

RESOLUTION NO. _____

**A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN JOSE
APPROVING REVISIONS TO CITY COUNCIL POLICY 1-24,
SAN JOSE CLEAN ENERGY FINANCIAL RESERVES POLICY,
TO ESTABLISH A RATE STABILIZATION RESERVE FOR THE
SAN JOSE CLEAN ENERGY PROGRAM AND MAKE
TECHNICAL AND CLARIFYING CHANGES**

WHEREAS, the City Council of the City of San José (“City”) initially adopted City Council Policy 1-24, San José Clean Energy Financial Reserves Policy, (“Council Policy 1-24”) on December 6, 2022, which implemented an Operational Reserve for San José Clean Energy (“SJCE”) with the goal of building a budgeted reserve to 180 days of operating expenses in order to provide sufficient financial capacity to meet short-term obligations and SJCE’s strategic initiatives; and

WHEREAS, given SJCE’s strong current financial position, above 180 days liquidity on hand in the operating reserve at 2023-2024 year-end, the organization has financially matured to allow for an additional reserve devoted to rate stabilization that is considered an industry best practice for supporting financial covenant compliance and mitigating unplanned rate increases; and

WHEREAS, the City desires to amend Council Policy 1-24 to establish a Rate Stabilization Reserve to complement the Operating Reserve in SJCE’s portfolio of financial reserves, in order to support customer rate stability when faced with fluctuations in power expense costs that result in lower revenues or higher operating expenses, providing SJCE protection against market variability and a tool to maintain compliance with financial covenants, in accordance with Section 26.30.010 of the San José Municipal Code, as well as to make technical and clarifying changes; and

WHEREAS, this policy supersedes the policy adopted on December 6, 2022, by the City Council;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SAN JOSE THAT:

The revised Council Policy 1-24, entitled “San José Clean Energy Financial Reserves Policy”, attached hereto as Attachment A and incorporated herein by reference as though fully set forth herein, is hereby approved and shall replace Council Policy 1-24 approved by the City Council on December 6, 2022.

ADOPTED this _____ day of _____, 2024, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

MATT MAHAN
Mayor

ATTEST:

TONI J. TABER, CMC
City Clerk

ATTACHMENT A
City of San José, California

COUNCIL POLICY

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EFFECTIVE DATE December 6, 2022	REVISED DATE <u>August 13, 2024</u>	
APPROVED BY COUNCIL ACTION 12/6/2022, Item 6.1b, Res. No. 80805; <u>8/13/2024, Item _____, Reso. No. _____</u>		

PURPOSE

~~Establishing~~ It is the purpose of this policy to establish financial reserves ~~that build over time is for San José Clean Energy (SJCE) as~~ a critical component ~~of~~ enterprise risk management, prudent fiscal management, contingency planning, and funding of long-term program goals. ~~San José Clean Energy (~~

POLICY AND OBJECTIVES

SJCE) will prudently manage its operations in a manner that supports its long-term financial independence and stability, ~~provides sufficient financial capacity to bridge shortfalls in cash flow and covers unanticipated expenditures,~~ while providing sufficient financial capacity to meet short-term obligations. SJCE shall strive to build and maintain financial reserves to meet strategic objectives including, but not limited to:

POLICY

~~SJCE shall strive to build and maintain financial reserves as described in this policy to:~~

- ~~• Meet SJCE's strategic objectives and establish long-term business sustainability~~
- a) Secure favorable commercial terms with vendors, including power producers
- b) ~~Secure future~~ Maintain stand-alone SJCE credit rating
- c) Develop a source of funds for investment in generation and other local programs
- d) Provide a contingency ~~that supports to support~~ rate stability for SJCE customers
- e) Provide a source of funds to respond to ~~unanticipated~~ unforeseen expenditures or market events

RESPONSIBILITIES

The Director of Energy, appointed by the City Manager and subject to their direction and supervision, is responsible for developing resource plans, administering rate setting for

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the SJCE program, and overseeing the financial accounting of SJCE in coordination with the Finance Department.

FINANCIAL RESERVES

1. Operating Reserve

~~It is important to note that the goals listed above are not intended to be a comprehensive list of goals for SJCE. Rather, the above reflect a subset of goals critical to long-term business viability of SJCE.~~

Within the San José Clean Energy Operating Fund, an operating reserve is established. The purpose of this reserve is to provide liquidity for SJCE, supporting the objectives outlined in this policy. The operating reserve will develop to, and ultimately maintain, SJCE shall strive to build and maintain financial reserves with a goal of at least one hundred eighty (180) days of operating costs, including power supply expenses, held in an Operating Reserve liquidity on hand¹, subject to SJCE's ability to meet operational expenditures and maintain competitive rates. The operating reserve will be budgeted in the Operations and Maintenance Reserve and/or as Unrestricted Ending Fund Balance, and reflected on SJCE's Financial Statements as ~~or as~~ unrestricted equity in pooled cash, and investments. Funding for ~~reserves~~ the operating reserve will come from an excess of revenues over expenditures. The contributions to and draws on the ~~reserves~~ operating reserve will be determined through SJCE's budgeting and rate-setting processes, as approved by the City Council.

2. Rate Stabilization Reserve

Within the San José Clean Energy Operating Fund, a Rate Stabilization Reserve may be maintained at a level deemed adequate as determined by the Director of Energy to meet SJCE's operational needs. The purpose of this reserve is to provide customer rate stability when there are fluctuations that result in lower revenues or higher operating expenses than anticipated. With the Rate Stabilization Reserve, consistent with GASB 62 regulatory accounting, some inflow of operating income in years when financial results are strong can be deferred to future years, where financial results are less strong. In such less financially strong years, SJCE can draw down on the Rate Stabilization Reserve to mitigate impacts to customers. This Rate Stabilization Reserve serves as a protective measure for SJCE against market fluctuations and acts as a tool to ensure compliance with financial covenants.

¹ Days liquidity on hand (DLOH) is calculated as (unrestricted cash) x 365 / (total operating expenses including power purchases, for the prior 12-month period).

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The Energy Department may periodically make revenue deferrals to and from the Rate Stabilization Reserve consistent with the SJCE Financial Reserves Policy objectives and under the following two (2) conditions:

- a. Deposits: When the projected addition to Net Position² for the year exceeds 5% of total operating and non-operating revenues for that year, as calculated before deferring any resources to the Rate Stabilization Reserve.
- b. Withdrawals: When Net Revenues are projected to be negative or as necessary to satisfy any legal covenants, contractual obligations or to maintain investment grade credit ratings.

Rate Stabilization Reserve Targeted Balance: The Rate Stabilization Reserve will be evaluated at the close of each fiscal year, as described above until the balance equals 10% of the total operating and non-operating revenues in the then current fiscal year. In such cases where the Rate Stabilization Reserve exceeds this cap, it does not need to be drawn on; however, further contributions cannot be made to the Rate Stabilization Reserve.

RESERVES POLICY REVIEW

The Financial Reserves Policy will be reviewed annually to ensure ~~it meets alignment with~~ the needs of the SJCE program. ~~The future~~Future development of SJCE may require the ~~expansion~~creation of new reserves and/or adjustment of reserve targets to support ~~new activities such as major expansion of SJCE activities or the acquisition of generating assets.~~ In addition, the Reserves Policy may be adjusted in the future to ~~respond to changes in the operating activities,~~ industry standards, legislation, or economic conditions.

² The addition to Net Position is calculated as the total operating and non-operating revenues less total operating and non-operating expenses for the fiscal year. On the Statement of Revenues, Expenses, and Changes in Net Position this is identified as the Change in Net Position.