

RESOLUTION NO. \_\_\_\_\_

**A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN JOSE AMENDING COUNCIL POLICY 1-24, SAN JOSÉ CLEAN ENERGY FINANCIAL RESERVES POLICY TO INCREASE THE MAXIMUM CONTRIBUTION AMOUNT TO THE RATE STABILIZATION RESERVE FOR THE SAN JOSE CLEAN ENERGY PROGRAM TO 25% OF THE TOTAL OPERATING AND NON-OPERATING REVENUES REPORTED FOR THE CURRENT YEAR**

**WHEREAS**, on December 6, 2022, City Council of the City of San José (“City”) approved Council Policy 1-24 (“Council Policy 1-24”), which established an Operational Reserve for San José Clean Energy (“SJCE”) with the goal of building a budgeted reserve equal to 180 days of operating expenses to provide sufficient financial capacity to meet short-term obligations and advance SJCE’s strategic initiatives; and

**WHEREAS**, Council Policy 1-24 also addressed the need to build “liquid” operating reserves and requires the Energy Department to perform an annual review to evaluate the Council Policy 1-24’s alignment with the SJCE program’s needs, with any proposed changes submitted to the City for review and approval; and

**WHEREAS**, on August 13, 2024, the City adopted resolution RES2024-295 revising Council Policy 1-24 establishing a Rate Stabilization Reserve to support rate stability when the organization is faced with fluctuations in power expense costs and changes in the regulatory environment; and

**WHEREAS**, the establishment of the Rate Stabilization Reserve aligned with industry best practice for supporting financial covenant compliance and mitigating unplanned rate increases among investment grade credit rated Community Choice Aggregation programs, and utilities in general; and

**WHEREAS**, the implementation of a Rate Stabilization Reserve reflected SJCE's strong financial position at the close of FY 2023-2024, with more than 180 days liquidity on hand in the operating reserve and supports one of the key tenets of SJCE's Business Plan to develop reserves that support long-term rate stabilization; and

**WHEREAS**, the City desires to adopt a resolution amending Council Policy 1-24, San José Clean Energy Financial Reserves Policy, to increase the maximum contribution amount to the Rate Stabilization Reserve for the San José Clean Energy program to 25% of the total operating and non-operating revenues reported for the current year; and

**NOW, THEREFORE**, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SAN JOSE THAT:

The amended Council Policy 1-24, entitled "San José Clean Energy Financial Reserves Policy", attached hereto as Attachment A and incorporated herein by reference as though fully set forth herein, is hereby approved and shall replace Council Policy 1-24 revised by the City Council on August 13, 2022.

ADOPTED this \_\_\_\_\_ day of \_\_\_\_\_, 2025, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

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MATT MAHAN  
Mayor

ATTEST:

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TONI J. TABER, MMC  
City Clerk

***ATTACHMENT A***  
***City of San José, California***

**COUNCIL POLICY**

<b>TITLE</b> San José Clean Energy Financial Reserves Policy	<b>PAGE</b> 1 of 3	<b>POLICY NUMBER</b> 1-24
<b>EFFECTIVE DATE</b> December 6, 2022	<b>REVISED DATE</b> <del>August 13, 2024</del> <u>June 3, 2025</u>	
<b>APPROVED BY COUNCIL ACTION</b> 2/6/2022, Item 6.1b, Res. No. 80805; 8/13/2024, Item 6.2, Reso. No. RES2024-295		

**PURPOSE**

~~Is it~~The purpose of this policy is to establish financial reserves for San José Clean Energy (SJCE) as a critical component in enterprise risk management, prudent fiscal management, contingency planning, and funding of long-term program goals.

**POLICY AND OBJECTIVES**

SJCE will prudently manage its operations in a manner that supports its long-term financial independence and stability, while providing sufficient financial capacity to meet short-term obligations. SJCE shall strive to build and maintain financial reserves to meet strategic objectives including, but not limited to:

- a) Secure favorable commercial terms with vendors, including power producers
- b) Maintain an independent stand-alone SJCE credit rating
- c) Develop a source of funds for investment in generation and other local programs
- d) Provide a contingency to support rate stability for SJCE customers
- e) Provide a source of funds to respond to unforeseen expenditures or market events

**RESPONSIBILITIES**

The Director of Energy, appointed by the City Manager and subject to their direction and supervision, is responsible for developing resource plans, administering rate setting for the SJCE program, and overseeing the financial accounting of SJCE in coordination with the Finance Department.

**FINANCIAL RESERVES**

***1. Operating Reserve***

Within the San José Clean Energy Operating Fund, an operating reserve is established. The purpose of this reserve is to provide liquidity for SJCE, supporting the objectives outlined in this policy. The operating reserve will develop to, and

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ultimately maintain, at least one hundred eighty (180) days liquidity on hand<sup>1</sup>, subject to SJCE's ability to meet operational expenditures and maintain competitive rates. The operating reserve will be budgeted in the Operations and Maintenance Reserve and/or as Unrestricted Ending Fund Balance, and reflected on SJCE's Financial Statements as unrestricted equity in pooled cash and investments. Funding for the operating reserve will come from excess revenues over expenditures. The contributions to and draws on the operating reserve will be determined through SJCE's budgeting and rate-setting processes as approved by the City Council.

### **2. Rate Stabilization Reserve**

Within the San José Clean Energy Operating Fund, a Rate Stabilization Reserve may be maintained at a level deemed adequate as determined by the Director of Energy to meet SJCE's operational needs. The purpose of this reserve is to provide customer rate stability when there are fluctuations that result in lower revenues or higher operating expenses than anticipated. With the Rate Stabilization Reserve, consistent with GASB 62 regulatory accounting, some inflow of operating income in years when financial results are strong can be deferred to future years, where financial results are less strong. In such less financially strong years, SJCE can draw down on the Rate Stabilization Reserve to mitigate impacts to customers. This Rate Stabilization Reserve serves as a protective measure for SJCE against market fluctuations and acts as a tool to ensure compliance with financial covenants.

The Energy Department may periodically make revenue deferrals to and from the Rate Stabilization Reserve consistent with the SJCE Financial Reserves Policy objectives and under the following two (2) conditions:

- a. Deposits: When the projected addition to Net Position<sup>2</sup> for the year exceeds 5% of total operating and non-operating revenues for that year, as calculated before deferring any resources to the Rate Stabilization Reserve.
- b. Withdrawals: When Net Revenues are projected to be negative or as necessary to satisfy any legal covenants, contractual obligations or to maintain investment grade credit ratings.

Rate Stabilization Reserve Targeted Balance: The Rate Stabilization Reserve will be evaluated at the close of each fiscal year, as described above until the balance equals ~~10~~25% of the total operating and non-operating revenues in the then current fiscal

<sup>1</sup> Days liquidity on hand (DLOH) is calculated as (unrestricted cash) x 365 / (total operating expenses including power purchases, for the prior 12-month period).

<sup>2</sup> The addition to Net Position is calculated as the total operating and non-operating revenues less total operating and non-operating expenses for the fiscal year. On the Statement of Revenues, Expenses, and Changes in Net Position this is identified as the Change in Net Position.

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year. In such cases where the Rate Stabilization Reserve exceeds this cap, it does not need to be drawn on; however, further contributions cannot be made to the Rate Stabilization Reserve.

## **RESERVES POLICY REVIEW**

The Financial Reserves Policy will be reviewed annually to ensure alignment with the needs of the SJCE program. Future development of SJCE may require the creation of new reserves and/or adjustment of reserve targets to support changes in operating activities, industry standards, legislation, or economic conditions.