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Silicon Valley Clean Energy Audit and Finance Committee Meeting

Wednesday, November 8, 2017
12:00 pm

Silicon Valley Clean Energy Office
Conference Room
333 W El Camino Real, Suite 290
Sunnyvale, CA

AGENDA

Call to Order

Roll Call

Public Comment on Matters Not Listed on the Agenda

The public may provide comments on any item not on the Agenda. Speakers are limited to 3 minutes each.

Regular Calendar

- 1) Approve Regular Meeting Time, Date, and Location for Audit and Finance Committee (Action)
- 2) Select Audit and Finance Committee Chair and Vice Chair (Action)
- 3) Recommend External Financial Auditor (Action)
- 4) Recommend Retirement of Member Agency Loan and Revolving Line of Credit (Action)
- 5) Review of Fiscal Year 2016-17 Preliminary and Unaudited Financial Statements (Discussion)

Committee/Staff Remarks

Adjourn

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333 W El Camino Real
Suite 290
Sunnyvale, CA 94087



Staff Report – Item 1

To: Silicon Valley Clean Energy Audit and Finance Committee

From: Donald Eckert, Interim CEO

Item 1: Approve Regular Meeting Time, Date, and Location for Audit and Finance Committee

Date: 11/8/2017

RECOMMENDATION

Identify and establish a regular meeting date, time, and location for Audit and Finance Committee meetings.

BACKGROUND & DISCUSSION

At the June 14, 2017 SVCE Board of Directors meeting, the Board approved the formation of an Audit and Finance Committee, consistent with Board Policy FP1, Accounting Policy. As a permanent standing committee of the Board of Directors, the Audit and Finance Committee is subject to the Brown Act for all meetings. The Committee will advise and work with staff members relating to audit, finance, and budget.

In order to provide for efficient and reliable Committee meeting organization, staff recommends that a regular meeting date, time, and location be identified and established.



Staff Report – Item 2

To: Silicon Valley Clean Energy Audit and Finance Committee

From: Donald Eckert, Interim CEO

Item 2: Select Audit and Finance Committee Chair and Vice Chair

Date: 11/8/2017

RECOMMENDATION

Establish a Chair and Vice Chair of the Audit and Finance Committee to preside over Committee meetings.

BACKGROUND

At the June 14, 2017 SVCE Board of Directors meeting, the Board approved the formation of an Audit and Finance Committee, consistent with Board Policy FP1, Accounting Policy. As a permanent standing committee of the Board of Directors, the Audit and Finance Committee is subject to the Brown Act for all meetings.

In order to provide for efficient and reliable Committee meeting organization, staff recommends that the Committee appoint a Chair and Vice Chair to preside over its meetings.



Staff Report – Item 3

To: Silicon Valley Clean Energy Audit and Finance Committee

From: Donald Eckert, Interim CEO

Item 3: Recommend External Financial Auditor

Date: 11/8/2017

RECOMMENDATION

Recommend an external Certified Public Accountant Firm to audit the financial statements for:

- A. The period commencing March 31, 2016 to June 30, 2016, the period commencing July 1, 2016 to September 30, 2016, and year ending September 30, 2017 (one report).
- B. The year ending September 30, 2018.
- C. The year ending September 30, 2019.

These reports are to be performed in accordance with auditing standards generally accepted in the United States of America.

BACKGROUND & DISCUSSION

Board Policy FP1 states that an independent certified public accountant shall perform an annual audit of basic financial statements that are accompanied by required supplemental information.

Following the completion of the audit of the fiscal year's financial statements, the auditor shall issue for SVCE:

- A report on the fair presentation of the financial statements in conformity with generally accepted accounting principles.
- If applicable, a report of deficiencies in internal control.

A Request for Proposal (RFP) was sent to the following firms based on input from members of the Audit and Finance Committee and staff:

- Pimenti & Brinker, LLP
- Vavrinek, Trine, Day & Company, LLP
- Maze & Associates
- Chavan & Associates, LLP
- Macinas, Gini & O'Connell, LLP
- White, Nelson, Diehl & Evans, LLP

Timeline

- November 29, 2017 – Contract for services presented to Board of Directors for approval.
- December 1, 2017 – Audit work begins.
- January 20, 2017 – Auditor shall have draft of report and recommendations available to management.
- Progress reports will be made to SVCE management throughout the audit.

CONCLUSION

An external Certified Public Accountant Firm is needed to audit the financial statements for:

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- A. The period commencing March 31, 2016 to June 30, 2016, the period commencing July 1, 2016 to September 30, 2016, and year ending September 30, 2017 (one report).
- B. The year ending September 30, 2018.
- C. The year ending September 30, 2019.

A contract with the recommended firm will be brought to the Board for approval.



Staff Report – Item 4

To: Silicon Valley Clean Energy Audit and Finance Committee

From: Donald Eckert, Interim CEO

Item 4: Recommend Retirement of Member Agency Loan and Revolving Line of Credit

Date: 11/8/2017

RECOMMENDATION

Pay back the \$2.7 million loan from SVCE’s Member Agencies and the \$2.9 million outstanding balance on the Revolving Line of Credit in December 2017.

BACKGROUND & DISCUSSION

Components of Long-Term Debt

Member Agency Loan

As part of the Joint Power Agreement (JPA), the Member Agencies agreed to initial funding of working capital of SVCE. The table below displays the contribution by Member Agency:

INITIAL FUNDING COSTS

Party	Phase 1	Phase 2
Campbell		\$100,000
Cupertino	\$170,000	\$350,000
Gilroy		\$100,000
Los Altos		\$100,000
Los Altos Hills		\$25,000
Los Gatos		\$100,000
Monte Serano		\$25,000
Morgan Hill		\$100,000
Mountain View	\$170,000	\$350,000
Santa Clara County (Unincorporated)	\$170,000	\$350,000
Saratoga		\$100,000
Sunnyvale	\$170,000	\$350,000
TOTAL	<u>\$680,000</u>	<u>\$2,050,000</u>

SVCE has four years from the effective date of the JPA or March 2020 to pay back the loan. Retiring the loan ahead of schedule will enhance political and reputational capital with regulators, ratepayers, financial institutions and power suppliers.

Lines of Credit

In December 2016, SVCE engaged in a credit agreement with River City Bank to obtain a \$2 million Non-Revolving Line of Credit and an \$18 million Revolving Line of Credit. The agreement expires in December 2017.

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Non-Revolving Line of Credit (NRLOC)

The purpose of the NRLOC was to provide working capital during the pre-revenue collection phase. SVCE received advances of \$1.5 million against the NRLOC and repaid the balance in August 2017. There is still \$0.5 million of available balance that SVCE is not paying interest on and this line of credit will expire in December. There is no action required with the NRLOC.

Revolving Line of Credit (RLOC)

The purpose of the RLOC was to provide working capital to fund: 1) power purchases during seasonal differences in cash flow and 2) reserves as needed to support Power Purchase Agreements. SVCE did make two advances against the RLOC in December 2016:

- \$1 million to fund the lockbox account as required by our power suppliers.
- \$1.9 million to fund a debt service fund.

Due to the timing of the power supply payments and the compressed phase-in schedules, no other advances were required.

The interest rate on the RLOC is 1.75% plus the 1-month LIBOR rate. Unlike the NRLOC, any unpaid advances against the RLOC can be converted into a term loan when the line of credit expires.

Cash Forecast

SVCE has achieved stable financial condition very quickly. SVCE has the ability to pay off debt without hindering the Agency’s liquidity. The table below shows the projected cash forecast for the remaining months of the fiscal year:

	Cash Forecast									
	Remaining Fiscal Year 2017-18									
	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>
Revenues	23,095	18,312	17,439	17,012	16,099	15,551	18,178	23,227	25,323	25,872
Power Supply	(15,908)	(15,833)	(16,333)	(15,308)	(14,287)	(13,575)	(13,937)	(14,171)	(15,123)	(15,466)
Operating	(1,300)	(1,289)	(1,290)	(1,290)	(1,269)	(1,269)	(1,514)	(1,269)	(1,269)	(1,269)
Other	3,100	0	0	0	0	0	0	0	0	0
Net	\$8,987	\$1,191	-\$185	\$414	\$543	\$707	\$2,727	\$7,787	\$8,931	\$9,136
Cash Balance	\$28,987	\$30,178	\$29,993	\$30,407	\$30,950	\$31,657	\$34,384	\$42,171	\$51,102	\$60,238

SVCE will have approximately \$20 million of unrestricted cash at the end of November 2017.

CONCLUSION

SVCE should pay back the 1) outstanding advance against the RLOC of \$2.9 million and 2) pay back the \$2.7 million loan to our Member Agencies in December 2017. This recommendation would be brought to the Board for approval, if passed.