



FINANCIAL POLICIES

Central Coast Community Energy

Revised June 26, 2024
Version 1.2.1

1.0 Purpose and Background

Prudent and conservative stewardship of public assets is a principal responsibility given to the officials and managers of 3CE. The development and maintenance of financial policies enable 3CE officials to protect those public assets, ensure transparency, and build public trust. Financial policies define a shared understanding of how 3CE administers its financial affairs and communicates how the agency manages its resources to provide the highest value to the communities we serve.

This document centralizes 3CE's financial policies and establishes a framework for overall fiscal planning, management, and decision-making related to public assets controlled by 3CE. These policies are reviewed, updated, and brought before the Policy Board as needed but at least annually for adoption. This continued review and adoption promotes sound financial management and helps maintain 3CE's stability, efficiency, and effectiveness by ensuring the Policy Board's financial policy guidance is provided before 3CE takes any financial actions. The policies also offer guidelines for evaluating both current activities and proposals for future programs and direct 3CE's financial resources toward meeting its objectives and strategic initiatives.

These policies provide general guidance in the management of the 3CE's fiscal affairs and are to be used by all 3CE employees to meet their obligation to operate in a financially prudent manner. The Recommended Budget adheres to these policies.

2.0 General Financial Policy

The cornerstone and highest priority of 3CE's financial policies is fiscal integrity. It shall be the goal of 3CE to achieve a strong financial condition with the ability to:

- Sustain adequate financial liquidity to meet normal operating and contingent obligations;
- Ensure a sufficient financial base is maintained to withstand local, regional, national, and global economic impacts;
- Foster the ability to adjust efficiently to the community's changing service requirements;
- Maintain and improve infrastructure and capital assets;
- Regularly review programs and operational methods to improve processes that result in higher productivity and eliminate repetitive and duplicative functions;
- Encourage collaboration with other government entities, the private sector, and public-private partnerships where cost and risk are minimized in the delivery of services within 3CE's service area;
- Promote sharing of costs and benefits by service users;
- Ensure the legal use of financial resources through an effective system of internal controls;
- Support sound financial management by providing accurate and timely information on 3CE's financial condition; and

- Provide a framework for the wise and prudent use of debt financing and maintain a good credit rating in the financial community.

2.1 The Annual Budget

- The Chief Executive Officer (CEO) will recommend a balanced budget that aligns annual expenditures with market reasonable rates based on the revenue requirement established through a cost of service methodology and minimize the use of reserves and one-time financing sources for ongoing operating expenditures;
- 3CE will strive to maintain competitive rates while adhering to our renewable energy goals;
- Through the CEO, the Chief Financial Officer (CFO) will consult with 3CE Officers and seek their input in developing the Recommended Budget through cooperative discussions and financial education;
- CEO will keep the Policy Board apprised of the condition of the 3CE's finances and emerging fiscal issues; and
- Through the CEO and Officers, 3CE will work with the California Community Choice Association (CalCCA), state representatives, legislative advocates in the State Capitol, and other local government organizations to ensure our community voice is heard regarding any state legislation or regulation affecting our stakeholders.

3.0 Roles and Functions

3.1 Role of Chief Executive Officer

The CEO serves as the chief policy advisor to the Policy Board, Operations Board, and the various Board committees. The CEO promotes responsible resource allocation, strives to protect 3CE's financial position and integrity, and provides independent analysis on policy and financial issues. The CEO is the fund manager for the 3CE Enterprise Fund and any other funds that may be created.

3.2 Principal Functions of the Chief Executive Officer

Principal functions of the CEO include:

- Promoting continuous improvement of the structures, systems, processes, and effectiveness of programs;
- Preparing the annual financial plan (Recommended Budget);
- Working with departments to evaluate potential federal, state, and local budget impacts;
- Developing financial forecasts;
- Monitoring revenues and expenditures for conformance with the annual budget;
- Recommending effective fiscal policies to carry out the 3CE mission;
- Verifying Policy Board policies are consistently applied; and
- Ensuring items brought before the Policy Board are transparent, accurate, complete, fully justified, and reviewed by appropriate stakeholders.

3.3 Principal Functions of the Chief Financial Officer

The CFO is 3CE's Policy Board appointed Treasurer and considered the subject matter expert for the financial management of the agency. The CFO is responsible for:

- Carrying out financial operations efficiently and cost-effectively while adhering to all 3CE, state, and federal laws, regulations, and policies;
- Preparing budgets and financial estimates with attention to accuracy based on financial expertise, 3CE, state, and federal funding changes, and economic indicators affecting

- revenues, expenditures, and service levels;
- Reviewing, evaluating, and assessing potential federal and state budget issues that may impact the agency;
- Developing and performing financial forecasts;
- Overseeing Middle Office responsibilities as identified in 3CE's Energy Risk Management Policy;
- Monitoring monthly revenue, expenditure, and cash flow performance and conformance with the Adopted Budget;
- Meeting the Policy Board's strategic financial initiatives and policies; and
- Ensuring items brought before the Policy Board are transparent, accurate, complete, fully justified, and reviewed by all appropriate stakeholders.

3.4 Principal Functions of the Audit and Finance Committee

The Audit and Finance Committee's principal functions include receiving staff updates on financial issues affecting 3CE and providing oversight and direction to staff in developing and modifying the budget and audits.

3.5 Principal Functions of the Energy Risk Management Committee

The Energy Risk Management Committee is formed by the CEO to implement and maintain the Energy Risk Management Policy, which requires 3CE to maintain sufficient financial reserves to:

- Establish long-term business sustainability;
- Build collateral for power procurement activities;
- Maintain an investment-grade credit rating;
- Develop funding sources for investment in generation and other local initiatives; and
- Reduce the business and customer impact of year-to-year volatility in energy markets and procurement costs.

4.0 Services and Fund Structure

4.1 Enterprise Fund

3CE operates as an enterprise fund. The enterprise fund accounts for revenues and expenditures for all 3CE activities. The fund's operations are financed and operated like private business enterprises, where services provided are primarily funded through user charges (electric generation rates).

4.2 Proprietary Fund

An enterprise fund is classified as a proprietary fund and is financed and operated like private business enterprises whose services are primarily funded through user charges.

4.3 Expenses

Enterprise fund expenses and revenues will be established at sufficient levels to properly maintain the fund's infrastructure and provide significant capital development.

4.4 Rate Structure and Net Position

The enterprise fund will maintain an adequate rate structure to cover the cost of all operations, including cash flow, capital replacement and maintenance, debt service if applicable, contingency funding, reserve contributions, and depreciation. Rates may be offset from the available unreserved net position only after these requirements are met.

5.0 Operating Budget

5.1 The 3CE Budget

The Recommended Budget is the central financial planning document that the agency's goals, objectives, priorities, levels of service, and the associated operating revenue and expenditures. Appropriations are recommended based on the relationship between expected expenditures and revenue. If revenues are estimated to fall below expected amounts, the agency will take all actions available to reestablish a revenue and expenditure relationship that conforms to the operating requirements.

The Recommended Budget shall be presented to the Policy Board for adoption in September of each year and clearly presented to a general audience of the public. The Recommended Budget may be modified as necessary by the Policy Board during the fiscal year.

5.2 Balance Budget

A budget is balanced when the total estimated financing sources (beginning fund balance plus revenues) equal the total appropriations (expenditures). At no time shall spending in a given year exceed total current estimated revenues plus any net positive position (reserved and non-reserved).

5.3 Ongoing Operations Needs

3CE will adequately fund ongoing maintenance and operational needs with ongoing annual revenue. Without prior direction and approval by the Policy Board, the use of one-time revenues or short-term borrowing is not allowed as a resource to finance ongoing operational needs.

5.4 Capital Facilities and Equipment

3CE shall establish as a primary fiscal responsibility the acquisition, preservation, maintenance, improvement, and, when applicable, orderly replacement of the 3CE's capital facilities and equipment. 3CE shall endeavor to purchase a permanent headquarters and appropriate regional offices to provide continuity of location and operations while stabilizing and controlling facility costs into the future. 3CE will acquire and maintain high-quality equipment to maximize useful life and ensure efficient operations.

5.5 Appropriations and Transfers

The agency enterprise fund is not constrained by appropriation controls. The CEO is charged with maintaining the relationship between financing uses and financing sources and shall report to the Policy Board any deviation in excess of the adopted budget. The CEO is authorized to make appropriation transfers between departments and divisions within the enterprise fund as necessary to adequately reflect the expenditure needs of the agency.

5.6 Responsibility for Budget Management and Budgetary Control

The 3CE shall maintain a budgetary control system to help it adhere to the adopted budget. The CEO has budgetary control and authority over appropriations. The CFO shall administer and maintain the system utilized for budgetary control. As the administrator of the budgetary control system, the CFO shall notify the CEO when a department is reaching the departmental appropriation limit. The CFO shall seek guidance from the CEO on all issues relating to appropriations and controls.

3CE Officers in coordination with the CFO have primary responsibility for managing departmental budgets by:

- Providing accurate and timely budget estimates;
- Monitoring revenues to ensure timely receipt in the amounts anticipated;
- Ensuring that expenditures comply with the law, adopted resolutions, policies, and align appropriations relative to revenues;
- Providing prompt notification to the CEO when either revenues or expenditures are not as anticipated; and
- Preparing and justifying budget revisions when necessary

5.7 Preparation of Financial Reports

The CEO annually prepares or causes to be prepared:

- An Annual Comprehensive Financial Report (ACFR) that reports on the 3CE's financial position and activities adhering to Generally Accepted Accounting Principles (GAAP) or state law requirements, to provide readers with a broader understanding of the agency's financial operations;
- A mid-year estimate to provide current-year performance and forward-looking perspective to advise the Policy Board on future challenges and provide a base for building the following year's Recommended Budget; and
- Additional reports, as appropriate, to keep the Policy Board informed on current financial performance and developments.

The CEO has oversight and contract management over the external auditors reviewing the ACFR. External auditors shall report to the CEO or designated officer on audit findings. The CEO will take the audit findings thereafter to the Policy Board.

5.8 Publication of Budget

The CEO shall publish annually a Recommended Budget document that satisfies nationally recognized standards for effective budget presentation. The Recommended Budget will be provided to the Policy Board a minimum of two weeks in advance of the annual budget hearings.

5.9 3CE Budget Development

Budget development is an annual process incorporating the Policy Board's priorities and weighing competing requests for 3CE resources within expected fiscal constraints. The process begins with departments preparing "baseline" budgets proposing levels of service and staffing that can be carried out within expected resources (e.g., revenues). Departments may submit "augmentation requests" for additional resources to mitigate potential impacts, increase staffing/services, or invest in infrastructure. The CEO evaluates baseline budgets and augmentation requests within the constraints of a balanced budget and builds the annual Recommended Budget. Staff considers the following criteria in formulating recommendations for the annual budget and subsequent mid-year budget modifications:

- Mandated by current law, regulation, or Policy Board policy;
- Alignment with the 3CE's strategic initiatives and priorities;
- Necessary to maintain the current level of mission-critical services/operations;
- Substantiation of compelling public need (e.g., health, safety, economic vitality, quality of life) that cannot be met within existing resources;
- Likelihood of success based on prior performance, degree of planning/specificity, requested resources, and assumed timeline;

- Leverages sustainable financial support from non-3CE sources;
- Appropriate placement of responsibility (federal, state, or local);
- Degree of urgency; and
- Critical infrastructure investment to ensure productivity and continuity of operations.

Criteria in the listing are not exhaustive or in any particular order, nor are they mutually exclusive; funding recommendations may align with more than one criterion.

5.10 Establish 3CE Priorities

The Policy Board has a continuous process of establishing 3CE priorities for ensuing years. The Policy Board implements these priorities in the Recommended Budget. Understanding that elected officials, appointed officials, and agency officers are charged with the actual provision of services to the community, the Policy Board shall set broad priorities to ensure flexibility for the agency to concentrate on these priorities.

5.11 Amendments to the Adopted Budget

Modifications to the Adopted Budget require the approval of a majority of Policy Board members. Amendments to the Adopted Budget will be made in compliance with Policy Board policies. As an enterprise fund, the relationship between financing uses and financing sources is the overriding principle; thus, appropriation controls are not required.

5.12 Budgetary Basis

The 3CE uses the full accrual basis of accounting following GAAP. The budgetary basis is appropriation-based, beginning October 1 and ending the last day of September of each year. 3CE is an enterprise fund that is appropriation-based budgeted; however, accounting is on a full accrual basis.

5.13 Capital Asset Definition

The 3CE defines capital assets as assets with initial, individual costs of \$5,000 or more and an estimated useful life greater than one year, except infrastructure, for which the threshold is set at \$100,000. Capital assets include both tangible and intangible assets categorized by asset type for reporting purposes.

5.14 Appropriations for Contingencies

3CE annually adopts an appropriation for contingencies to provide sufficient working capital and a margin of safety for unplanned operational needs. The contingency appropriation is utilized only after all other budget resources have been examined. The appropriation for operational contingencies shall be equal to five percent (5%) of recommended appropriations, excluding cost of energy (COE), unless expressly modified by the Policy Board as part of the annual budget adoption.

6.0 Net Position and Reserve Policies

6.1 Net Position

Net position is a measurement of available financial resources. It is the difference between total assets and total liabilities. The Policy Board recognizes that maintaining a positive net position is essential to preserving 3CE's financial integrity. Sufficient net position and reserve levels are a critical component of the 3CE's overall financial management strategy. They are key factors in the

ability to sustain service delivery and obtain external financing. Rating agencies analyze net position when considering 3CE's overall financial strength and creditworthiness. Adequate reserves enable flexible financial planning in developing rate structures, future capital projects, dealing with unforeseen emergencies, and changes in general economic conditions.

6.2 Use of Unreserved Net Position

3CE's goal is to only use unreserved net position as a source to finance one-time investments, reserves, and/or commitments. As a one-time financing source, any end-of-year positive net position will be used for non-recurring expenditures and only after confirmation of the yearly audit.

6.3 Strategic Reserve

A strategic reserve is essential to provide an adequate financial backstop throughout the year. 3CE shall adopt a strategic reserve equal to twenty-five percent (25%) of budgeted appropriations. The strategic reserve will provide sufficient working capital (cash flow), fund settlements of legal judgments against the 3CE in excess of reserves specifically designated for litigation, for natural disasters as determined by the CEO or Policy Board, and for one-time-only budget overruns that could not be addressed through the annual appropriations for contingencies.

If the strategic reserve is utilized to provide temporary funding for unforeseen needs, 3CE shall take the measures necessary to prevent its use in the following fiscal year by increasing revenues and/or decreasing expenditures to regain balance. 3CE shall also restore the strategic reserve to the minimum level of twenty-five percent (25%) of budgeted appropriations within five fiscal years following the fiscal year in which the event occurred. The plan to restore the strategic reserve shall be included and highlighted in the Recommended Budget.

6.4 Energy Rate Stabilization Reserve

The agency shall maintain an energy rate stabilization reserve equal to twenty (20%) of the budgeted COE. The energy rate stabilization reserve shall be utilized for large fluctuations in the COE and/or required increased power purchasing needs including regulatory compliance. This reserve may be utilized throughout the fiscal year at the direction of the CEO with subsequent reporting to the Energy Risk Management Committee and the Boards.

6.5 Renewable Energy Initiative Reserve

The agency shall maintain a renewable energy innovation and initiatives reserve equal to five percent (5%) of the budgeted COE. This reserve shall be utilized for investments in furtherance of the Boards' goals to accelerate the utilization of 100% clean and renewable energy through the commitment to new or emerging, but scalable, technologies that can address the challenges of an intermittent renewable grid and reduce dependency on fossil fuels for electricity generation.

6.6 Capital Infrastructure Reserve

The agency shall establish a capital infrastructure reserve sufficient to provide for the operation, routine scheduled maintenance, reasonably anticipated unplanned repair, and ultimate replacement costs of 3CE's capital infrastructure, including enterprise software, real estate, and electric generation and storage facilities.

6.7 Measurement of Reserve Targets

Due to the nature of the agency's business, the mechanism to fund the four reserves shall be the use of cash, cash equivalents, and short-term investments. The reserves must be liquid and

available to ensure the ability to use the reserves for their intended purpose. Market fluctuations, operational continuity, competitive advantage, and regulatory compliance are risks that are mitigated with robust reserves as the agency transitions to a clean and renewable electric grid.

7.0 Capital Facilities and Improvement Policies

7.1 Capital Investments

3CE is responsible for investing in the preservation, maintenance, and improvement of owned assets, including buildings, equipment, and other capital infrastructure.

Projects in excess of \$100,000 that have an estimated useful life of at least five years and are non-recurring are considered capital projects and should be evaluated against other uses and priorities. All capital expenditures should be included in the Adopted Budget or taken to the Policy Board for approval and amendment to the Adopted Budget.

8.0 Debt Management

Due to its length and complexity, the Debt Management Policy is reviewed by the Policy Board separately from these policies.