



Staff Report Item 9

TO: East Bay Community Energy Board of Directors

FROM: Howard Chang, Chief Operating Officer & Treasurer

SUBJECT: Reserve Fund Allocations from 2019-20 Fiscal Year Net Revenues (Action Item)

DATE: November 18, 2020

Recommendation

Adopt a Resolution to 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.

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

As determined by the policy and as stated in the approved resolution, EBCE must meet the minimum contribution requirements. Contributions meeting or exceeding the maximum amount is at the discretion of the Board.

Methodology and Calculation

The methodology for determining the amount to allocate to reserves is as follows:

1. Determine convertible assets from the audited financial statements
2. Deduct total liabilities
3. Deduct cash previously allocated to the reserve funds
4. Deduct Working Capital Requirements

EBCE has working capital needs through the fiscal year that must be considered. If all available cash is allocated to the reserves, there will be little margin in the monthly revenues to meet monthly expenses without tapping into the reserves, and due to the business cycle winter months are often negative in earnings. Working capital needs are estimated at \$36.6 million.

Table 2 performs the calculation in accordance with the methodology described and includes the working capital needed for liquidity purposes.

Cash & Equivalents	108,481,294	A
Accounts Receivable, Net of Allowances	50,082,004	B
Accrued Revenue	26,130,467	C
Convertible Assets	184,693,765	D = A + B + C
Total Liabilities	57,899,438	E
Total Unrestricted Funds Available for Reserves	126,794,327	F = D - E
Previous Reserves	40,513,687	G
2020 Unrestricted Funds Available for Reserves	86,280,640	H = F - G
Working Capital Requirements	36,576,000	I
Working Capital Adjusted Funds Available for Reserves	49,704,640	J = H - I

Allocation to Reserve Funds and Balances

From the audited financial statements, 2019-20 revenues are \$463,381,478. Given the minimum reserve fund allocations is 7% of revenues (\$32,436,703) and given the maximum reserve fund allocations is 16% of revenues (\$74,141,036), the liquidity adjusted amount available for reserves is 10.7% of revenues.

Based on the waterfall approach of first contributing the required minimums, then filling up each reserve to maximums, the contributing amount fills all minimum requirements and adds an additional amount to the Operating/Credit reserve, and is shown in Table 3 below.

Reserve Fund	Min %	Min Allocated	Max %	Added Allocation	Total Allocated	% of Revenue
Operating/Credit	5.0%	23,169,074	10.0%	17,267,937	40,437,010	8.7%
Rate Stabilization	0.5%	2,316,907	1.5%	-	2,316,907	0.5%
Collateral	0.5%	2,316,907	2.0%	-	2,316,907	0.5%
Local Development	1.0%	4,633,815	2.5%	-	4,633,815	1.0%
Total	7.0%	32,436,703	16.0%	17,267,937	49,704,640	10.7%

With these allocations, Table 4 presents the updated fund balances

Reserve Fund	Target	Starting Balance	Additional Allocated	Ending Balance
Operating/Credit	197,783,500	32,768,648	40,437,010	73,205,659
Rate Stabilization	6,950,722	1,936,260	2,316,907	4,253,167
Collateral	37,347,742	1,936,260	2,316,907	4,253,167
Local Development	46,338,148	3,872,519	4,633,815	8,506,334
Total	288,420,112	40,513,687	49,704,640	90,218,327

EBCE is building strong reserves after two full fiscal years. With this allocation, the Operating Reserve will be at approximately 37% of its target level. In order to pursue an investment grade credit rating, EBCE will need to maintain strong reserve and liquidity metrics. Liquidity metrics include both reserves and working capital cash balances. As of June 30, 2020 EBCE's Balance Sheet Cash and Cash Equivalents position was \$108MM. Based on an evaluation of the credit ratings of investment grade CCAs, preliminary indications are that EBCE should target maintaining cash levels between \$150MM to \$200MM. Increased liquidity above this target range may improve the likelihood for a stronger credit rating.

CCA	Cash (\$MM) (as of Rating Date)	Days Liquidity on Hand	Rating Agency	Rating
MCE	\$ 39.3	86	Moody's	Baa2 / BBB
PCE	\$ 66.7	135	Moody's	Baa2 / BBB
SVCE	\$ 124.0	198	Moody's	Baa2 / BBB
3CE	\$ 119.4	164	S&P	A2 / A

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.

Attachments

- A. Resolution Approving the proposed contributions to the Reserve Funds

RESOLUTION NO. __
A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE EAST BAY COMMUNITY ENERGY AUTHORITY __

WHEREAS The East Bay Community Energy Authority (“EBCE”) was formed as a community choice aggregation agency (“CCA”) on December 1, 2016, Under the Joint Exercise of Power Act, California Government Code sections 6500 *et seq.*, among the County of Alameda, and the Cities of Albany, Berkeley, Dublin, Emeryville, Fremont, Hayward, Livermore, Piedmont, Oakland, San Leandro, and Union City to study, promote, develop, conduct, operate, and manage energy-related climate change programs in all of the member jurisdictions. The cities of Newark and Pleasanton, located in Alameda County, along with the City of Tracy, located in San Joaquin County, were added as members of EBCE and parties to the JPA in March of 2020.

WHEREAS On June 20, 2018, the Board approved by resolution R-2018-26 to adopt a financial reserve policy, P-2018-10. This policy established reserve targets, and minimum and maximum annual contribution limits.

WHEREAS The available amount for contribution is determined from the audited financial statements by the sum of convertible assets less the sum of total liabilities, cash previously allocated to the reserve funds, and anticipated cash needed for working capital.

WHEREAS The available balance runs through the waterfall whereby each reserve is first funded to its minimum limit, and then remaining cash is added to meet each fund’s maximum until all available cash is allocated.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE EAST BAY COMMUNITY ENERGY AUTHORITY DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. Based on the application of determining available funds, an additional \$49,704,640 of unrestricted cash is available for reserve allocation.

Section 2. Based on the proper application of the waterfall, each reserve fund minimum is sufficiently met.

Section 3. Based on the proper application of the waterfall, the Operating/Credit reserve is allocated an additional 3.7% of revenues (\$17,267,397) towards reaching the maximum allocation.

Section 4. The new total balance of reserve funds is established at \$90,218,327

ADOPTED AND APPROVED this _____ day of _____, 2020.

Dan Kalb, Chair

ATTEST:

Stephanie Cabrera, Clerk of the Board