



Staff Report Item14

TO: East Bay Community Energy Board of Directors
FROM: Howard Chang, Chief Operating Officer & Treasurer
SUBJECT: Reserve Fund Allocations from 2018-19 Fiscal Year Net Revenues (**Action Item**)
DATE: December 18, 2019

Recommendation

Approve the proposed contributions to the reserve funds.

Background and Discussion

On June 20, 2018 the Board of Supervisors approved by resolution R-2018-26 the adoption of a financial reserve policy, P-2018-10. This policy established reserve fund targets, along with minimum and maximum contribution limits, for the purposes of establishing and supporting agency credit, finance necessary collateral postings, and to support local development program funding.

In accordance with this policy, and after successfully completing its first full operating year, EBCE is conducting its first allocation of net revenues to these funds. To fulfill this action, the following table, from the approved policy, provides the guidelines for funding the reserve funds by establishing their targets and their minimum and maximum annual funding contribution in terms of percent of revenue.

Table 1 - Overview of Reserve Policies

	Target	Max Annual Contribution	Min Annual Contribution
Operating/Credit Reserve	6 months of Operating Expense	10% of revenues	5% of revenues
Rate Stabilization	1.5% of Revenues	1.5% of revenues	0.5% of revenues
Collateral	10% of Energy Expense	2% of revenues	0.5% of revenues
Local Development	10% of Revenues	2.5% of revenues	1% of revenues
Total		16% of revenues	7.0% of revenues

From the audited financial statements, 2018-19 revenues are \$387,251,933

Given the minimum reserve fund allocations, 7% of revenues is \$27,107,635

Given the maximum reserve fund allocations, 16% of revenues is \$61,960,306

Based upon the June 30, 2019 audited financial statements, EBCE staff recommends contributing a total of \$40,513,687 to the reserve funds, which is 10.5% of revenues. This number is calculated from the Statement of Net Position (page 9 of the audited financial statements) as the sum of assets convertible to cash less the total liabilities. Please see Table 2, below, for the calculation.

Cash & Equivalents	38,773,514
Accounts Receivable	43,551,376
Accrued Revenue	28,125,065
Convertible Assets	110,449,955
Total Liabilities	69,936,268
Unrestricted Available for Reserves	40,513,687

Table 3 outlines the reserve funds, the proposed allocation amounts, and the percent of revenue calculations.

Table 3 - Reserve funds and allocations

Reserve Funds	Min %	Min Allocated	Max %	dded Allocation	% of Revenue	Ending Balance
Operating Credit	5.0%	19,362,597	10.0%	13,406,052	8.5%	32,768,648
Rate Stabilization	0.5%	1,936,260	1.5%	-	0.5%	1,936,260
Collateral	0.5%	1,936,260	2.0%	-	0.5%	1,936,260
Local Development	1.0%	3,872,519	2.5%	-	1.0%	3,872,519
Total Reserves	7.0%	27,107,635	16.0%	13,406,052	10.5%	40,513,687

EBCE staff does not recommend allocating more than the net of convertible assets to the reserve funds as other assets, such as deposits, prepaid expenses, and restricted cash, are outstanding as working capital. Incorporating these monies into the reserve amounts could expose EBCE to credit and operating risk and limits cash available to cover potential market energy cost increases.

Fiscal Impact

This allocation is not expected to impact normal operations and establishes a firm commitment to meeting EBCE's financial security. This commitment will convey positive intent and sound financial practice as EBCE pursues a credit rating. By establishing a credit rating, EBCE will be able to reduce collateral costs, borrowing rates, and allow for better terms when negotiating long-term power purchase agreements.

Attachments

None