



Staff Report – Item 6

To: Silicon Valley Clean Energy Authority Board of Directors

From: Tom Habashi, CEO

Item 6: Approve SVCE Financial Policies

Date: 1/11/2017

RECOMMENDATION

This requests that the Silicon Valley Clean Energy Authority (SVCEA) Board approve the attached Financial Policies FP1 through FP7. Additional financial policies that may require in-depth review by the Executive Committee such as a Reserves Policy will be recommended for Board approval in February or March 2017.

BACKGROUND

In April 2016, SVCEA was formed as a community aggregation program to provide retail electricity services to residents and businesses in its member agencies. The initial activities needed to launch the program, scheduled for April 3, 2017 were funded by contributions of the member agencies with no governing policies to guide staff spending. At the December 14th Board Meeting, the Board of Directors emphasized that financial matters are of utmost importance and the need to adopt policies that protects SVCEA's assets and ensures financial sustainability.

ANALYSIS & DISCUSSION

FP1 – Accounting

The purpose of this policy is to document SVCEA's method of accounting, audit schedule and standards of internal controls.

- i. The policy defines that an independent firm of Certified Public Accountant (CPAs) shall perform an annual financial audit and an official comprehensive financial report (CAFR) will be issued no later than 6 months following the fiscal year-end.
- ii. Audit contracts shall be competitively bid every five years or sooner if desired by the Board.
- iii. Staff will establish internal controls procedures to protect the assets of SVCEA and ensure accurate financial reporting.
- iv. The Board of Directors may form a five-member advisory committee to serve as the Finance and Audit Committee. The Committee shall provide an oversight function regarding SVCEA's financial reporting and effectiveness over internal controls.
- v. Staff will present quarterly financial updates to the Board.

FP2 – Budget

The purpose of this policy is to establish guidelines for the compilation, implementing, and monitoring of SVCEA's budget.

- i. Staff will present a proposed budget at the Board Meeting in August of each fiscal year.
- ii. Staff is required to present a balanced budget that supports the strategic plan.
- iii. The final budget document will be available for public distribution no later than 60 days from the beginning of the fiscal year.
- iv. The Board will engage in a Mid-Year review of the budget to evaluate any unanticipated revenues or expenses.

Agenda Item: 6**Agenda Date: 1/11/2017**

- v. As part of the budget process, staff will prepare a five-year forecast.

FP3 – Capital Projects

The purpose of this policy is to establish a process for approving capital projects.

- i. The Capital Project process will be integrated into the budget process and presented to the Board for approval.
- ii. Once approved, if the capital project exceeds project cost budget by 15%, it will require Board approval.
- iii. Staff will present semi-annual reports describing the status of ongoing capital projects.

FP4 – Debt Limitations

The purpose of this policy is to establish a process for consideration of long-term debt.

- i. Long-term debt will not be used to support operating expenses.
- ii. A ceiling of 10% of operating revenues is set against annual debt service expense.

FP5 – Customer Generation Rates

The purpose of this policy is to establish a process for rate setting.

- i. Customer Generation Rates will be set at 1% below Pacific Gas & Electric's generation rates in January 2017 and remain unchanged through 2018, subject to substantial and unexpected volatility in wholesale power pricing.
- ii. Future rate setting will include consideration of recovering full cost of operations, debt service, equity funding of capital investment, funding of reserve accounts, and any other current obligations.
- iii. Rate adequacy review shall be completed every five years at a minimum.

FP6 – Purchasing

The purpose of this policy is to ensure proper review and budgetary monitoring for all procurement activities.

- i. All contract \$100,000 or MORE shall require Board approval.
- ii. The Request of Proposal (RFP) process and a written contract are required for procurements of \$100,000 or MORE for materials, supplies & equipment and construction services. The same applies for professional services of \$150,000 or MORE.
- iii. Guidelines for sole sourcing and contract extensions are also established.

FP7 – Purchasing Card Use

The purpose of the policy is to establish processes for the proper use of purchasing cards.

ATTACHMENTS

1. FP1 – Accounting
2. FP2 – Budget
3. FP3 – Capital Projects
4. FP4 – Debt Limitations
5. FP5 – Rate Setting
6. FP6 – Purchasing
7. FP7 – Purchase Card Use



FP1

Category: FINANCIAL MATTERS

ACCOUNTING POLICY

Purpose:

The purpose of this policy is to document the Authority's method of accounting, audit schedule and standards of internal controls.

1. The Authority will establish accounting practices that conform to Generally Accepted Accounting Principles (GAAP) for governmental entities.
2. An independent firm of Certified Public Accountant (CPAs) shall perform an annual financial audit and an official comprehensive annual financial report (CAFR) shall be issued no later than 6 months following fiscal year-end.
3. A management letter, the by-product of an annual audit, shall be presented to SVCE Board by the independent certified public accounting firm no later than 60 days from issuance of the Authority's CAFR.
4. Audit contracts shall be competitively bid at least every five years, or sooner as desired by the Board. Staff will present the process and the results of its screening and selection process of the external auditor to the SVCE Board. Any actions relating to annual renewal of audit contracts require Board approval.
5. Quarterly, the Authority's Accounting Statements including a Balance Sheet, a Profit and Loss Statement and a Supplementary Schedule of Capital Projects shall be submitted to SVCE Board of Directors.
6. Internal control procedures consistent with Section 404 of Sarbanes Oxley Act, shall be developed and routinely updated to ensure accurate financial reporting and an effective internal control structure over the assets of the Authority. Internal controls will take into consideration compliance with applicable laws, regulations and the provisions of contracts agreements.
7. The SVCE Board of Directors may form a five-member advisory committee to serve as the Finance and Audit Committee. The committee engaged primarily in



FP1

Category: FINANCIAL MATTERS

an oversight function regarding the Authority's financial reporting processes and the effectiveness over internal controls. The audit committee, consistent with the Sarbanes Oxley Act, shall have Board member representation only. The external auditor shall report results directly to the Audit Committee.



FP2

Category: FINANCIAL MATTERS

BUDGET POLICY

1. The Authority's fiscal year is October 1 to September 30.
2. The Chief Executive Officer shall prepare and submit to the Board of Directors a proposed Budget for the following fiscal year at the August Board meeting, of each year. The Authority's Budget shall be prepared concurrently to the pursuit of the Authority's Annual Fiscal Year Goals, Objectives and Performance Metric targets to be achieved during the period, in alignment with the Authority's Strategic Plan. The Authority's Budget reflects all activities, including operating and capital programs expenditure.
3. The annual budget shall be balanced. A balanced budget exists when Total Revenue is greater than or equal to Total Expenditures. Total Revenues shall include all revenues from retail and wholesale of electricity, return on investments and withdrawals from reserve funds. Total expenditures shall include all operating expenses and capital programs. Any increase in expenditures or decrease in revenues that would cause the budget to become imbalanced and would require a budget revision is subject to Board approval. Any year-end surplus will be used to maintain reserve levels with the balance available for capital projects, debt reduction and/or one-time-only expenditures.
4. In the event that the Board of Directors does not adopt the Authority's Budget by September 30, the Board of Directors may adopt a continuing appropriations resolution until such time as the Authority's Budget is adopted. A continuing appropriations resolution would provide that payments for services performed on behalf of the Authority and authorization of awards contracts would continue until such time as the Authority's Budget is adopted.
5. The final budget document including the contents and resolution for the Adopted Budget for public distribution will be issued within 60 days from the beginning of the fiscal year.



FP2

Category: FINANCIAL MATTERS

6. The Authority's Budget shall include an analysis of the assumptions underlying revenue and expense projections, the number and job classifications of authorized positions by department and kWh's, number of customer accounts and market energy prices, upon which the Authority's Budget is based.
7. Staff will prepare a 5-year financial forecast annually projecting revenues and expenditures for all operating funds and capital projects. The forecast shall be used as a planning tool in developing the following year's budget.
8. The Chief Executive Officer shall submit revenue and expenditure projections to the Board of Directors, on a quarterly basis unless there are changes in those projections that significantly impact the financial status of the Authority in which case, the Board of Directors will be informed at the next Regular or Special Meeting of the Board.
9. The Board of Directors shall approve an amended appropriations resolution at the Mid-Year review period, or Quarterly if necessary, to authorize the receipt and expenditure of funds unanticipated in the Authority's Budget approved as of September 30, and the reallocation of funds necessary for the operation of the Authority.
10. Budgetary control is maintained at the departmental level for each operating department and at the project level for each capital project. Any expenditure in excess of the approved Department Budget or approved Capital Project Budget shall require prior approval by the Chief Executive Officer. Any expenditure in excess of the authorized total Authority Budget shall require prior approval by the Board of Directors. The Chief Executive Officer shall establish procedures to ensure that proper controls are implemented for all Authority expenditures.
11. The Chief Executive Officer is authorized to exceed the budgetary control limitations by \$500,000 for expenditures, which, due to unforeseen circumstances that call for immediate action with inadequate time for prior Board approval. Immediate action is taken to avert or alleviate damage to property, to protect the health, safety and welfare of the community and Authority's employees, or to repair or restore damaged or destroyed property of the Authority. The Chief Executive Officer shall submit to the Board of Directors for confirmation, within 30 days of the emergency, a report explaining the necessity



FP2

Category: FINANCIAL MATTERS

for the action, a listing of expenditures made under these emergency powers and any recommended future actions.



FP3

Category: FINANCIAL MATTERS

CAPITAL PROJECTS POLICY

1. This Policy establishes a process for approval of capital projects.
2. For the purpose of this Policy, "Capital Project" means: A capital expenditure having a value of \$5,000 or more and a life expectancy of one year or more.
3. Capital Project Approval Authority
 - a. The Chief Executive Officer shall submit to the Board of Directors at the time he/she submits the Budget a proposed capital budget that identifies all capital projects, their scope and amount for the Budget approval.
4. Authority to approve changes in capital project scope, funding source or term:
 - a. The Board of Directors shall approve scope increases that exceed 15% of project costs.
 - b. The Chief Executive Officer shall have the authority to approve scope increases that do not exceed 15% or project costs.
5. The Chief Executive Officer, in the preparation of the capital budget, shall evaluate all Capital projects based upon, but not limited to, the following criteria:
 - a. The benefit to the Authority, including the affect on future operating costs and revenues;
 - b. The affect on operations and reliability;
 - c. The life of the asset;
 - d. The total project costs and schedule for completion;
 - e. The consequences of not funding the Capital project;
 - f. The sources of funding.
6. Only those operating, administrative, maintenance and interest expenses incurred prior to actual completion of the capital improvement shall be included in the capital budget. After completion of the capital project, such costs shall be included in the operating budget of the District.
7. The Chief Executive Officer shall provide to the Board of Directors a semi-annual Capital Projects Report during the mid-year review, describing the status of ongoing capital projects.



FP4

Category: FINANCIAL MATTERS

DEBT LIMITATIONS POLICY

1. Capital projects funded through the issuance of bonds or other forms of debt instruments shall be financed for a period not to exceed the expected useful life of the project and in no event shall it exceed 30 years.
2. All professional service providers (underwriters, financial advisors, bond insurer's, etc.) shall be competitively bid and will require a request for proposal process unless waived by the Board of Directors.
3. Long-term debt or bond financing shall not be used to support operating expenses.
4. Total annual debt service expense shall not exceed ten percent of operating revenue.
5. The Board of Directors may consider the cost/benefit to the Authority of using lease purchase agreements to finance capital projects that would otherwise be financed through an annual appropriation of Authority funds.
6. Reserve accounts shall be maintained as required by bond requirements and where deemed advisable by the SVCE Board. The Authority shall structure such debt service reserves so that they do not violate IRS arbitrage regulations.
7. Ongoing routine, preventive maintenance should be funded on a pay-as-you-go basis.



FP5

Category: FINANCIAL MATTERS

CUSTOMER GENERATION RATES

1. Customer Generation Rates will be set at 1% below Pacific Gas & Electric's (PG&E) generation rates in January 2017. To achieve rate stability, Customer Generation Rates will remain unchanged, subject to substantial and unexpected volatility in wholesale power pricing, until January 2019.
2. For rate setting beyond 2018, electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to support:
 - a. The full cost of operations
 - b. Debt service
 - c. Equity funding of capital investments
 - d. Funding of reserve accounts
 - e. Any other current obligations
3. In addition to these requirements, electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to ensure a minimum debt service coverage of 2.0x.
4. A rate adequacy review shall be completed every five years at a minimum, through performing a cost of service study.



FP6

Category: FINANCIAL MATTERS

PURCHASING POLICY

1. This policy sets forth the guidelines to ensure proper review and budgetary monitoring for all procurement activities.
2. Board Authority: The Board of Directors shall approve all solicitations of contracts where:
 - a. The anticipated costs is \$100,000 or more per contract year;
 - b. The solicitation is for the following professional services regardless of cost or inclusion in the approved Authority Annual Operating and Capital Budget:
 - i. Audit services.
 - ii. Legal services related to Board Officers.
 - c. The following items are exempt from Board approval:
 - i. Emergency procurements to avoid impacts to the health, welfare, or safety of an employee or the public; or
 - ii. Any procurement action taken to prevent a violation of law or a fine by another political jurisdiction.
 - iii. Energy transactions governed under the Energy Trading Authority Policy.
3. Procurement Standards
 - a. Procurement of Materials, Supplies & Equipment
 - i. \$0-\$2,500 – One informal quote. No need to obtain competitive quotations.
 - ii. \$2,500-\$100,000 – Informal. To the extent practicable, obtain price or rate quotations that permit prices and terms to be compared from an adequate number of qualified sources. (3 is acceptable)
 - iii. \$100,000 or MORE – Invitation to Bid (IFB), Request for Offers (RFO) or Request for Proposals (RFP). Written contract required.
 - b. Procurement of Professional Services
 - i. Under \$10,000 – One informal quote. No need to obtain competitive quotations.
 - ii. \$10,000 - \$150,000 – Informal. To the extent practicable, obtain price or rate quotations that permit prices and terms to be compared from an adequate number of qualified sources. (3 is acceptable)



FP6

Category: FINANCIAL MATTERS

- iii. \$150,000 or MORE - Request for Proposals (RFP). Written contract required.
 - c. Procurement of Construction Services (Including Repairs or Remodeling of Authority Facilities)
 - i. Under \$10,000 - One informal quote. No need to obtain competitive quotations.
 - ii. \$10,000 - \$150,000 – Informal. To the extent practicable, obtain price or rate quotations that permit prices and terms to be compared from an adequate number of qualified sources. (3 is acceptable)
 - iii. \$150,000 or MORE - Invitation to Bid (IFB) or Request for Proposals (RFP). Written contract required.
- 4. Independent Appraisals: All real estate purchases and purchases of a one of a kind item require an independent appraisal.
- 5. Procurement by Non-Competitive Proposals (Sole Source)
 - a. Sole Source procurement is a procurement action utilized when the goods or services are available from only one source for a required proprietary need of the Authority, or for compatibility purposes, or for reasons of continuity with previous delivered services or products.
 - b. Sole Source procurement is a limited exception to the procurement process and may be used only where the award of a contract is infeasible or impracticable under competitive procedures and at least one of the following circumstances applies:
 - i. The item is available only from a single source, and there is no comparable or “as equal” available;
 - ii. There exists a public exigency or emergency which will not permit the delay accompanying competitive solicitation.
- 6. Contract Amendments: The Board of Directors shall approve all amendments to Board approved contracts in excess of 15% of the original contract amount per contract year, or any cardinal change in the terms and conditions of the original contract.
- 7. The Chief Executive Officer has the authority to execute contract extensions that are tied to options that have been previously addressed in the solicitation,



FP6

Category: FINANCIAL MATTERS

provided that such extension(s) is/are within the Chief Executive Officer's authority and subject to all of the following conditions:

- a. There is a continued need for the services performed under the contract;
- b. Sufficient funds are available;
- c. The contractor's performance has been satisfactory; and
- d. The contract extension or the exercise of an option to extend the contract is in in the best operational and financial interest of the Authority.



FP7

Category: FINANCIAL MATTERS

PURCHASING CARD POLICY

1. Purchasing Cards or P-Cards, are credit cards issued to authorized employees to make purchases for the Authority. The proper use of P-Cards helps our business operate more efficiently and reduce costs.
2. Purchasing Cards will have a monthly cardholder limit of \$3,000.
3. Purchasing Cards may not be used to purchase temporary or contract labor which requires 1099 reporting.
4. In every case of credit card usage, the individual charging an account will be held personally responsible in the event that the charge is deemed personal or unauthorized.
5. Authorized Card Use:
 - a. Only Cardholders are authorized to use P-Cards.
 - b. P-Card authority cannot be delegated.
 - c. Cardholders are responsible for all use of their P-Card.
 - d. All purchases must comply with the purchasing, purchase order, travel, and accounts payable procedures.
 - e. Authorized purchases include:
 - i. The P-Card may be used for small purchases of supplies or services acquired through a purchase order or regular order or an individual order where the contract specifically allows such payment method.
 - ii. Designated representatives who travel on Authority business may use the P-Card for authorized travel expenses.
6. Un-Authorized P-Card Uses
 - a. Cash advances of any type are prohibited.
 - b. P-Cards shall not be used for personal purchase or identification.
 - c. Personal or non-business expenditures of any kind.
 - d. Meals, entertainment, gifts or other expenditures which are prohibited by:
 - i. Authority budget and/or policies
 - ii. Federal, state, or local laws or regulations.



FP7

Category: FINANCIAL MATTERS

- iii. Grant conditions or policies of the entities from which we receive funds.
- 7. Cardholder Recordkeeping
 - a. Every instance of credit card or other purchase must be documented with travel authorizations, receipts, nature of business, etc., before the expense will be considered authorized and will be approved for reimbursement.
 - b. Cardholders are responsible for retaining the documentation necessary for proof of purchase. This includes the invoice, shipping documents, and "Customer Copy" of the charge receipts.
- 8. Monthly Statement Review
 - a. All Cardholders must check each transaction against the purchasing log and supporting documentation. The original documents shall be attached to the monthly statement.
 - b. Any transaction with missing documentation requires a written explanation for the missing documentation. Include the vendor name, date, description of purchase, and reason for the missing documentation.
- 9. Returns are the responsibility of the Cardholder. Returns must be noted on the P-Card log and shipping documentation attached to the monthly statement review.
- 10. Disputes must be noted on the P-Card log.
- 11. If the Card is lost or stolen, it is important for the Cardholder to immediately notify the designated individual in the Authority.