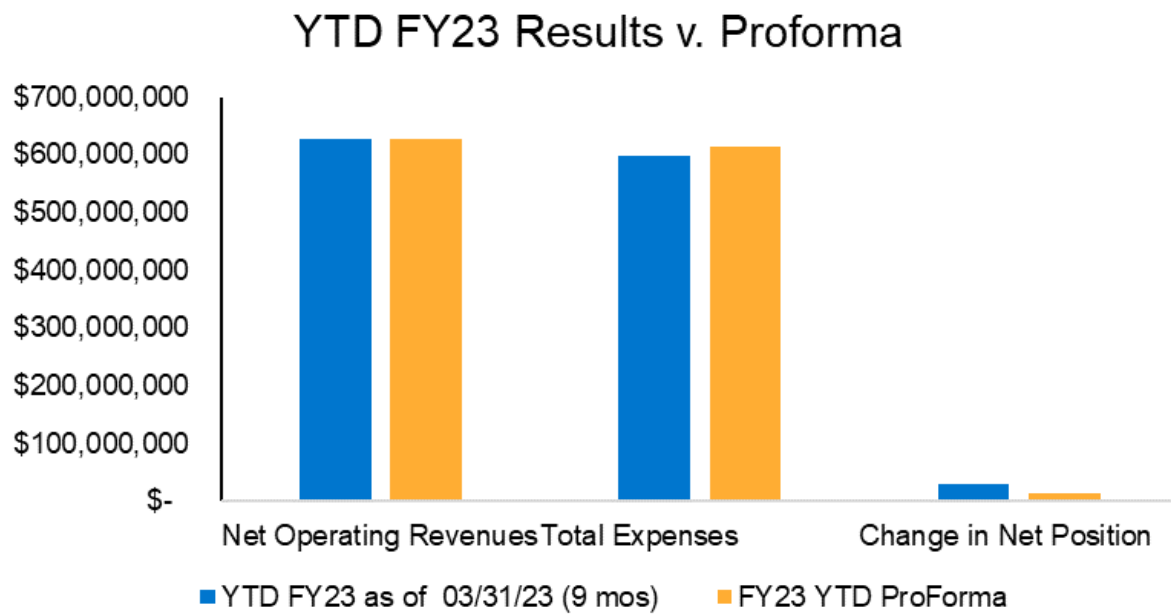


The following is a summary to actual results compared to the fiscal year-to-date proforma.

Table 2: Proforma Comparison Versus Actual Results

Proforma Comparison					
	YTD FY23 as of 03/31/23 (9 mos)	FY23 YTD ProForma	ProForma Variance (\$)	Proforma (%)	
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%	

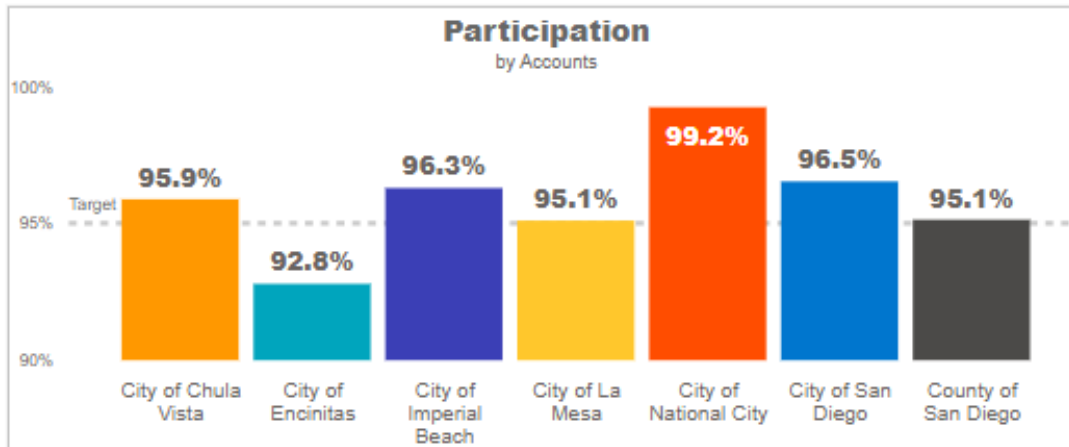
Figure 1: Proforma versus Actual Results



For the period ending 03/31/23, SDCP contributed \$29,195,179 to its reserves but was only expected to gain \$11,544,930 per the FY 2022-23 amended budget. Total SDCP reserves at the end of the period were \$69,726,131 and total available liquidity (including lines of credit) was \$195,996,131. SDCP has a total FY 2022-23 year-end reserve cash target of \$190,058,650, which is equivalent to 90-days of total operating expenses.

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

Participation by Jurisdiction



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%

FISCAL IMPACT

N/A

ATTACHMENTS

Attachment A: 2023 Year-to-Date Period Ended 03/31/23 Financial Statements



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 March 31, 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
May 3, 2023

SAN DIEGO COMMUNITY POWER
STATEMENT OF NET POSITION
As of March 31, 2023

ASSETS

Current assets	
Cash and cash equivalents	\$ 42,073,974
Accounts receivable, net of allowance	79,307,931
Accrued revenue	42,204,985
Prepaid expenses	5,556,754
Other receivables	775,000
Deposits	21,060,361
Total current assets	<u>190,979,005</u>
Noncurrent assets	
Restricted cash	2,146,985
Deposits	555,000
Total noncurrent assets	<u>2,701,985</u>
Total assets	<u><u>193,680,990</u></u>

LIABILITIES

Current liabilities	
Accrued cost of electricity	92,461,923
Accounts payable	975,286
Other accrued liabilities	2,802,307
State surcharges payable	504,888
Security deposits	729,000
Interest payable	236,943
Total current liabilities	<u>97,710,348</u>
Noncurrent liabilities	
Loan to member government	514,511
Bank note payable	23,730,000
Total noncurrent liabilities	<u>24,244,511</u>
Total liabilities	<u><u>121,954,859</u></u>

NET POSITION

Restricted for collateral	2,000,000
Unrestricted	69,726,131
Total net position	<u><u>\$ 71,726,131</u></u>

SAN DIEGO COMMUNITY POWER
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
Nine Months Ended March 31, 2023

OPERATING REVENUES

Electricity sales, net	\$ 626,575,487
Total operating revenues	<u>626,575,487</u>

OPERATING EXPENSES

Cost of energy	578,671,540
Contract services	11,122,802
Staff compensation	4,672,004
Other operating expenses	2,097,025
Total operating expenses	<u>596,563,371</u>
Operating income (loss)	<u>30,012,116</u>

NON-OPERATING REVENUES (EXPENSES)

Investment income	322,359
Interest and financing expense	<u>(1,139,296)</u>
Nonoperating revenues (expenses)	<u>(816,937)</u>

CHANGE IN NET POSITION

	29,195,179
Net position at beginning of period	<u>42,530,952</u>
Net position at end of period	<u>\$ 71,726,131</u>

SAN DIEGO COMMUNITY POWER
STATEMENT OF CASH FLOWS
Nine Months Ended March 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 603,955,827
Receipts of security deposits	56,936,328
Other operating receipts	10,332,595
Payments to suppliers for electricity	(555,230,510)
Payments for goods and services	(11,510,408)
Payments to employees for services	(4,385,673)
Payments for deposits and collateral	(110,755,631)
Payments of state surcharges	(1,394,349)
Net cash provided (used) by operating activities	<u>(12,051,821)</u>

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	<u>(13,626,297)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	<u>322,359</u>
Net change in cash and cash equivalents	(25,355,759)
Cash and cash equivalents at beginning of period	<u>69,576,718</u>
Cash and cash equivalents at end of period	<u><u>\$ 44,220,959</u></u>

Reconciliation to the Statement of Net Position

Cash and cash equivalents (unrestricted)	\$ 42,073,974
Restricted cash	<u>2,146,985</u>
Cash and cash equivalents	<u><u>\$ 44,220,959</u></u>

SAN DIEGO COMMUNITY POWER
STATEMENT OF CASH FLOWS (continued)
Nine Months Ended March 31, 2023

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

Operating income	\$ 30,012,116
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Provision for uncollectible accounts	6,329,045
(Increase) decrease in:	
Accounts receivable	(35,249,986)
Accrued revenue	4,734,630
Prepaid expenses	(1,095,446)
Deposits	(11,924,304)
Increase (decrease) in:	
Accrued cost of electricity	35,230,419
Accounts payable	350,332
Other accrued liabilities	2,059,071
State surcharges payable	172,302
Supplier security deposits	(41,895,000)
Net cash provided (used) by operating activities	<u><u>\$ (12,051,821)</u></u>



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 March 31, 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
May 3, 2023

SAN DIEGO COMMUNITY POWER
BUDGETARY COMPARISON SCHEDULE
Nine Months Ended March 31, 2023

	2022/23 YTD Amended Budget	2022/23 YTD Actual	2022/23 YTD Amended Budget Variance (Under) Over	2022/23 YTD Actual/ Amended Budget %	2022/23 Annual Amended Budget	2022/23 Amended Budget Remaining
REVENUES AND OTHER SOURCES						
Gross Ratepayer Revenues	633,205,147	\$ 632,904,532	(300,615)	100%	\$ 939,183,767	\$ 306,279,235
Less Uncollectible Customer Accounts	(6,332,051)	(6,329,045)	3,006	100%	(9,391,838)	(3,062,793)
Total Revenues and Other Sources	<u>626,873,096</u>	<u>626,575,487</u>	<u>(297,609)</u>		<u>929,791,929</u>	<u>303,216,442</u>
OPERATING EXPENSES						
Cost of Energy	590,683,798	578,671,541	(12,012,257)	98%	738,800,294	160,128,753
Professional Services and Consultants	12,372,293	10,771,481	(1,600,812)	87%	17,271,121	6,499,640
Personnel Costs	5,342,696	4,672,004	(670,692)	87%	7,362,227	2,690,223
Marketing and Outreach	3,477,908	1,420,665	(2,057,243)	41%	4,194,489	2,773,824
General and Administrative	1,509,589	1,027,680	(481,909)	68%	1,890,283	862,603
Programs	971,250	-	(971,250)	0%	1,275,000	1,275,000
Total Operating Expenses	<u>614,357,534</u>	<u>596,563,371</u>	<u>(17,794,163)</u>		<u>770,793,414</u>	<u>174,230,043</u>
Operating Income (Loss)	<u>12,515,562</u>	<u>30,012,116</u>	<u>17,496,554</u>		<u>158,998,515</u>	<u>128,986,399</u>
NON-OPERATING REVENUES (EXPENSES)						
Investment income	-	322,359	322,359		-	(322,359)
Debt Service and Bank Fees	(970,632)	(1,139,296)	(168,664)	117%	(1,285,295)	(145,999)
Total Non-Operating Revenues (Expenses)	<u>(970,632)</u>	<u>(816,937)</u>	<u>153,695</u>		<u>(1,285,295)</u>	<u>(468,358)</u>
CHANGE IN NET POSITION	<u>\$ 11,544,930</u>	<u>\$ 29,195,179</u>	<u>\$ 17,650,249</u>		<u>\$ 157,713,220</u>	<u>\$ 128,518,041</u>

See accountants' compilation report.



SAN DIEGO COMMUNITY POWER Staff Report – Item 3

To: San Diego Community Power Board of Directors
From: Eric W. Washington, Chief Financial Officer
Via: Karin Burns, Chief Executive Officer
Subject: Recommend Board Approval of SDCP Investment Policy
Date: April 13, 2023

RECOMMENDATION

Recommend Board approval of the Investment 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 finally 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 Investment Policy herein. Further, this section states the FRMC may have such other responsibilities as may be approved by the Board, including but not limited to advising the Chief Executive Officer on fiscal and risk management policies and procedures, rules and regulations governing investment of surplus funds, audits to achieve best practices in corporate governance and selection and designation of financial institutions for deposit of SDCP funds, and credit/depository matters.

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.

Once SDCP receives an investment-grade credit rating and builds to 180-days cash on hand, SDCP will need to ensure proper policies are in place to manage its liquidity and support an investment-grade credit rating.

Staff therefore propose an Investment Policy for review and consideration by the FRMC.

ANALYSIS AND DISCUSSION

Since the establishment of SDCP operational cash flow has been diligently monitored by the Finance department. Due to the rapid growth of the organization and projected increase in cash balances, Staff recommends the approval of an Investment Policy by the Finance and Risk Management Committee that would govern the management of funds controlled by SDCP.

The proposed Investment Policy outlines SDCP's investment objectives, defines the standard of care consistent with California Government Code 53600, delegates authority to manage SDCP funds to the Treasurer, defines authorized investments and requires an annual review of the Investment Policy.

The Investment Objectives are:

- 1) to secure the safety of principal
- 2) ensure adequate liquidity to enable SDCP to meet obligations
- 3) to achieve a market return on investment
- 4) to maintain "Prudent Investor Standard" of care

SDCP may engage the services from one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of SDCP's investment portfolio in a manner consistent with the SDCP's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy.

All Authorized investment types for SDCP are pursuant to California Government Code such as deposits at banks, funds deposited with the Local Agency Investment Fund, US Treasury and Federal Agency Securities, Bankers' Acceptances, Certificates of Deposit, Service Deposits, and Money Market Funds. SDCP implemented additionally constraints on Banker's Acceptances to reduce the Maximum % with One Issuer from 30% to 5% to reduce risk exposure on Bank defaults and require a minimum "A" rating.



Acceptable Investment Types	Maximum % with One Issuer		Minimum Rating	
	Gov. Code	SDCP Policy	Gov. Code	SDCP Policy
Deposits at Banks	None	None	A	A
Local Agency Investment Fund	None	None	None	None
US Treasury Obligations	None	None	None	None
Federal Agency Securities	None	None	None	None
Bankers' Acceptances	30%	5%	None	A
Negotiable Certificate of Deposit	None	None	None	None
Placement Service Deposits	None	None	A	A
Money Market Funds	10%	10%	AAAm	AAAm
Commercial Paper	10%	10%	A-1	A-1

SDCP prohibited investment types are pursuant to California Government Code Section 53601.6 which includes securities the could result in a zero-interest accrual, or less, if held to maturity. These prohibited investments include, but are not limited to, inverse floaters, range notes, or mortgage-derived interest-only strips. SDCP will impose additional investment prohibitions on foreign currency, crypto asset securities, prohibit trading securities based on speculation on the direction of interest rates, prohibit trading securities on margin, and prohibit the use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage.

Internal Controls mandated by California Government Code that SDCP will perform are Annual Reports on Investments, Annual Review of the Investment Policy and Annual Audits as pursuant to Section 27134. SDCP is required by California Government Code to only report quarterly on investments, however SDCP will report on a monthly cadence. SDCP will impose additional controls such as control of collusion, clear delegation of authority, all investments transactions are conducted on delivery-versus-payment basis, safekeeping and custody, avoidance of physical delivered bearer securities, and written confirmation of telephone wire transfers.

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

FISCAL IMPACT

There are no fiscal impacts to recommend Board approval of the Investment Policy.

ATTACHMENTS

Attachment A: SDCP Investment Policy - Draft



Policy Number: XXX-XXX

Original Adoption Date: XXX XX, 2023

Subject: Investment Policy

Purpose: The San Diego Community Power (“SDCP”) Investment Policy (“Policy”) establishes investment guidelines for protecting SDCP’s cash reserves, deposits, and investments (“Funds”) while producing a reasonable rate of return on investments.

The Policy articulates: (1) the objectives and priorities for SDCP investments; (2) the types of investments that are permitted and prohibited; and (3) the controls SDCP will implement to ensure assets are protected.

This Policy is adopted pursuant to California Government Code Section (“Section”) 53600-53608 and must be adopted or amended by resolution. The SDCP Board of Directors (“Board”) is not required to adopt a formal Investment Policy by statute, however, it is in the best practice to ensure agency assets are protected.

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 finally 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 Investment Policy herein. Further, this section states the FRMC may have such other responsibilities as may be approved by the Board, including but not limited to advising the Chief Executive Officer on fiscal and risk management policies and procedures, rules and regulations governing investment of surplus funds, audits to achieve best practices in corporate governance and selection and designation of financial institutions for deposit of SDCP funds, and credit/depository matters.

Investment Objectives

To the extent possible, investments will align with SDCP's mission, vision, value, and goals. When managing Funds, SDCP's primary objectives shall be to (1) safeguard the principal of the Funds, (2) meet the liquidity needs of SDCP, (3) achieve a return on funds invested, and (4) exercise a high standard of care on Funds within SDCP's control.

- 1) **Safety:** Safety of principal is the foremost objective of cash and investment management activities. The investment of Funds shall be undertaken in a manner that seeks to ensure the preservation of principal.
- 2) **Liquidity:** The Funds of SDCP shall remain sufficiently liquid to meet all operating needs that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the investment of Funds in deposits or instruments that are available on demand is recommended.
- 3) **Return on Investments:** SDCP's deposit and investment portfolio shall be designed with the objective of attaining a market rate of return throughout the economic cycle while considering investment risk and liquidity constraints. The return on deposits and investments is of secondary importance compared to the safety and liquidity objectives described in Investment Objectives, Section A and Investment Objectives, Section B, above.
- 4) **Standard of Care:** SDCP will manage Funds in accordance with the "Prudent Investor Standard" pursuant to California Government Code Section 53600.3¹ as follows:

"All governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

¹ All further statutory references are to the California Government Code unless otherwise stated.

Delegation of Authority

Pursuant to Section 53607, the Board has the authority to delegate the responsibility to manage SDCP's funds to the Treasurer. The Treasurer has authority to appoint Deputy Treasurer(s) as the Treasurer deems necessary to carry the duties in accordance with the Investment Policy.

SDCP may engage the services from one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of SDCP's investment portfolio in a manner consistent with the SDCP's Policy. External investment advisers may be granted discretion to purchase and sell investment securities in accordance investment objective set forth in this Policy.

Scope

This Investment Policy applies to all funds and investment under the direct authority of SDCP. This Policy does not apply to the investment of bond proceeds, which would be governed by any applicable bond documents and any other funds specifically exempted by SDCP's Board of Directors.

Acceptable Investment Types: To the extent possible, investments will align with SDCP's mission, vision, value, and goals.

- 1. Deposits at Bank(s):** Funds may be invested in non-interest-bearing depository accounts to meet SDCP's operating and collateral needs and grant requirements. Funds not needed for these purposes may be invested in interest-bearing depository accounts or Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit with maturities not to exceed five (5) years. Banks eligible to receive deposits will be federally or state chartered and will conform to Section 53635.2 which requires that banks "have received an overall rating of not less than 'satisfactory' in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code." As per Section 53652, banks must collateralize the deposits of public agencies in an amount equal to no less than 110% of as currently stated in the value of the deposits. The Treasurer will monitor the credit quality of eligible banks holding SDCP deposits that exceed FDIC insurance limits to ensure the safety of SDCP deposits.
- 2. Local Agency Investment Fund (LAIF):** Funds may be invested in the Local Agency Investment Fund established by the California State Treasurer for the benefit of local agencies.
- 3. US Treasury Obligations:** Funds may be invested in United States Treasury obligations with a term to maturity not exceeding five (5) years and subject to the limitations set forth in Sections 53601 et seq. and 53635 et seq.

- 4. Federal Agency Securities:** Funds may be invested in Federal Agency Securities with a term to maturity not exceeding five (5) years and subject to the limitations set forth in Sections 53601 et seq. and 53635 et seq.
- 5. Bankers' Acceptances:** Funds may be invested in Banker's Acceptances provided that they are issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO (Nationally Recognized Statistical Rating Organization). Not more than 40% of the portfolio may be invested in Bankers' Acceptances, and no more than 5% of the portfolio may be invested in any single issuer. The maximum maturity shall not exceed 180 days.
- 6. Negotiable Certificates of Deposit:** Funds may be invested in negotiable certificates of deposit in accordance with the requirements of Section 53601 and 53601.8, and subject to the following limitations:
 - A.** Issued by an entity as defined in Section 53601(i); and
 - B.** No more than 30% of the total portfolio shall be invested in certificates of deposit.
- 7. 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). The full amount of principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. The maximum portfolio exposure to the deposits placed pursuant to this section shall be limited by Section 53601.8.
- 8. Money Market Funds:** Funds may be invested in money market funds pursuant to Section 53601(l)(2) and subject to Section 53601(l)(4).
- 9. Commercial Paper:** of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper must meet all of the following conditions in either paragraph A or paragraph B:
 - A.** The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.
 - B.** The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

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, inverse floaters, range notes, or mortgage-derived interest-only strips. The purchase of foreign currency denominated securities is prohibited. The purchase of Crypto Asset Securities is prohibited. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited. Purchasing or selling securities on margin is prohibited. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited. SDCP is prohibited from investing in any company or organization whose business do not align with SDCP's mission, vision, value, and goals.

Investment Portfolio Management

The term to maturity of any Funds invested shall not exceed five (5) years pursuant to Section 53601. The Treasurer will allocate Funds among authorized investments consistent with the objectives and standards of care outlined in this Policy.

Diversification

SDCP's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types, maturity segment, or in individual financial institutions. No more than 5% of the investment portfolio shall be in securities of any one issuer except for U.S. Treasuries, U.S. Government Agency issues, and investment pools such as LAIF, and money market funds.

- A. Credit Risk:** Credit risk, defined as the risk of loss due to failure of the insurer of a security, shall be mitigated by investing in those securities with an "A" or above rating and approved in the Investment Policy and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm SDCP's cash flow.
- B. Market Risk:** Market risk or interest rate risk, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by implementing a short term and long-term investment strategies. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of overall investment return.

Credit Rating

This Investment Policy sets forth minimum credit ratings for each type of security. These credit ratings apply to the initial purchase of a security and do not automatically force the sale of a security if the credit ratings of the security fall below the policy limits.

Minimum credit ratings:

- A.** For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as “+” or “-”) by at least one nationally recognized statistical rating organization (the “NRSRO”).
- B.** For securities with maturities greater than 13 months, the rating must be “A” or higher by at least one NRSRO.

The monitoring of credit ratings consists of the following procedures:

- 1.** When a credit rating downgrade occurs which results in a rating below the minimum credit requirement, SDCP’s Finance Department or external investment adviser will analyze and evaluate the credit rating to determine whether to hold or sell the investment.
- 2.** In the event a security in the Fund receives a credit rating downgrade which results in a rating below the minimum credit rating requirement, SDCP’s Treasurer will report the rating change to the Finance and Risk Management Committee in the monthly public report. In the same manner, the Finance and Risk Management Committee will be informed on the decision to hold or sell a downgraded security.
- 3.** The Investment Officials or authorized employees involved in the investment process and external investment advisers shall meet at least quarterly to review and update the approved list of securities and establish credit criteria for each category of security.

To ensure that the Fund maintains the highest overall credit rating with the contracted NRSRO, the asset allocation and portfolio holdings will be provided to the contracted NRSRO on a monthly basis.

Brokers

The Treasurer shall endeavor to complete investment transactions in accordance with Section 53601.5, institutions eligible to transact investment business with SDCP include:

- A. Institutions licensed by the state as a broker-dealer.
- B. Institutions that are members of a federally regulated securities exchange.
- C. Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- D. Nationally or state-chartered banks.
- E. The Federal Reserve Bank.
- F. Direct issuers of securities eligible for purchase.

Broker/dealers shall be approved by the Chief Executive Officer upon recommendation by the Treasurer. Selection of broker/dealers shall be based upon the following criteria: the reputation and financial strength of the company or financial institution, the reputation and expertise of the individuals employed, and pursuant to the requirements of Section 53601.5. The Treasurer shall require any selected broker, brokerage firm, dealer, or securities firm to affirm that it has not, within any 48-consecutive month period, made a political contribution to any member of the SDCP Board, or any candidate who may join the SDCP Board in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, the Political Reform Act, including section 84308, or any applicable SDCP Policy, as amended from time to time. The selected broker or dealers shall be provided with and acknowledge receipt of this Policy.

Losses

Losses are acceptable on a sale before maturity and may be taken if required to meet the liquidity needs of SDCP or if the reinvestment proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the original investment, considering any investment loss or foregoing interest on the original investment.

Delivery and Safekeeping

The delivery and safekeeping of all securities shall be made through a third-party custodian when practical and cost effective as determined by the Treasurer, or a duly appointed Deputy Treasurer, and in accordance with Section 53608.

The Treasurer shall review all transaction confirmations for conformity with the original transaction and monitor for excessive trading.

Ethics and Conflict of Interest

The Investment Officials or authorized employees involved in the investment process, shall act as custodians of the public trust and will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Investment Officials and any external investment advisers acknowledge that all direct SDCP investments are subject to public review and evaluation.

SDCP Investment Officials involved in the investment process shall refrain from personal business activity that could create a conflict of interest or the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

SDCP Investment Officials shall disclose to General Counsel or designee i) any material interests in financial institutions with which they conduct business, and ii) disclose any personal investments with a direct, indirect or beneficial interest totaling \$2,000 or more. Investment Officials shall refrain from undertaking any personal investment transactions with the same individual from the external investment adviser with whom business is conducted on behalf of SDCP.

Investment Officials, pursuant with all applicable laws, shall not accept honoraria, gifts, and gratuities from advisers, brokers, dealers, bankers, or other entity with whom SDCP conducts business.

Any external investment adviser contracted by SDCP will comply with Municipal Securities Rulemaking Board Rule G-37 and shall follow the Investment Adviser Fiduciary Standard established by the U.S. Securities and Exchange Commission.

Internal Controls

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

Accordingly, the Treasurer shall establish and maintain internal controls that shall address the following points:

- A. Control of Collusion:** Collusion is a situation where two or more employees are working in conjunction to defraud their employer. To achieve a segregation of duties, individuals who authorize investment transactions shall not also record or reconcile said transactions.
 - B. Clear Delegation of Authority to Subordinate Staff Members:** Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid
- SDCP Investment Policy | 8

improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

- C. Delivery-Versus-Payment (DVP):** All investment transactions shall be conducted on a delivery-versus-payment basis.
- D. Safekeeping and Custody:** Securities purchased from any bank or dealer, including appropriate collateral (as defined by California Government Code), that are not insured by the FDIC, shall be placed with an independent third party for custodial safekeeping. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in SDCP's portfolio shall be held in safekeeping in SDCP's name by a third-party custodian, acting as agent for SDCP under the terms of a custody agreement executed by the bank and SDCP. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by SDCP from the custodian listing all securities held in safekeeping with current market data and other information. The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (1) local government investment pools; (2) time certificates of deposit, (3) Local Agency Investment Fund, and (4) mutual funds and money market mutual funds, since these securities are not deliverable.
- E. Avoidance of Physical Delivered Bearer Securities:** Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Bearer securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with such securities.
- F. Written Confirmation of Telephone Wire Transfers:** Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written or electronic communications and approved by the appropriate person. Development of a Wire Transfer Agreement with the Lead Bank or Third-Party.
- G. Audits:** SDCP's Funds shall be subject to a process of independent review by its external auditors. SDCP's external auditors shall review the investment portfolio in connection with SDCP's annual audit for compliance with the Policy pursuant to Section 27134. The results of the audit shall be reported to the Treasurer.

Reports

- A. Monthly:** The Treasurer will perform a monthly review of the investment function. Following the commencement of investment transactions, the Treasurer shall submit a monthly report of all investment transactions to the Finance and Risk Management Committee. Investment transactions are defined as the purchase, sale or exchange of securities.

B. Annually: The Treasurer will submit an annual report to the Finance and Risk Management Committee within 60 days of the end of a fiscal year providing the following:

- A list of individual securities by investment type, issuer, credit risk rating, CUSIP number, settlement date of purchase, date of maturity, par value and dollar amount invested on all securities, the market value and source of the market value information;
- A statement that the portfolio is in compliance with this Policy and in accordance with Section 53646 or the manner in which the portfolio is not in compliance; and
- A statement of SDCP's ability to meet anticipated cash requirements for the upcoming 12 months.

C. Annual Review: This Policy will be reviewed annually by the Treasurer. The Board is authorized to approve changes to this Policy following the review of proposed changes by the Finance Risk Management Committee.

Glossary of Investment Terms

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

BANKERS' ACCEPTANCES. A short-term, negotiable, unconditional, and time draft drawn on and accepted by a bank. It is typically used in trade to finance the purchase and sale of goods.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than \$250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than \$250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CRYPTO ASSET. Digital assets that use public ledgers over the internet to prove ownership. They use cryptography, peer-to-peer networks and a distributed ledger technology (DLT) – such as blockchain – to create, verify and secure transactions.

CUSIP. Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most financial instruments, including: stocks of all registered U.S. and Canadian companies, commercial paper, and U.S. government and municipal bonds.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

ISSUER. The entity identified as the counterparty or obligator related to a security trade.

INVERSE FLOATER. A bond or other type of debt whose coupon rate has an inverse relationship to a benchmark rate.

INVESTMENT OFFICIALS. This includes any applicable SDCP staff participating in the investment process; SDCP Treasurer; SDCP Deputy Treasurer(s); and SDCP Board of Directors.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUID. Term for securities that can be converted to cash quickly.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers

Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MORTGAGE BACK SECURITY. Debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.

MORTGAGE-DERIVED INTEREST-ONLY STRIPS. A financial product created by separating the interest and principal payments of a mortgage-backed security.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO). A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

RANGE NOTES. A structured investment where the coupon is linked to the performance of a reference index

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.



SAN DIEGO COMMUNITY POWER Staff Report – Item 4

To: Financial and Risk Management Committee

From: Eric Washington, Chief Financial Officer

Via: Karin Burns, Interim Chief Executive Officer

Subject: Presentation and Discussion of Fiscal Year 2023-24 Operating Budget

Date: May 18, 2023

RECOMMENDATION

Receive staff presentation and preliminary draft of the Fiscal Year (FY) 2023-24 Operating Budget.

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 4.6.2 of the JPA specifies that the SDCP Board of Directors (Board) shall adopt an annual budget with a fiscal year that runs from July 1 to June 30.

Section 7.3.1 of the JPA specifies that that all subsequent budgets of SDCP shall be prepared and approved by the Board in accordance with its fiscal management policies that should include a deadline for approval.

On July 28, 2022, the Board adopted a budget development schedule as part of the SDCP Budget Policy. This development schedule includes an annual budget review in May by the Financial and Risk Management Committee (FRMC), which occurs prior to the SDCP Board of Directors (Board) previewing the budget in May and prior to the Board potentially adopting the budget in June.

Table 1. Current Budget Development Schedule

February	March-April	May	June	
Develop Operating Revenue Estimate Develop Operating Expense Estimate Develop financial plan for credit rating in 3-years	Strategic planning sessions with SDCP Board Staff develop operating budgets Baseline budget is developed	 Financial and Risk Management Committee Review SDCP Board Preview (Information Item)	SDCP Board Approval	July 1 st Budget Implemented Mid-year budget review (February) Budget amendments as necessary

Given the timeline in the Board adopted budget development schedule, staff is presenting the draft, proposed fiscal year 2023-24 operating budget to the FRMC for review and discussion.

Table 2 illustrates the draft FY 2023-24 budget in comparison to SDCP's budgets from prior years.

Table 2. SDCP Budget History

SDCP Budget	Board Adoption Date	Total Expense	Net Position
Fiscal Year 2020-21 Operating Budget	6/25/20 (amended) 5/27/21	\$34,135,000	(\$7,848,092)
Fiscal Year 2021-22 Operating Budget	6/24/21 (amended) 2/24/22	\$341,934,335	\$36,119,151
Fiscal Year 2022-23 Operating Budget	6/23/22 (amended) 2/23/23	\$772,078,710	\$157,713,219
Fiscal Year 2023-24 Operating Budget (proposed)	(proposed) 6/22/23	\$1,025,346,442	\$267,126,088

ANALYSIS AND DISCUSSION

The draft FY 2023-24 budget includes net operating revenue of \$ \$1,292,472,530 and total expenses of \$ \$1,025,346,442, resulting in net income of \$267,126,088.

The FY 2023-24 budget includes the key assumptions outlined below. A more detailed breakdown and explanation of revenues and expenses are presented in Attachment A.

Operating Revenue

SDCP's net operating revenue consists primarily of revenues from sales of electricity. Assumptions for net operating revenue include:

- Enrollment of customers is substantially complete from member jurisdictions in Phases 1, 2, 3 and 4.
- 95% participation rate across all jurisdictions.
- A 4% uncollectible rate which is an increase from the 1% uncollectible rate assumed in all other prior budgets.
- Trifurcation of rates continues to ensure a fair, equitable, and balanced rate structure across customers with differing vintage years.
- Rates remain at the levels adopted by the Board on January 23, 2023, from July 2023 through December 2023 and are reduced from January 2024 to June 2024. A rate reduction, however, is subject to Board approval.

Cost of Energy includes all the various services purchased from the power market through our counterparties to supply energy to SDCP's customers.



Operating Expenses

SDCP's operating expenses fall into five categories: "personnel costs", "professional services and consultants", "marketing and outreach", "general and administration", and "Programs". Expense assumptions include the following:

- **Personnel** include salaries, payroll taxes, benefits, and excused absence and paid time off for staff. The recruitment strategy includes the addition of approximately 23 new staff members during the FY 2023-24 budget cycle growing the agency to 59 total staff.
- **Professional Services and Consultants** include SDG&E fees, data management fees from Calpine, technical support (for rate setting, load analysis, energy scheduling, etc.), legal/regulatory services and other general contracts related to IT services, audits and accounting services.
- **Marketing and Outreach** includes expenses for mandatory notices, communication consultants, mailers, printing, sponsorships, and partnerships to inform the community of SDCP.
- **General and Administration** budget covers the cost of office space, equipment, membership dues, and other general operational costs.
- **Programs** includes funding for general and administrative support for all program areas. Moving forward, individual program costs will be moved to SDCP's Capital Investment Program (CIP).

Non-Operating Expenses

SDCP's budget also includes non-operating expenses related to interest and related expenses used to finance its operations. These costs are comprised of repayment of loan principle, associated interest costs as well as potential renewal fees on debt or letters of credit.

Capital Investment Program (CIP)

New for FY 2023-24, SDCP is developing its first Capital Investment Program (CIP) which will contain all the individual capital projects, equipment purchases, and major programs for the agency that are intended to span multiple years. The FY 2023-24 budget proposes a one-time portion of net operating revenues be transferred to the CIP as a continuing fund in which any unspent funds are kept within that fund and carried forward to the subsequent fiscal year.

Net Income

The proposed FY 2023-24 budget results in a net position of \$267,126,088.

The following table illustrates SDCP's proposed FY 2023-24 operating budget compared to its amended budget for FY 2022-23.



Table 3. FY 2023-24 Proposed Budget compared to FY 2022-23 Amended Budget

Item	FY 23 Amended Budget, \$M	FY 24 Proposed Budget, \$M	Difference
Gross Revenue	939.2	1,346.3	407.1
Less Uncollectible Accounts	(9.4)	(53.9)	(44.5)
Net Revenue	929.8	1,292.4	362.6
Cost of Energy	738.8	971.6	232.8
Non-Energy Costs	32.0	47.1	15.1
Subtotal Operating Expense	770.8	1,018.7	247.9
Debt Service	1.3	2.4	1.1
Capital Investment Program	0.0	4.2	4.2
Total Expense	772.1	1,025.3	253.2
Net Position	157.7	267.1	
Cumulative Net Position	200.2	467.3	
Days Cash on Hand	94.8	167.4	

Community Choice Aggregator (CCA) Comparison

By the end of FY 2023-24, SDCP is expected to have similar operating budgets and staffing levels compared to its peer CCAs of similar customer and load size.

Additionally, and similarly, by the end of FY 2023-24, SDCP's reserves and total liquidity are expected to be comparable to its CCA counterparts who have investment-grade credit ratings.

Investor-Owned Utilities (IOUs) Comparison

For calendar year 2023, San Diego Gas & Electric (SDG&E) non-energy (generation-related) operating expenses were 24% of electric revenue. Southern California Edison non-energy (generation-related) operating expenses were 10% of electric revenue and Pacific Gas & Electric non-energy (generation-related) operating expenses were 12% of electric revenue.

SDCP's non-energy operating expenses, by comparison, are only 5% of electric revenue in the proposed FY 2023-24 budget.

It is important to note Operating Expenses reported from SDG&E and other IOUs are general costs of the entire organization and are not solely from their electric energy procurement portion of their business.

FISCAL IMPACT

The proposed FY 2023-24 budget is expected to result in a net position of \$267,126,088. By the end of FY 2023-24, SDCP is projected to have total cash reserves of \$467,326,088 or 167.4 days cash on hand.

ATTACHMENTS

Attachment A: FY2023-24 Proposed Operating Budget





FISCAL YEAR 2023-24 BUDGET

for the period

July 1, 2023 through June 30, 2024



San Diego Community Power
Draft Budget for FY 2023-24 (Proposed)
Supplemental Details

	FY 2022-23 Draft Budget	% of Net Revenues
OPERATING REVENUES		
Gross Ratepayer Revenues	\$ 1,346,325,552	
(Less 1% Uncollectible Customer Accounts)	\$ (53,853,022)	
Net Operating Revenues	<u>\$ 1,292,472,530</u>	<u>100.0%</u>
COST OF ENERGY		
Cost of Energy	\$ 971,608,498	
Total Cost of Energy	<u>\$ 971,608,498</u>	<u>75.2%</u>
Gross Net Position	<u>\$ 320,864,032</u>	<u>24.8%</u>
OPERATING EXPENSES		
Professional Services and Consultants		
Data Management	\$ 13,458,692	
SDG&E Fees	\$ 4,035,591	
Technical Support	\$ 1,440,000	
Legal/Regulatory	\$ 2,176,000	
Other Services	\$ 1,808,593	
Total Prof. Svcs. Costs	<u>\$ 22,918,876</u>	<u>1.8%</u>
Personnel Costs		
Salaries	\$ 10,220,469	
Benefits (retirement/health)	\$ 2,260,353	
Payroll Taxes	\$ 820,775	
Accrued PTO	\$ 127,373	
Total Personnel Costs	<u>\$ 13,428,970</u>	<u>1.0%</u>
Marketing and Outreach		
Printing	\$ 1,367,378	
Partnerships/Sponsorships/Memberships	\$ 964,000	
Marketing and Communications	\$ 640,000	
Total Mktg and Outreach Costs	<u>\$ 2,971,378</u>	<u>0.2%</u>
General and Administration		
Other G & A	\$ 6,643,095	
Education and Training	\$ 60,000	
Cal CCA Dues	\$ 405,000	
Rent	\$ 398,768	
Insurance	\$ 20,800	
Total G & A Costs	<u>\$ 7,527,663</u>	<u>0.6%</u>
Programs		
Programs	\$ 278,250	
Total Programs Costs	<u>\$ 278,250</u>	<u>0.0%</u>
Net Operating Expenses	<u>\$ 47,125,138</u>	<u>3.6%</u>
Total Operating Expenses	<u>\$ 1,018,733,636</u>	<u>78.8%</u>
Operating Income (Loss)	<u>\$ 273,738,895</u>	<u>21.2%</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and Related Expenses	\$ 2,437,574	
Total Non-Operating Revenues (Expenses)	<u>\$ 2,437,574</u>	<u>0.2%</u>
CAPITAL INVESTMENT PROGRAM (CIP)		
Transfer to Capital Investment Program	\$ 4,175,232	
Interfund Transfer Out (Expenses)	<u>\$ 4,175,232</u>	<u>0.3%</u>
CHANGE IN NET POSITION	<u>\$ 267,126,088</u>	<u>20.7%</u>

I. OPERATING REVENUES

SDCP's sole source of revenue currently is from the retail sale of electricity to its customers. Revenue budgeted for FY 2023-24 reflects a full fiscal cycle of retail sales to our commercial and industrial customer base as well as for the majority of the residential customer base.

Additional assumptions for net operating revenue include:

- Enrollment of customers is substantially complete from member jurisdictions in Phases 1, 2, 3 and 4.
- 95% participation rate across all jurisdictions.
- A 4% uncollectible rate which is an increase from the 1% uncollectible rate assumed in all other prior budgets.
- Trifurcation of rates continues to ensure a fair, equitable, and balanced rate structure across customers with differing vintage years.
- Rates remain at the levels adopted by the Board on January 23, 2023, from July 2023 through December 2023 and are reduced from January 2024 to June 2024. A rate reduction, however, is subject to Board approval.

II. OPERATING EXPENSES

- a) **Cost of Energy** – Cost of Energy includes all the various services purchased from the power market through our suppliers. This includes purchased energy, capacity, CAISO fees and other miscellaneous power market expenses.
- b) **Personnel** – Personnel costs include salaries, payroll taxes, benefits, and excused absence and paid time off for staff. In addition, costs include assumptions from the Board adopted compensation policy including potential merit and cost-of-living increase.

The recruitment strategy includes the addition of approximately 23 new staff members during the FY 2023-24 budget cycle growing the agency to 59 total staff.

- c) **Professional services and consultants**

- i) Legal/Regulatory Services – SDCP retains legal counsel to assist with the complex aspects of the regulatory, compliance, power supply contract negotiations as well as its general legal needs. This line item will also allow for the retention of both a state and federal lobbyist to support SDCP's legislative and regulatory efforts.
- ii) Technical Support – SDCP engages consultants to assist with rate setting, policies, joint rate comparisons with the IOU, load analysis, and a scheduling coordinator. After electric power is scheduled for delivery to customers and ultimately consumed by those customers, the actual electric consumption must be trued up against the forecasted and scheduled energy. This true-up occurs



- through the settlement process. Settlements also entail addressing a number of other market and regulatory requirements. As SDCP grows its internal staff, it will look to in-house portions of this service.
- iii) Other Services – SDCP contracts or plans to contract for IT Services, Audit services (data and financial), Accounting services, and other services as needs. SDCP continues to examine if these services are more cost effective or efficient to bring in-house and, in particular, SDCP is growing its IT function in house and expecting a reduction in its IT Services professional services agreement.
 - iv) SDG&E Service Fees – Service fees paid to SDG&E consist of a charge of a fixed fee per account per month. The rollout of all enrollment phases add significant costs compared to FY 2023-24. The fees cover SDG&E's costs associated with meter reading additional data processing and bill coordination as mandated and regulated by the California Public Utilities Commission (CPUC). There are also numerous small fees associated with data requests.
 - v) Data Management – Broad scope of services that includes all “back office” billing data validation, bill coordination with SDG&E, call center services and billing technical support, customer enrollment database management, move-in/move-out services, customer research for enrollment support, and many support functions related to data reporting. With full enrollment from all phases, the cost for Data Management will be higher compared to prior fiscal years.
- d) **Marketing and Outreach**
- i) Communications Consultants – An important focus of SDCP is ensuring the community is informed about SDCP and that we build professional-level name recognition, trust, and education. This also covers the design of all required notifications sent out to customers, opt-out procedures, rate comparisons, as well as other notices or educational or marketing information.
 - ii) Notices, Mailers, Printing and Sponsorship – In addition to required noticing, SDCP performs outreach to educate the community of the benefits of community choice and to encourage awareness of our mission. This will come in the form of media advertising, sponsorships of community events and organizations, mailers, as well as targeted customer communications.
- e) **General and Administration** – General and Administration costs include leasing office space, industry fees or memberships (e.g., CalCCA dues), equipment and software, as well as other general operational costs including Board and Committee expenses, Board stipends, staff travel or professional development, team building, etc.
- f) **Programs** – Programs includes funding for general and administrative support for all program areas including services such as geographic information systems (GIS) mapping



grant-writing support, etc. Moving forward, individual program costs will be moved to SDCP's Capital Investment Program (CIP).

III. NON-OPERATING REVENUES (EXPENSES)

Non-operating revenue represents interest income earned on cash reserves. Non-operating expenses represents interest paid on borrowed funds under the bank credit facility maintained by SDCP used to finance a portion of its operations. Expenses also include other bank related fees (i.e. letter of credit issuance fees, renewal fees, etc.).

IV. CAPITAL INVESTMENT PRORAM (CIP)

New for FY 2023-24, SDCP is developing its first Capital Investment Program (CIP) which will contain all the individual capital projects, equipment purchases, and major programs for the agency that are intended to span multiple years.

The FY 2023-24 budget proposes a one-time portion of net operating revenues be transferred to the CIP as a continuing fund in which any unspent funds are kept within that fund and carried forward to the subsequent fiscal year.

The CIP includes funding for local development feasibility studies, customer program pilot projects, member agency grants, community grants, a customer education platform, and other areas as outlined in the short- and medium-term program areas.