

Audit & Finance Committee Meeting

June 12, 2023

Agenda

- Call to Order / Roll Call
- Public Comment (for items not on the Agenda)
- Action to set the Agenda and Approve Consent Items
- Chair Report
- Staff Report
- Regular Agenda

Chair Report



Staff Report



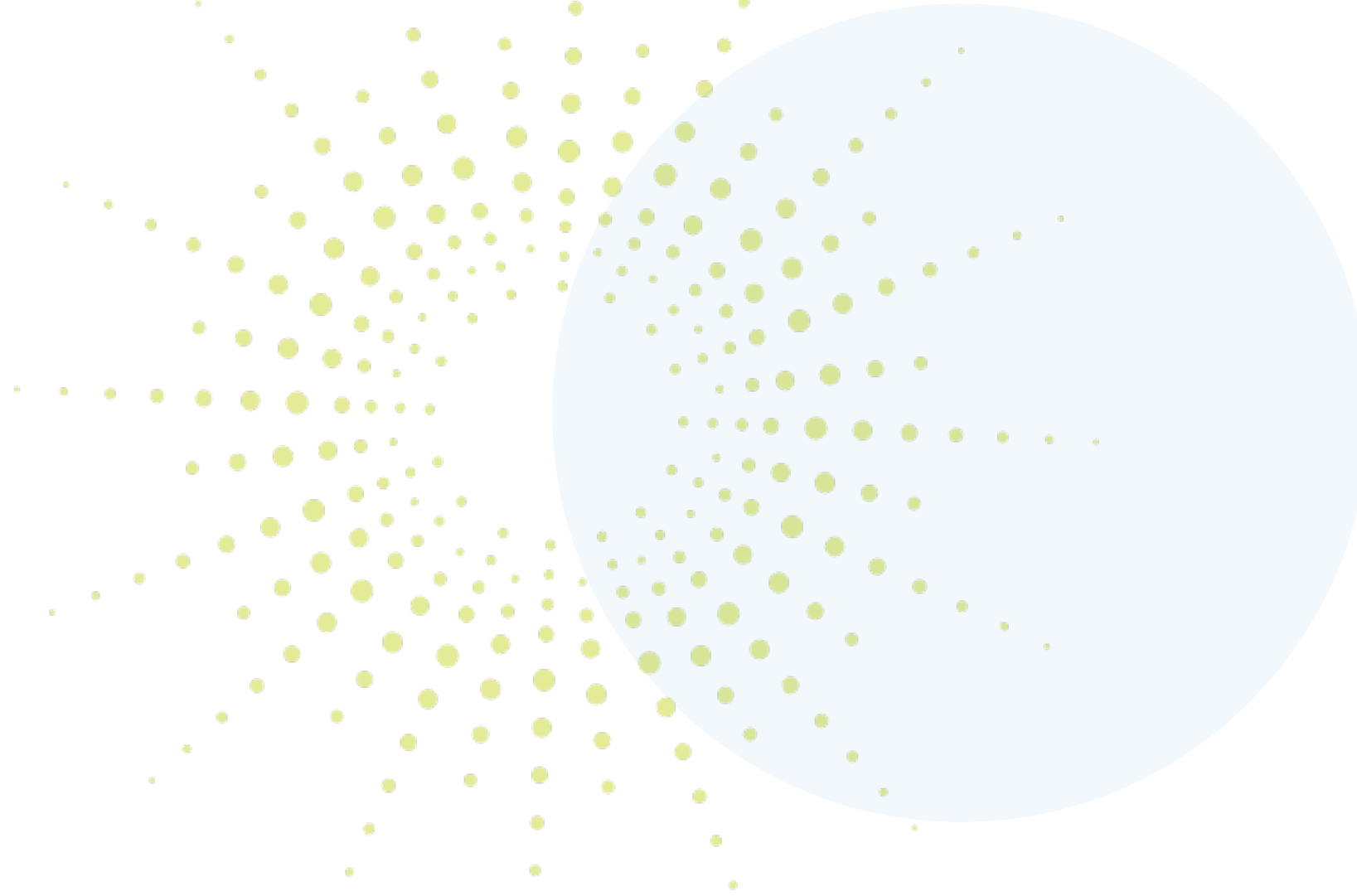
Staff Report

- Retroactive Approval of FY2021-2022 Spending
 - Total Operating Expenses Budget Approval = \$241,811,865
 - Total Operating Expenses Audited Actual = \$246,539,330
 - Retroactive Board approval skipped
 - Since so late now, will re-start practice for FY2022-2023 year
 - Transparency of forecasts and transparency of ongoing spending

FY 2023-2024
(July 1, 2023 – June 30, 2024)

Budget Review

Revised Draft



Recommendation/Resolution

**RESOLUTION RECOMMENDING THAT THE BOARD OF DIRECTORS
APPROVE THE FISCAL YEAR 2023-2024 BUDGET WITH TOTAL
OPERATING EXPENSES NOT TO EXCEED \$350,657,317**

Schedule – Budget Review and Approval

- ~~May 16, 2023 – Review Initial Draft Budget with Audit & Finance Committee~~
- ~~May 25, 2023 – Review Initial Draft Budget with Board of Directors~~
- June 12, 2023 – Review Revised Draft Budget with Audit & Finance Committee
- June 12, 2023 – Review Revised Draft Budget with Executive Committee
- June 22, 2023 – Approve Final Budget by Board of Directors

Revisions Since Initial Draft Budget

- Update to year-end FY23 forecast reflecting April 2023 financial results
- Minor adjustments to Programs Budget
- Modification to assumptions of Gov PV prepayment for conservatism
- Minor modifications to Days Cash on Hand calculation

Draft Budget FY2023-2024 – Key Assumptions (Page 1 of 2)

Revenues

- PG&E Generation Rates – Slight decline in rates for next 4 years
 - January 1, 2024 – Increase 1%
- PCIA Rates – Continuing decrease in rates as of January 1, 2024
 - January 1, 2024
 - San Mateo – Drop to \$0.00 from already low rate
 - Los Banos – Drop to \$0.00 from already low rate
 - After 2024
 - Significant increases for next 4 years, near to rates of 2022, but still not approaching rates of 2021
- Customer Rates to PCE – Relatively flat for next 3 years, then lower in 2027 and 2028 (but still well above low year of 2021)

Draft Budget FY2023-2024 – Key Assumptions (Page 2 of 2)

Cost of Energy –

- Budgeted at \$311 million - Increase of \$39 million (14%) over FY23 forecast
- Overall budget includes 2 conservatism contingencies
 - Energy Cost Volatility = \$15 million/year
 - 99% of 24x7 Hourly Renewable Project Delays = \$56 million over 5 years; \$770K in FY24
- Total cost is 9% higher than FY23 forecast without conservatism adders

Non-expense Capital Outflows/Inflows

- Solar and Storage on Public Buildings
 - Capital Outlay and Investment Tax Credit
 - PV1 - \$7.4 million outflow in FY24; \$2.2 million ITC inflow in FY26
 - PV2 - \$43.0 million in FY25; \$15.0 million ITC inflow in FY27
 - Repayment based on usage over 20-year period
- Ongoing On-Bill Finance Programs

Revised Draft Budget (FY23 Forecast and FY24 Summary)

	Fiscal Year			Fiscal Year
	2023 Budget	2023 Forecast	2023 Variance - Fav/(Unf)	2024 Revised Draft Budget
OPERATING REVENUES				
Electricity Sales, net	364,961,141	429,685,416	64,724,275	471,670,872
Green electricity premium	2,822,550	2,999,401	176,851	2,953,162
	367,783,691	432,684,817	64,901,127	474,624,034
OPERATING EXPENSES				
Cost of energy	264,208,440	270,221,267	(6,012,827)	311,261,389
Staff compensation	8,583,221	7,939,828	643,393	10,922,801
Data Manager	3,600,000	3,583,331	16,669	3,871,152
Service Fees - PG&E	1,350,000	1,309,818	40,182	1,400,000
Consultants & Professional Services	1,431,813	1,001,289	430,524	1,788,491
Legal	1,474,000	1,299,487	174,513	1,574,558
Communications and Noticing	2,686,208	1,409,113	1,277,095	2,850,940
General and Administrative	2,359,806	2,286,167	73,639	4,027,236
Community Energy Programs	8,640,000	7,946,237	693,763	12,726,000
Depreciation	96,000	78,870	17,130	234,750
Total Operating Expenses	294,429,488	297,075,405	(2,645,917)	350,657,317
Operating Income (Loss)	73,354,203	135,609,412	62,255,209	123,966,717
NON-OPERATING REVENUES (EXP.)				
Total Nonoperating Income/(Expense)	600,000	3,033,812	2,433,812	645,192
CHANGE IN NET POSITION	73,954,203	138,643,224	64,689,022	124,611,909
Net Position at the beginning of period	174,211,272	167,670,734	(6,540,538)	300,430,872
Net Position at the end of period	248,165,475	306,313,958	58,148,484	425,042,781
Total Cash & Cash Equivalents (after GOV PV programs)		262,859,728		377,161,637
Unrestricted Cash Days on Hand		323		393

FY24 Budget
Approval: Total
Operating Expenses

Revised Draft Budget FY2024-2028 – 5-year Outlook

	Fiscal Year				
	2024	2025	2026	2027	2028
	Revised Draft Budget	Forecast (FY)	Forecast (FY)	Forecast (FY)	Forecast (FY)
OPERATING REVENUES					
Electricity Sales, net	471,670,872	484,233,036	482,737,236	452,054,000	402,863,671
Green electricity premium	2,953,162	2,961,637	2,978,004	2,994,557	3,019,185
	474,624,034	487,194,674	485,715,240	455,048,558	405,882,856
OPERATING EXPENSES					
Cost of energy	311,261,389	383,611,464	382,474,223	344,299,885	329,946,422
Staff compensation	10,922,801	11,578,169	12,272,859	13,009,231	13,789,784
Data Manager	3,871,152	4,103,421	4,349,626	4,610,604	4,887,240
Service Fees - PG&E	1,400,000	1,484,000	1,573,040	1,667,422	1,767,468
Consultants & Professional Services	1,788,491	1,091,949	1,119,665	1,168,642	1,199,674
Legal	1,574,558	1,633,099	1,707,767	1,786,843	1,870,626
Communications and Noticing	2,850,940	2,964,912	3,048,580	3,134,757	3,223,520
General and Administrative	4,027,236	3,748,298	3,929,634	4,121,293	4,336,551
Community Energy Programs	12,726,000	22,130,000	25,781,000	30,355,000	32,935,000
Depreciation	234,750	1,062,250	2,466,694	2,616,000	2,616,000
Total Operating Expenses	350,657,317	433,407,562	438,723,088	406,769,676	396,572,285
Operating Income (Loss)	123,966,717	53,787,112	46,992,152	48,278,882	9,310,571
NON-OPERATING REVENUES (EXP.)					
Total Nonoperating Income/(Expense)	645,192	673,580	703,218	734,160	766,463
CHANGE IN NET POSITION	124,611,909	54,460,692	47,695,370	49,013,041	10,077,033
Net Position at the beginning of period	300,430,872	425,132,781	479,688,873	527,485,368	576,605,600
Net Position at the end of period	425,042,781	479,593,473	527,384,244	576,498,409	586,682,634
Total Cash & Cash Equivalents (after GOV PV programs)	377,161,637	385,717,729	432,714,223	493,834,456	501,025,113
Unrestricted Cash Days on Hand	393	326	362	446	464

Revised Draft Budget FY2024-2028 – 5-year Outlook

Impact of Gov PV Programs on Cash Position

	Fiscal Year				
	2024	2025	2026	2027	2028
	Revised Draft Budget	Forecast (FY)	Forecast (FY)	Forecast (FY)	Forecast (FY)
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Electricity Sales, net	471,670,872	484,233,036	482,737,236	452,054,000	402,863,671
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CHANGE IN NET POSITION	124,611,909	54,460,692	47,695,370	49,013,041	10,077,033
Total Cash & Cash Equivalents (before GOV PV programs)	387,561,637	431,717,729	433,514,223	481,834,456	503,275,113
Net Gov PV Programs (Outflow)/Inflow	(10,400,000)	(46,000,000)	(800,000)	12,000,000	(2,250,000)
Total Cash & Cash Equivalents (after GOV PV programs)	377,161,637	385,717,729	432,714,223	493,834,456	501,025,113
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Recommendation/Resolution

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Investment Strategy (*Discussion*)

A decorative background featuring a large, light blue circle on the right side. To the left of the circle is a dense cluster of small, yellow dots of varying sizes, some of which overlap the circle. The dots are scattered in a way that suggests a starburst or a cluster of data points.

Investment Management – Current Estimated Summary

As of June 2, 2023

Institution	Amount	Investment Mix
Fidelity	\$50.3 million	Fidelity Institutional Money Market Government Portfolio
First Republic (Operating)	\$22.6 million	Cash
Schwab	\$45.6 million	Schwab Treasury Obligations Money Fund
US Bank (as Custodian)	\$125.0 million	Cash and Fixed Income Portfolio <ul style="list-style-type: none">• PFM - \$64.7 million• FRB - \$60.3 million
Total	\$243.5 million	

Recent changes to diversify financial institutions

Investment Management – Policy #19

- Most recent version approved on May 28, 2020
- Priorities (in priority order)
 - Safety, Liquidity, Return
- Enabled
 - Broader access to high-quality fixed income investment options
 - Further diversification of the portfolio's holdings
 - Enhanced investment returns with safety as the overarching principle
- Expanded investment options as permitted by California Government Code to allow:
 - Banker's Acceptances – short-term debt issued by a commercial bank
 - Medium-term Corporate Notes
- Extended maturity of allowable investments as permitted by California Government Code
 - Increase 2-year maximum to 5-year maximum
 - Eliminated 1-year maximum on portfolio's weighted average maturity (Code has no limit)

Investment Management – Policy #19

- Added some guardrails of maximum holdings in some specific categories
- Some examples:
 - Corporate Medium-Term Notes (up to 5 years) – Up to 30% of portfolio
 - Money Market/Mutual Funds Combined – Up to 20% of portfolio
 - Single Money Market Fund – no more than 10% of portfolio
- Issues with Recent Diversification of Financial Institutions
 - Each manager can comply with policy, but more difficult to monitor overall compliance across institutions
 - Simplification and safety directives have led to “violation” of money market fund guardrails

Investment Management – Alternatives/Direction

- Remove/relax money market/mutual fund guardrails
- Establish fixed income managed portfolios with Schwab/Fidelity
- Direction about specific balances in various institutions
- Additional funding to PFM/FRB
- Others?

Prepayment of PPAs (*Discussion*)



PREPAYMENT TRANSACTIONS SAVING \$ MILLIONS FOR CCA RATEPAYERS



California Community Choice
Financing Authority

History/Benefit of Prepayment Transactions

Prepay for a Supply of Gas or Electricity by Issuing Tax-Exempt Debt

- 137 Prepayment Transactions totaling over \$77 billion completed
 - Mostly to prepay for a supply of natural gas
 - Estimated over \$13 billion in total savings to customers
- Over \$5 billion issued by CCCFA to prepay for CCA renewable energy
 - Reduces cost of *existing* PPA obligations by 8-12%

Prepayment Authorization



- **IRS Private Letter Ruling for AMEA to Prepay Alabama Power**
 - Covered Prepays from 1991 to 1999



- **2003 US Treasury Regulations**
 - Covers both gas and electricity



- **2005 Energy Policy Act – Statutory Authority**
 - Applies to natural gas only



Founding Members:



Associate Members:



- Must join CCCFA JPA as an Associate Member to do a transaction:
 - \$20,000 fee to do a prepayment
 - Share in annual JPA operating expenses – minimal costs/yr.

Why Use CCCFA For Prepayment Transactions?



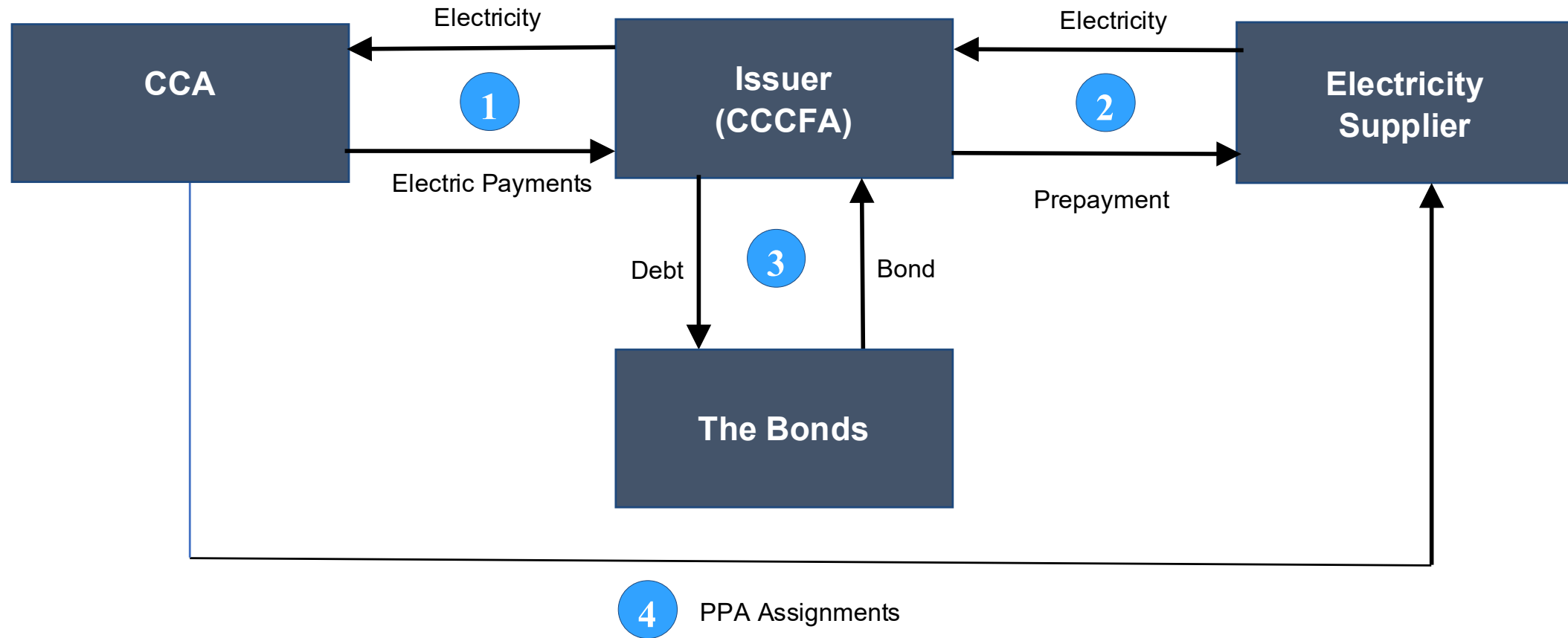
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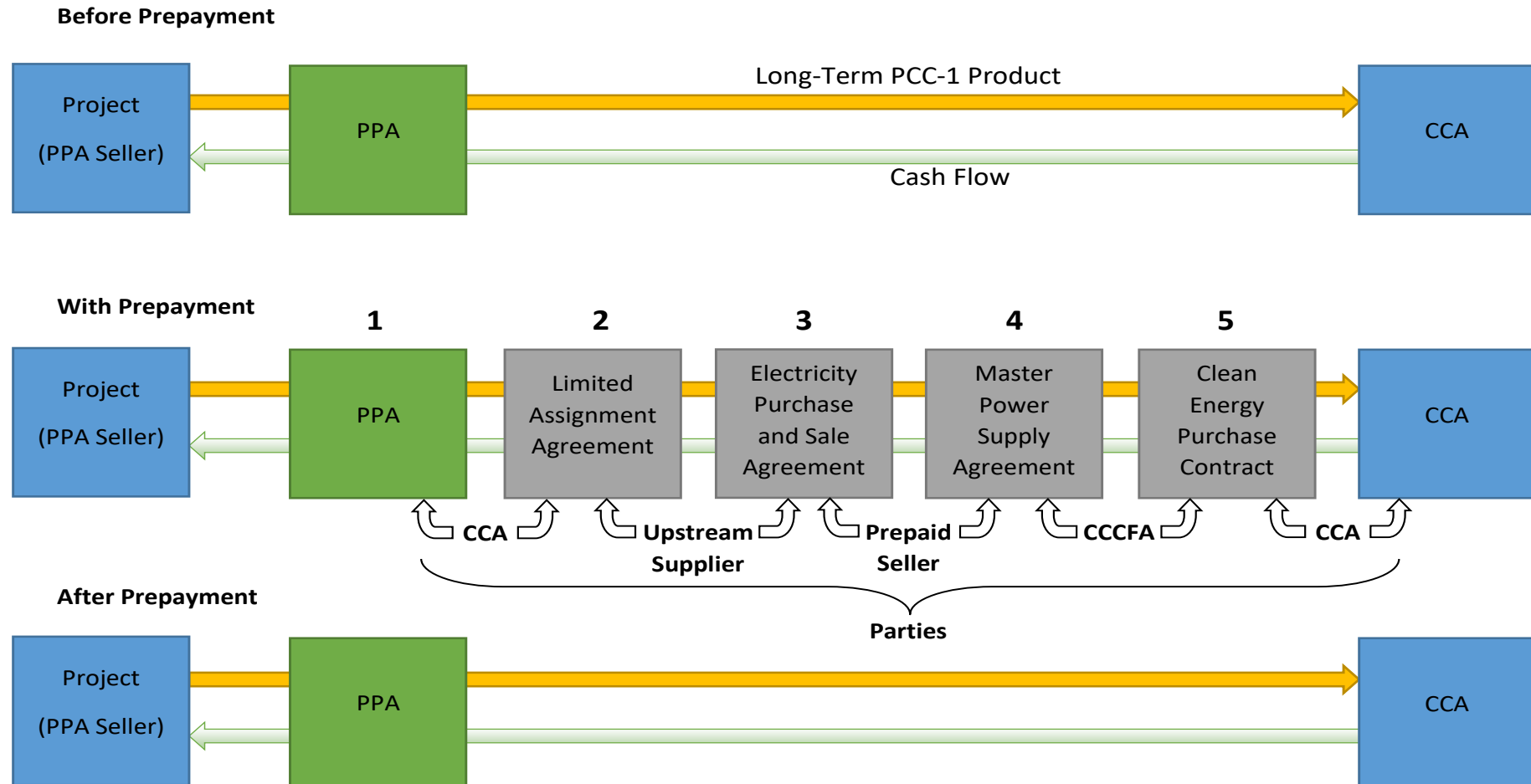
Reduces Risk:

- CCA is not obligated for payment on the bonds
- Bond is not a debt on the CCA's balance sheet
- Does not affect CCA's credit rating nor debt capacity

Renewable Energy Prepayment Structure



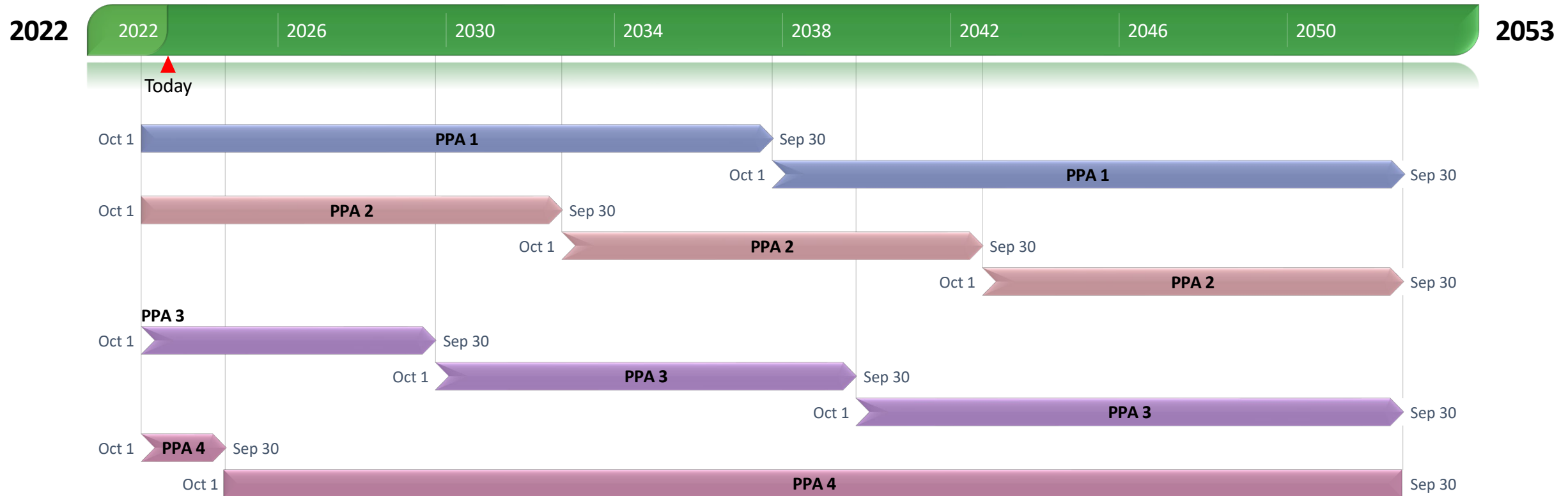
**Long-Term PCC1 Product Prepayment Transaction Overview:
Structure and Documents**



PPA ASSIGNMENT PROVISION

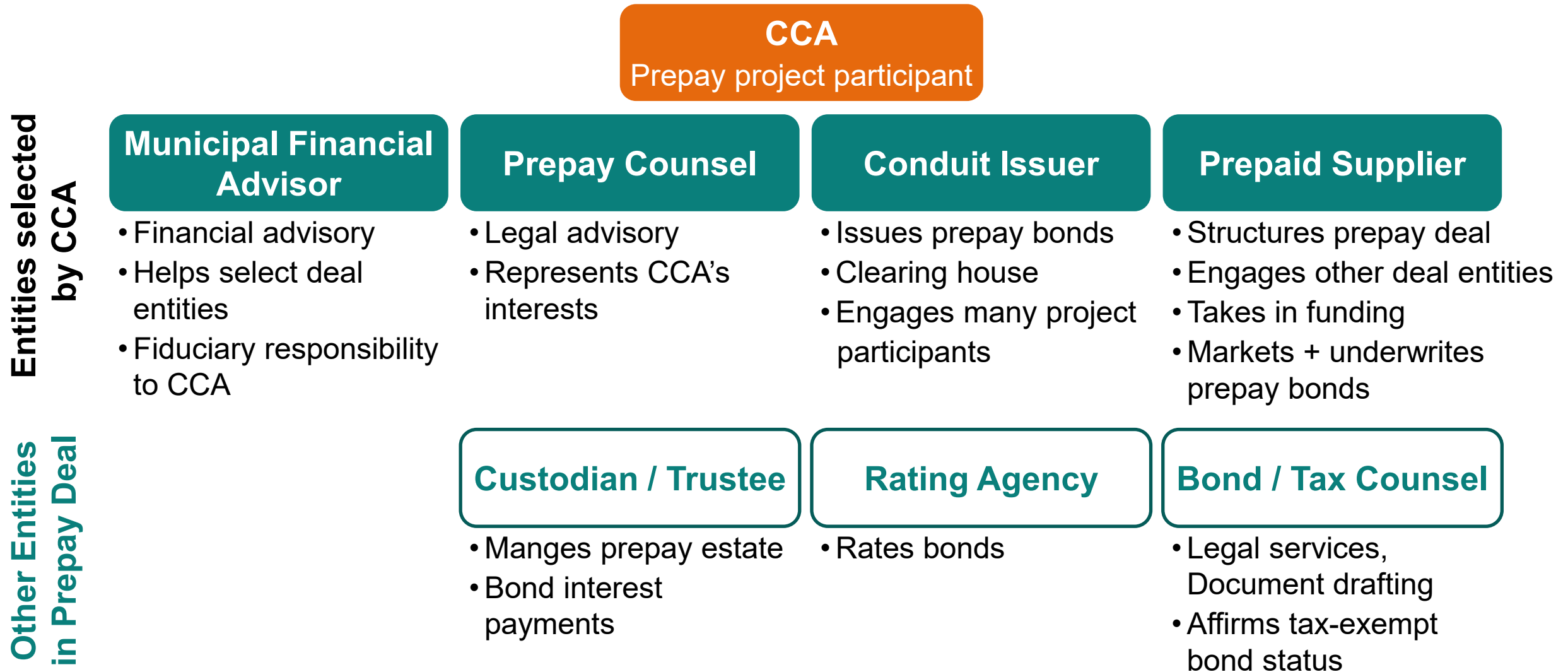
“Limited Assignment Right: Buyer may from time to time assign the right to receive all or a portion of the Product that would otherwise be delivered to Buyer hereunder. In connection with any such assignment, Buyer and Seller agree to execute the limited assignment agreement attached hereto as Exhibit []. For the avoidance of doubt, Buyer will remain responsible for all its obligations under this Agreement related to such assigned Product, including (i) the obligation to pay for such Product to the extent the assignee thereof does not do so and (ii) any damages associated with such assignee’s failure to take any such Product.”

30 Year Prepayment Transaction

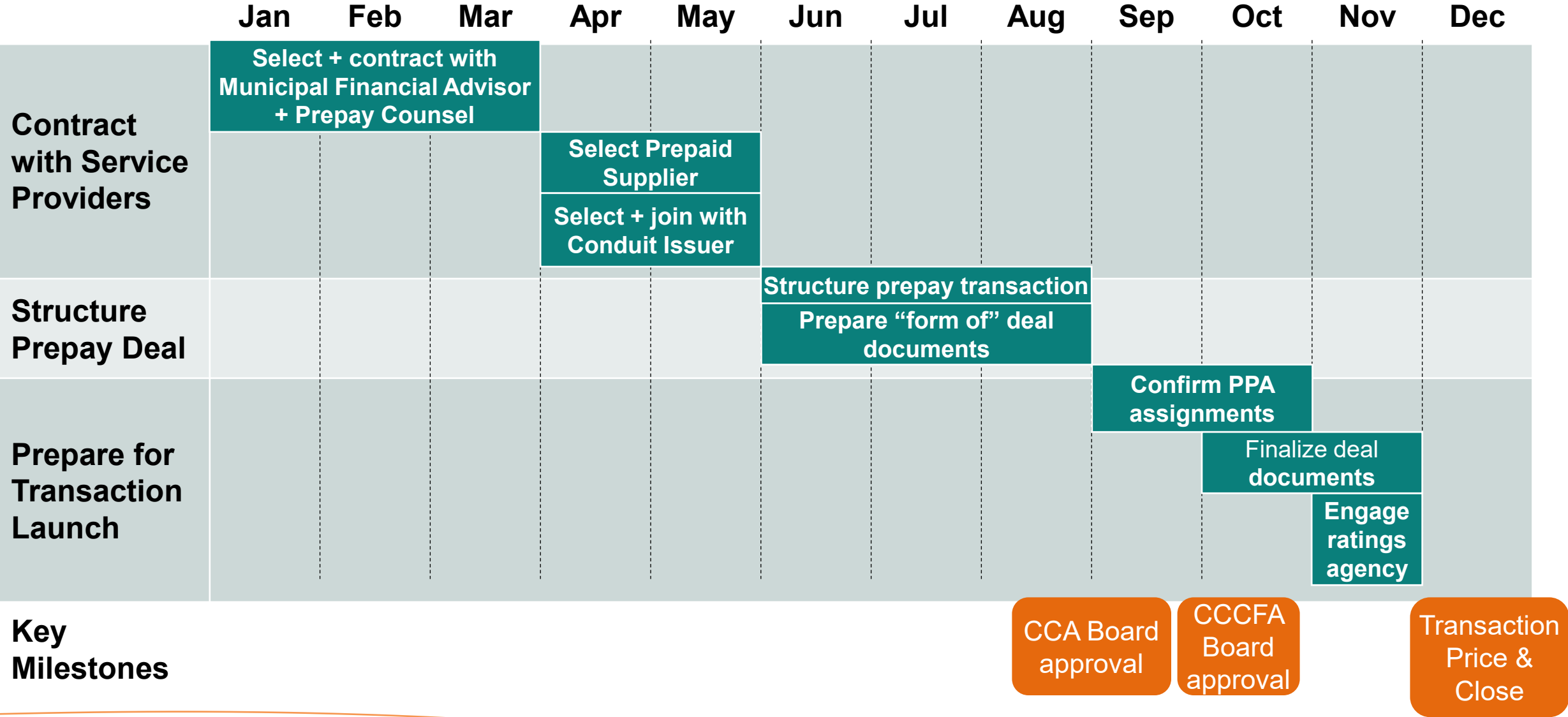


Multiple PPAs assigned into the transaction over the 30-year term.

Assembling the Prepayment Deal Team



Example Prepay Deal Timeline





GARTH SALISBURY

BOARD MEMBER & TREASURER/CONTROLLER, CCCFA

CFO & TREASURER, MCE



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Committee Members' Reports

Adjournment

