

VALLEY CLEAN ENERGY ALLIANCE

Staff Report Item 14

TO: Valley Clean Energy Alliance Board of Directors

FROM: Mitch Sears, Interim General Manager
Michael Champ, Sacramento Municipal Utility District (SMUD)

SUBJECT: Financial Reserve Policy

DATE: December 14, 2017

RECOMMENDATION

Adopt a resolution approving the proposed Financial Reserve Policy

BACKGROUND AND ANALYSIS

In order to achieve its strategic goals, VCEA must maintain liquidity for day-to-day operations and develop access to capital markets to fund long-term investments. Setting a target Financial Reserve level provides a reference point to use when evaluating the financial impacts of various policy decisions, such as portfolio mix and rate setting.

A Financial Reserve is typically unrestricted, liquid funds available to an organization. These funds are used to ensure the organization can weather volatility in short-term revenues and expenses. Target levels are generally set as a number of days cash. Other CCAs have generally followed this structure in setting their target reserves. Once reaching target operating reserve levels, some CCAs have begun developing additional reserves to act as collateral for long-term power procurements, provide rate stability, and support development of local renewable power.

In developing a target level, staff considered what level of cash would be necessary considering the level of volatility and uncertainty in costs, as well as the cost of debt. Accepting a lower Financial Reserve would increase the liquidity risk of VCEA. Setting a higher level would increase debt service costs and reduce VCEA's ability to execute local generation and programs.

An additional reserve is proposed to begin setting aside funds for local program development. Contributions are set to be small at first (1% of net income or approximately \$16,000 in 2018), but may be adjusted upwards as net income grows.

PROPOSED RESERVE POLICY

VCEA staff recommends adopting the attached Financial Reserve Policy that sets a minimum level of 30 days cash, with a longer-term target of repaying startup capital and building to a target level of 90 days cash. The reserve policy also includes establishing the local program development fund as noted above.

Community Advisory Committee Recommendation

On December 4, 2017 the Community Advisory Committee recommended that the Board support the proposed Financial Reserve Policy. The motion passed 6-1-1.

CONCLUSION

Staff recommends that the Board adopt the attached Financial Reserve Policy.

Attachment

1. VCEA Financial Reserve Policy
2. Resolution

ATTACHMENT A

Proposed Financial Reserve Policy

The VCEA Board recognizes the importance of developing reserves to:

- Ensure financial stability
- Ensure access to credit at competitive rates
- Ensure rate stability
- Set aside monies for local programs

To achieve these objectives, VCEA targets an operating reserve account minimum balance of 30 days operating expenses, with a goal of building to a reserve of 90 days operating expenses.

Additionally, VCEA will set aside a reserve fund for local programs, equal to 1% of net income.

VCEA will initially build a reserve fund of 30 days operating expenses. Once this is funded, VCEA will begin paying off debt and building cash reserves to meet a 90-day operating reserve level.

Rates, Power Portfolio Resource mix, and Operating Budget will be adjusted as needed to meet VCEA's target reserves schedule.

VCEA Financial Reserve Policy

Adopted: December 14, 2018

Amended:

The VCEA Board recognizes the importance of developing reserves to:

- Ensure financial stability
- Ensure access to credit at competitive rates
- Ensure rate stability
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Rates, Power Portfolio Resource mix, and Operating Budget will be adjusted as needed to meet VCEA's target reserves schedule.

VALLEY CLEAN ENERGY ALLIANCE

RESOLUTION NO. 2017- _____

A RESOLUTION OF THE VALLEY CLEAN ENERGY ALLIANCE ADOPTING
A FINANCIAL RESERVE POLICY

WHEREAS, the Valley Clean Energy Alliance (“VCEA”) is a joint powers agency established under the Joint Exercise of Powers Act of the State of California (Government Code Section 6500 et seq.) (“Act”), and pursuant to a Joint Exercise of Powers Agreement Relating to and Creating the Valley Clean Energy Alliance between the County of Yolo (“County”), the City of Davis (“Davis”), and the City of Woodland (“City”) (the “JPA Agreement”), to collectively study, promote, develop, conduct, operate, and manage energy programs; and

WHEREAS, in order to achieve its strategic goals, VCEA must maintain liquidity for day-to-day operations and develop access to capital markets to fund long-term investments in local clean energy development and customer programs; and

WHEREAS, setting a target Financial Reserve level also provides a reference point to use when evaluating the financial impacts of various policy decisions, such as portfolio mix and rate setting.

NOW, THEREFORE, the Board of Directors of the Valley Clean Energy Alliance hereby adopts a Financial Reserve Policy (Exhibit A).

ADOPTED, this _____ day of _____, 2017, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Chair

Secretary

Approved as to form:

Interim VCEA Counsel

EXHIBIT A - VCEA Financial Reserve Policy

EXHIBIT A

VCEA Financial Reserve Policy