

Orange County Power Authority Policy Number 019: Reserve Policy

Purpose

OCPA 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.

Adequate reserves will enable OCPA to satisfy working capital requirements, procure energy at competitive rates, adhere to loan covenants, obtain and maintain an investment grade credit rating, cover unanticipated expenditures, and support rate stability.

Reserves are defined as the Net Position plus funds held in the Rates Stabilization Fund. The Net Position represents the difference between OCPA's assets and liabilities as defined by the Government Accounting Standards Board and consistent with Generally Accepted Accounting Principles.

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

The four most important purposes of a reserve policy are to:

1. **Plan for contingencies.** OCPA will maintain sufficient reserves to minimize rate increases 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.** OCPA 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.

Policy

Reserve Target Levels

Starting FY2024/25, OCPA shall maintain a minimum reserve balance equal to 30% of total operating budget expenditures, with a goal of increasing the reserve to 50% of total operating budget expenditures. The maximum reserve is 75% of total operating budget expenditures.

Funding the Target Amount

Funding reserves will generally come from excess revenues over expenditures or one-time revenues.

Conditions for Use of Reserves

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

The reserve balance may be used to:

1. Provide revenues to make up for unanticipated revenue shortfall of spikes in power supply expenses.
2. Provide temporary resources in the event of an economic downturn while expenditure reductions and/or rate adjustments are implemented.
3. Provide resources to meet emergency expenditures.

Excess Reserves

If reserve funds exceed the maximum level, OCPA will consider enhancing program expenditures, capital improvements, paying down existing debt, offsetting other long-term liabilities, and reducing rates.

Reserves between Minimum and Maximum

No other action by OCPA will be required if reserves are between the minimum and maximum levels.

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 annual budget review reports. The reserve target levels will be analyzed annually, and over/under reserve determination shall be made in conjunction with year-end financial results. These results will be reported to the Boards as part of the year-end financial report presentation.