

## **CASH RESERVE POLICY**

### **I. PURPOSE**

The Cash Reserve Policy outlines the appropriate types and target levels (minimum and maximum) of unrestricted, undesignated reserves as prescribed in the following policy.

The primary reason for a reserve policy is to be prepared for contingencies, but other reasons also exist. The five most important purposes of a reserve policy are to help:

- 1. Plan for contingencies.** SVCE will maintain sufficient reserves to minimize rate increase due to market volatility (power supply shocks or maintain rate competitiveness), weather impacts on demands, economic downturns, emergencies (such as natural disasters), and regulatory changes.
- 2. Maintain good standing with rating agencies.** SVCE will maintain sufficient reserves to obtain, maintain or improve credit ratings.
- 3. Avoid interest expense.** Having sufficient reserves avoids interest expense to cover short-term cash shortfalls using reserves instead of debt.
- 4. Ensure cash availability when revenue is unavailable.** Reserves can be used to bridge times of the year that normally see temporary low levels of cash. Maintaining adequate reserves can balance intra-period differences in cash availability.
- 5. Create a better working relationship between the Board of Directors and staff.** A formal reserve policy creates a shared understanding of the proper level and use of reserves.

**II. POLICY****Reserve Target Levels**

SVCE shall maintain a minimum reserve balance equal to 25% (90 days) of the following fiscal year's operating budget expenditures, with a goal of increasing the reserve or reserve-equivalent to 50% (180 days) of the following fiscal year's operating budget expenditures. The maximum reserve balance is 75% (270 days) of the following fiscal year's operating budget expenditures.

**Funding the Target Amount**

Funding of the reserve balance targets will generally come from excess revenues over expenditures or one-time revenues.

**Conditions for Use of Reserves**

SVCE will strive to avoid the appropriation of reserve balance for recurring operating expenditures.

The reserve balance may be used at the discretion of the Board of Directors to:

- Provide revenues to make up for temporarily decreased revenues or power supply shocks.
- Provide temporary resources in the event of an economic downturn while expenditure reductions and/or rate adjustments are implemented.
- Provide resources to meet emergency expenditures.

The CEO is authorized to make recommendations to the Board of Directors for use of reserves. A majority vote of the Board of Directors will be required to use reserves. Any recommendations shall be accompanied by a proposal for the replenishment of the reserves to the Board of Directors.

**Replenishment of Reserves**

Reserve levels below the minimum targeted reserves would leave SVCE exposed to significant operational risks. Should SVCE draw down reserves below the minimum targeted level, SVCE will implement plans to return reserves to their minimum targeted levels within two (2) years. Such plans will be provided within six (6) months.

**Excess Reserves**

If reserve funds exceed the maximum level, SVCE would seek approval from the Board of Directors to use the excess to finance programs, capital improvements, pay down existing debt, offset other long-term liabilities, and reduce rates or other strategic purposes.

**Reserves between Minimum and Maximum**

To the extent that reserves are above target and below the maximum, the Board of Directors has the flexibility to direct staff to utilize those available funds to pay for program investments, capital projects, pay down unfunded liabilities, decrease outstanding debt, or fund other strategic objectives. No other action by SVCE would be required if reserves are between the minimum and maximum level unless directed by the Board of Directors.

**Periodic Review of Targets**

If the risk factors behind the target are eliminated or new risk factors emerge as a result of changes in the industry, legislation, or economic conditions, the basis of the reserve will be reviewed and the funding level may be adjusted accordingly.

**Reporting**

Reserve levels will be monitored during the fiscal year and reported in the quarterly financial reports. Reserve target levels (minimum

and maximum) will be analyzed annually and over/under reserve determination shall be made in conjunction with year-end financial results. These results will be reports to the Board of Directors as part of the year-end financial report presentation.