# CITY OF SANTA CLARA
# ELECTRIC UTILITY ENTERPRISE FUND
# (SILICON VALLEY POWER)
# FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2019**
**WITH COMPARATIVE TOTALS**
**AS OF JUNE 30, 2018**
**CITY OF SANTA CLARA, CALIFORNIA**
**1500 WARBURTON AVENUE**
**SANTA CLARA. CA 95050-3796**

**CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND**
**(SILICON VALLEY POWER)**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council
City of Santa Clara, California

***Report on the Financial Statements***

We have audited the accompanying financial statements of the City of Santa Clara Electrical Utility Enterprise Fund (Silicon Valley Power) of the City of Santa Clara, California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, as listed in the Table of Contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Northern California Power Agency (NCPA) and Transmission Agency of Northern California (TANC) as of and for the year ended June 30, 2018, related to the calculation of the Investments in Joint Ventures. At June 30, 2019, the Investment in these Joint Ventures collectively represents 3.5%, 4.8% and 0.0%, respectively, of total assets, net position and revenues of Silicon Valley Power. The financial statements of the NCPA and TANC were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the calculation of the Investments in Joint Ventures, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Silicon Valley Power's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Silicon Valley Power's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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***Opinion***

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Silicon Valley Power as of June 30, 2019, and the change in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only Silicon Valley Power and do not purport to, and do not present fairly the financial position of the City as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Report on Summarized Comparative Information***

We have previously audited Silicon Valley Power 's June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 3, 2018. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019, on our consideration of the City of Santa Clara's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Santa Clara's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
December 19, 2019

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Silicon Valley Power (SVP) financial statements presents a narrative overview and analysis of the financial activities for the fiscal year. Please read this document in conjunction with the accompanying Basic Financial Statements.

SVP is a separate enterprise fund of the City of Santa Clara (the City), and was established to account for the electric power transactions of the City. SVP owns power generation facilities, has investments in joint ventures that produce electric power, and trades power on the open market. These efforts are directed toward ensuring its retail customers—the citizens, organizations and businesses of the City—have a reliable source of electric power at reasonable rates.

SVP has been affected by the deregulation of the electric power industry in California, as discussed in detail in Note 9 to its financial statements.

## OVERVIEW OF SVP'S BASIC FINANCIAL STATEMENTS

The Basic Financial statements are in two parts:

1. Management's Discussion and Analysis (this part),
2. The Basic Financial Statements, along with the Notes to these Financial Statements.

The Basic Financial Statements provide both a short-term and a long-term view of SVP's financial activities and financial position.

The Financial Statements are comprised of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. The Statements of Net Position provide information about the financial position of SVP as a whole, including all its long-term liabilities on the full accrual basis. The Statements of Revenues, Expenses and Changes in Net Position provide information about all SVP's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of the program. The Statements of Cash Flows provide information about cash activities for the year.

## FISCAL YEAR 2018-19 FINANCIAL HIGHLIGHTS

The following is summarized financial information from the Statements of Net Position (Table1) and the Statements of Revenues, Expenses and Changes in Net Position (Table 2).

**Table 1**
**Net Position**
**June 30, 2019 and 2018**
**(in millions)**

| Description | 2019 | 2018 | Increase (Decrease) Amount | Increase (Decrease) % | 2017 [1] |
|---|---|---|---|---|---|
| Pooled cash and investments | $ 354.2 | $ 314.3 | $ 39.9 | 12.7% | $ 280.5 |
| Other assets | 147.7 | 139.8 | 7.9 | 5.7% | 138.2 |
| Capital assets | 576.5 | 575.2 | 1.3 | 0.2% | 572.1 |
| Total Assets | 1,078.4 | 1,029.3 | 49.1 | 4.8% | 990.8 |
| Deferred outflows on derivative instruments | - | 4.3 | (4.3) | -100.0% | 6.8 |
| Deferred outflows on refunding | 4.5 | 5.1 | (0.6) | -11.8% | 5.6 |
| Deferred outflows on pension related items | 15.3 | 19.5 | (4.2) | -21.5% | 15.1 |
| Total Deferred Outflows of Resources | 19.8 | 28.9 | (9.1) | -31.5% | 27.5 |
| Long-term liabilities outstanding (including current portion) | 189.5 | 205.8 | (16.3) | -7.9% | 220.0 |
| Net OPEB liability | 13.3 | 16.3 | (3.0) | -18.4% | - |
| Net pension liabilities | 94.2 | 92.7 | 1.5 | 1.6% | 84.6 |
| Other liabilities | 26.6 | 36.6 | (10.0) | -27.3% | 29.9 |
| Total Liabilities | 323.6 | 351.4 | (27.8) | -7.9% | 334.5 |
| Deferred inflows on refunding | 0.4 | 0.4 | - | 0.0% | 0.5 |
| Deferred inflows on pension related items | 1.5 | 0.8 | 0.7 | 87.5% | 1.5 |
| Deferred inflows on OPEB related items | 2.2 | - | 2.2 | N/A | - |
| Total Deferred Inflows of Resources | 4.1 | 1.2 | 2.9 | 241.7% | 2.0 |
| Net Position: | | | | | |
| Net investment in capital assets | 412.3 | 401.6 | 10.7 | 2.7% | 386.2 |
| Restricted for pension benefits | 4.3 | 3.5 | 0.8 | 22.9% | - |
| Unrestricted | 353.9 | 300.5 | 53.4 | 17.8% | 295.6 |
| Total Net Position | $ 770.5 | $ 705.6 | $ 64.9 | 9.2% | $ 681.8 |

[1] Not restated for the effects of GASB Statement No. 75 that were implemented in fiscal year 2018.

**Table 2**
**Revenues, Expenses and Changes in Net Position**
**For the years ended June 30, 2019 and 2018**
**(in millions)**

| Description | 2019 | 2018 | Increase (Decrease) Amount | Increase (Decrease) % | 2017 [1] |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Retail | $ 406.9 | $ 403.7 | $ 3.2 | 0.8% | $ 390.4 |
| Wholesale | 27.7 | 35.0 | (7.3) | -20.9% | 36.2 |
| Interest Revenue | 6.0 | 4.2 | 1.8 | 42.9% | 3.1 |
| Net increase (decrease) in fair value of investments | 7.4 | (2.6) | 10.0 | 384.6% | (2.7) |
| Rents and royalties | 3.7 | 4.2 | (0.5) | -11.9% | 3.3 |
| Renewable energy credits | 4.4 | 3.5 | 0.9 | 25.7% | 6.2 |
| Other | 27.6 | 29.0 | (1.4) | -4.8% | 28.6 |
| Total Revenues | 483.7 | 477.0 | 6.7 | 1.4% | 465.1 |
| Expenses: | | | | | |
| Retail | 368.1 | 387.3 | (19.2) | -5.0% | 351.3 |
| Wholesale | 22.5 | 35.4 | (12.9) | -36.4% | 35.2 |
| Interest on long term debt and swap termination payment | 11.7 | 8.1 | 3.6 | 44.4% | 8.7 |
| Other | 17.5 | 5.8 | 11.7 | 201.7% | 6.8 |
| Total Expenses | 419.8 | 436.6 | (16.8) | -3.8% | 402.0 |
| Increase (decrease) in net position before transfers | 63.9 | 40.4 | 23.5 | 58.2% | 63.1 |
| Transfers in (out) | 1.0 | 0.1 | 0.9 | 900.0% | (0.6) |
| Increase (decrease) in net position | 64.9 | 40.5 | 24.4 | 60.2% | 62.5 |
| Net Position - July 1 as adjusted [2] | 705.6 | 665.1 | 40.5 | 6.1% | 619.3 |
| Net Position - June 30 | $ 770.5 | $ 705.6 | $ 64.9 | 9.2% | $ 681.8 |

[1] Not restated for the effects of GASB Statement No. 75 implemented in fiscal year 2018.

[2] Amount for July 1, 2017 was adjusted due to the implementation of GASB Statement No. 75 implemented in fiscal year 2018.

SVP retail operating revenues were $406.9 million in fiscal year 2018-19, $403.7 million in fiscal year 2017-18, and $390.4 million in fiscal year 2016-17, reflecting increases of approximately 0.8% and 3.4% from fiscal years 2017-18 and 2016-17, respectively. The main reason for the increase in fiscal year 2018-19 was due to a 2% rate increase effective January 1, 2019.

Retail operating expenses were $368.1 million in fiscal year 2018-19, $387.3 million in fiscal year 2017-18, and $351.3 million in fiscal year 2016-17, reflecting a decrease of $19.2 million or 5% from fiscal years 2017-18 and an increase of $36.0 million or 10.2% from fiscal years 2016-17, respectively. The retail operating expenses for fiscal year 2018-19 were lower primarily due to decreases in the cost of purchased power of $24.5 million and increases in operation costs of $5 million.

Revenues from wholesale resources (include gas and power) sales were $27.7 million in fiscal year 2018-19, $35.0 million in fiscal year 2017-18, and $36.2 million in fiscal year 2016-17. Concurrently, the cost of wholesale resources purchases was $22.5 million in fiscal year 2018-19, $35.4 million in fiscal year 2017-18, and $35.2 million in fiscal year 2016-17. The decrease of wholesale power purchases and sales in fiscal year 2018-19 was due to less contracted purchases from specified power purchase agreements sold in the wholesale market.

Interest income was $6.0 million in fiscal year 2018-19, $4.2 million in fiscal year 2017-18, and $3.1 million in fiscal year 2016-17. The increase in the current fiscal year was primarily the result of higher returns on investments and an increase in invested balances throughout the fiscal year ended June 30, 2019. Interest expense was $11.7 million in fiscal year 2018-19, $8.1 million in fiscal year 2017-18, and $8.7 million in fiscal year 2016-17. The increase of interest expenses in fiscal year 2018-19 was due to refunding of 2008 series B Bond and terminating a related swap agreement. Further detail maybe found in Note 5 to the financial statements.

SVP had a net position of $770.5 million at June 30, 2019, an increase of $64.9 million, as adjusted, from the prior fiscal year. Of this amount, $10.7 million was an increase in net investment in capital assets, $0.8 million was an increase of restricted for pension benefits, and $53.4 million was an increase of unrestricted net position. The adjusted net position at July 1, 2017 of $665.1 million reflected a decrease of $16.7 million as a result of the implementation of GASB 75.

## CAPITAL ASSETS

At the end of fiscal year 2018-19, SVP had $576.5 million, net of depreciation, invested in capital assets, with a significant amount in power generation facilities and the remainder in transmission and distribution assets. At June 30, 2019, SVP had various projects completed or under construction. In fiscal year 2018-19, the Capital Improvement Projects Budget included appropriations for significant investments in substation improvements in the coming years.

Further detail may be found in Note 4 to the financial statements.

## DEBT ADMINISTRATION

Each of SVP's debt issues is discussed in detail in Note 5 to the financial statements. At June 30, 2019, SVP's debt is comprised of three issues of Revenue Bonds and one loan agreement with carrying balances of $185.3 million at that date. These Bonds are secured by electric revenues earned by SVP and mature in fiscal years through 2033.

In fiscal year 2018-19, SVP issued Electric Revenue Refunding Bonds, Series 2018A to refinance Variable Rate Demand Electric Revenue Refunding Bonds, Series 2008B and to terminate the swap agreement associated with the 2008B Bonds. Further detail may be found in Note 5 to the financial statements.

## ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the Letter of Transmittal Section of the City's Comprehensive Annual Financial Report for the year ended June 30, 2019.

## CONTACTING SVP'S FINANCIAL MANAGEMENT

These Basic Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the SVP's finances. Questions about these Statements should be directed to the City Finance Department, at 1500 Warburton Avenue, Santa Clara, CA 95050-3796.

**CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND**
**(SILICON VALLEY POWER)**
**STATEMENTS OF NET POSITION**
**June 30, 2019**
**with Comparative Totals as of June 30, 2018**

| ASSETS | 2019 | 2018 |
|---|---|---|
| Current Assets: | | |
| Pooled cash and investments (Note 3) | $ 354,201,689 | $ 314,266,316 |
| Investments with fiscal agent (Note 3) | 5,254,585 | 9,741,699 |
| Receivables (net of allowances) | | |
| Accounts | 68,948,537 | 50,356,049 |
| Interest | 1,450,793 | 1,118,473 |
| Due from the City of Santa Clara (Note 2E) | 1,459,309 | 1,168,221 |
| Inventory of materials and supplies (Note 2F) | 11,686,632 | 11,296,108 |
| Derivative Instrument (Note 5G) | - | 21,505 |
| Total Current Assets | 443,001,545 | 387,968,371 |
| Noncurrent Assets: | | |
| Capital assets (Note 4) | | |
| Land | 14,371,743 | 14,371,743 |
| Construction in progress | 85,508,434 | 72,993,391 |
| Buildings, improvements and infrastructure | 922,025,097 | 913,208,421 |
| Equipment | 9,896,202 | 9,619,849 |
| Accumulated depreciation | (455,329,010) | (435,007,942) |
| Total Capital Assets (Net of Accumulated Depreciation) | 576,472,466 | 575,185,462 |
| Other Noncurrent Assets: | | |
| Restricted cash (Note 3) | 4,329,866 | 3,512,023 |
| Investments in joint ventures (Note 6) | 37,332,312 | 47,491,705 |
| Investments with fiscal agent (Note 3) | 15,873,428 | 14,208,708 |
| Deposits (Note 3) | 1,405,371 | 919,873 |
| Total Other Noncurrent Assets | 58,940,977 | 66,132,309 |
| Total Noncurrent Assets | 635,413,443 | 641,317,771 |
| Total Assets | 1,078,414,988 | 1,029,286,142 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Accumulated decrease in fair value of hedging instruments (Note 5G) | - | 4,307,888 |
| Deferred outflow on refunding of debt | 4,563,668 | 5,098,929 |
| Deferred outflows on pension related items (Note 7) | 15,289,344 | 19,385,816 |
| Deferred outflows on OPEB (Note 8) | - | 100,014 |
| Total Deferred Outflows of Resources | 19,853,012 | 28,892,647 |

See accompanying notes to financial statements

**CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND**
**(SILICON VALLEY POWER)**
**STATEMENTS OF NET POSITION**
**June 30, 2019**
**with Comparative Totals as of June 30, 2018**

| LIABILITIES | 2019 | 2018 |
|---|---|---|
| Current Liabilities: | | |
| Accrued liabilities | 22,117,491 | 33,147,297 |
| Interest payable | 4,066,839 | 2,986,457 |
| Accrued compensated absences | 370,517 | 389,735 |
| Unearned Revenue | - | - |
| Current portion of long-term debt (Note 5) | 11,700,000 | 11,897,000 |
| Current portion derivative financial instruments (Note 5G) | - | 109,674 |
| Total Current Liabilities | 38,254,847 | 48,530,163 |
| Noncurrent Liabilities: | | |
| Long-term derivative financial instruments (Note 5G) | - | 4,198,214 |
| Long-term portion accrued compensated absences | 4,216,912 | 4,072,391 |
| Net pension liability (Note 7) | 94,238,259 | 92,735,319 |
| Net OPEB liability (Note 8) | 13,339,656 | 16,285,879 |
| Long-term debt (Note 5) | 173,608,705 | 185,630,418 |
| Total Noncurrent Liabilities | 285,403,532 | 302,922,221 |
| Total Liabilities | 323,658,379 | 351,452,384 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Accumulated increase in fair value of hedging instruments (Note 5G) | - | 21,505 |
| Deferred inflow on refunding of debt | 363,420 | 403,800 |
| Deferred inflows pension related items (Note 7) | 1,488,846 | 753,184 |
| Deferred inflows OPEB related items (Note 8) | 2,219,545 | - |
| Total Deferred Inflows of Resources | 4,071,811 | 1,178,489 |
| **NET POSITION** | | |
| Net investment in capital assets | 412,291,774 | 401,608,451 |
| Restricted for Pension Rate Stabilization Program | 4,329,866 | 3,512,023 |
| Unrestricted net position | 353,916,170 | 300,427,442 |
| Total Net Position | $ 770,537,810 | $ 705,547,916 |

See accompanying notes to financial statements

## CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
## (SILICON VALLEY POWER)
## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
### For the Year Ended June 30, 2019
### with Comparative Totals for the Year Ended June 30, 2018

| | 2019 | 2018 |
|---|---|---|
| Operating Revenues: | | |
| Residential sales | $ 29,733,896 | $ 29,082,470 |
| Commercial sales | 15,377,858 | 15,774,292 |
| Industrial sales | 359,407,268 | 355,279,069 |
| Other operating revenues | 2,427,883 | 3,562,434 |
| Total Operating Revenues | 406,946,905 | 403,698,265 |
| Operating Expenses: | | |
| Operations | 85,448,663 | 80,358,210 |
| Maintenance | 15,634,935 | 15,602,917 |
| Purchased power | 246,696,951 | 271,189,553 |
| Depreciation | 20,365,184 | 20,142,727 |
| Total Operating Expenses | 368,145,733 | 387,293,407 |
| Operating Income | 38,801,172 | 16,404,858 |
| Nonoperating Revenues (Expenses): | | |
| Interest revenue | 5,984,471 | 4,218,654 |
| Net changes in the fair value of investments | 7,394,823 | (2,634,914) |
| Interest expense | (7,984,988) | (8,103,432) |
| Swap termination expense | (3,738,000) | - |
| Renewable energy credits | 4,367,168 | 3,499,127 |
| Wholesale resources sales (Note 9) | 27,708,493 | 34,993,878 |
| Wholesale resources purchases (Note 9) | (22,519,497) | (35,412,937) |
| Equity in income (losses) of joint ventures | (10,159,393) | 7,827,938 |
| Rents and royalties | 3,748,300 | 4,174,371 |
| Mandated program receipts and other revenues | 27,651,893 | 21,241,538 |
| Gain (loss) on retirement of assets | - | - |
| Mandated program disbursements and other expenses | (7,257,993) | (5,809,096) |
| Total Nonoperating Revenues, net | 25,195,277 | 23,995,127 |
| Income Before Transfers | 63,996,449 | 40,399,985 |
| Transfers from the City of Santa Clara | 1,156,129 | 1,108,000 |
| Transfers to the City of Santa Clara | (162,684) | (993,298) |
| Net Income | 64,989,894 | 40,514,687 |
| Net Position, Beginning of Year | 705,547,916 | 665,033,229 |
| Net Position, End of Year | $ 770,537,810 | $ 705,547,916 |

See accompanying notes to financial statements

**CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND**
**(SILICON VALLEY POWER)**
**STATEMENTS OF CASH FLOWS**
**For the Year Ended June 30, 2019**
**with Comparative Totals for the Year Ended June 30, 2018**

| | 2019 | 2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | $ 391,189,258 | $ 414,938,939 |
| Payments to suppliers | (322,877,299) | (321,962,395) |
| Payments to employees for salaries and benefits | (37,276,593) | (35,765,427) |
| Rents and royalties received | 4,020,570 | 3,108,072 |
| Other receipts | 22,079,661 | 9,533,804 |
| Net Cash from Operating Activities | 57,135,597 | 69,852,993 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Wholesale resources sales | 27,708,493 | 34,993,878 |
| Wholesale resources purchases | (22,519,497) | (35,412,937) |
| Renewable energy credits | 4,367,168 | 3,499,127 |
| Increase (decrease) in due from other funds | (291,088) | 237,244 |
| Wholesale trading escrow | (697,415) | 163,708 |
| Changes in Restricted Cash | 817,843 | 3,512,023 |
| Transfers in | 1,156,129 | 1,108,000 |
| Transfers out | (162,684) | (993,298) |
| Cash Flows from Noncapital Financing Activities | 10,378,949 | 7,107,745 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets, net | (20,463,345) | (22,555,110) |
| Proceeds from debt issuance | 48,800,000 | - |
| Premium on issuance of debt | 6,402,481 | - |
| Debt retirement | (54,580,000) | - |
| Principal payments on debt | (11,897,000) | (11,416,000) |
| Termination payment on swap | (3,738,000) | - |
| Cost of issuance | (324,637) | - |
| Interest paid on debt | (7,042,114) | (8,280,199) |
| Cash Flows from Capital and Related Financing Activities | (42,842,615) | (42,251,309) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest and dividends | 5,864,067 | 5,531,387 |
| Net decrease in the fair value of investments | 7,394,823 | (2,634,914) |
| Payments made by fiscal agent | 14,333,367 | 13,976,358 |
| Deposits made with fiscal agent | (11,510,972) | (14,334,857) |
| Cash Flows from Investing Activities | 16,081,285 | 2,537,974 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 40,753,216 | 37,247,403 |
| Cash and cash equivalent at Beginning of Period | 317,778,339 | 280,530,936 |
| Cash and cash equivalent at End of Period | $ 358,531,555 | $ 317,778,339 |

See accompanying notes to financial statements

**CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND**
**(SILICON VALLEY POWER)**
**STATEMENTS OF CASH FLOWS**
**For the Year Ended June 30, 2019**
**with Comparative Totals for the Year Ended June 30, 2018**

| | 2019 | 2018 |
|---|---|---|
| Reconciliation of Operating Gain(Loss) to Net Cash Provided (Used) by Operating activities: | | |
| Operating income | $ 38,801,172 | $ 16,404,858 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| (Decrease) Increase in due to OPEB system | (626,664) | (523,850.00) |
| (Decrease) Increase in due to retirement system | 6,335,074 | 3,035,648 |
| Depreciation | 20,365,184 | 20,142,727 |
| Change in assets and liabilities: | | |
| Receivable, net | (18,592,488) | 9,815,450 |
| Inventory | (390,524) | (1,503,044) |
| Accrued liabilities | (12,205,817) | 6,798,291 |
| Restricted cash | (817,843) | (3,512,023) |
| Compensated absences | 125,303 | 355,849 |
| Unearned revenues | - | (767,726) |
| Other receipts | 31,400,193 | 25,415,909 |
| Other expenses | (7,257,993) | (5,809,096) |
| Net Cash Provided by Operating Activities | $ 57,135,597 | $ 69,852,993 |
| NONCASH TRANSACTIONS: | | |
| Joint Ventures | | |
| Nonoperating Income (Expense) | $ (10,159,393) | $ 7,827,938 |

See accompanying notes to financial statements

## NOTE 1 – DEFINITION OF THE REPORTING ENTITY

The City of Santa Clara (the City), California's Electric Utility Enterprise Fund, which began operating as Silicon Valley Power (SVP) in 1999, commenced operations over 100 years ago in 1896. Originally, SVP constructed a lighting plant consisting of forty-six 2000 candlepower direct current lamps and a dynamo (a type of electric generator) which entered into service in October 1896. In late 1903, SVP invested $5,000 to convert the system to alternating current and abandoned the small generating plant. Wholesale power was purchased from United Gas and Electric Company of San Jose.

Between 1903 and 1965, SVP purchased all of its electric power requirements from investor-owned utilities. In 1965, it received an allocation of power from the Federal Central Valley Project and began to diversify its resources. SVP became a charter member of the Northern California Power Agency (NCPA) in June 1968. Throughout the 1970's, SVP and NCPA worked on behalf of all municipal electric utilities in Northern California to gain access to wholesale transmission markets and to jointly develop cost-effective electric generation resources.

In 1980, SVP became a generating utility for the first time in 73 years with the start of operations of the 6-Megawatt Cogen No. 1 power plant. In 1983, the 110 Megawatt NCPA Geothermal Project, the first municipally owned and operated geothermal power plant in the United States, entered service with SVP as lead partner holding a 55% participation share. Subsequently, SVP participated in further jointly owned power generation projects including hydroelectric, natural gas and coal fired generation. In 2005, SVP placed the 147 Megawatt Don Von Raesfeld Power Plant into service.

Today, SVP has grown to approximately 8,187 streetlights and serves approximately 56,398 electric customers. As SVP looks to the future, it continues to be responsive to the electric market development by increasing its renewable power resources, reducing its greenhouse gas (GHG) footprint, and working with its customers to enhance the value they receive from municipal ownership of their electric utility.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of Presentation

SVP's Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. The electric enterprise fund is included in the City's Comprehensive Annual Financial Report, and therefore, these financial statements do not purport to represent the financial position and changes in financial position of the City.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### B. Basis of Accounting

SVP reports its activities as a proprietary fund type (Enterprise Fund) which is maintained on the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned regardless of whether they are received, and expenses are recognized in the period in which the related liabilities are incurred. Certain indirect costs are included in program expenses reported for individual functions and activities.

During the year ended June 30, 2019, SVP implemented the following GASB Statements:

The GASB issued Statement No. 83 *"Certain Asset Retirement Obligations."* The objective of this statement is to address accounting and financial reporting for certain asset retirement obligations. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. This statement becomes effective for periods beginning after June 15, 2018. SVP does not have any asset retirement obligations to disclose.

The GASB issued Statement No. 88 *"Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placement."* The objective of this statement is to improve guidelines related to debt disclosure. This statement becomes effective for periods beginning after June 15, 2018. Please refer to Note 5 for detail concerning the reporting of debt.

SVP is analyzing the effects of the following pronouncements and plans to adopt them by the effective dates:

The GASB issued Statement No. 84 *"Fiduciary Activities."* The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement becomes effective for periods beginning after December 15, 2018. SVP is currently evaluating the impact on the financial statements.

The GASB issued Statement No. 87 *"Leases."* The objective of this statement is to improve guidelines related to the recognition of lease assets and liabilities that previously were classified as operating leases. This statement becomes effective for periods beginning after December 15, 2019. SVP is currently evaluating the impact on the financial statements.

The GASB issued Statement No. 89 *"Accounting for Interest Cost Incurred Before the end of a Construction Period."* The objective of this statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing and to simplify account for interest cost. This statement becomes effective for periods beginning after December 15, 2019. SVP is currently evaluating the impact on the financial statements.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The GASB issued Statement No. 90 *"Majority Equity Interests-An Amendment of GASB Statements No. 14 and No. 61."* The objective of this statement is to clarify the accounting and financial reporting requirements for a state or local government's majority equity interest in an organization that remains legally separate after acquisition. This statement becomes effective for periods beginning after December 15, 2018. The SVP is currently evaluating the impact on the financial statements.

The GASB issued Statement No. 91 *"Conduit Debt Obligation."* The objective of this statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practices. This statement becomes effective for periods beginning after December 15, 2020. SVP is currently evaluating the impact on the financial statements.

### C. Measurement Focus

Enterprise funds are accounted for on a cost of services or economic resources measurement focus, which means that all liabilities associated with the activity are included on their Statement of Net Position. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Reported net position is segregated into three categories – net investment in capital assets, restricted, and unrestricted.

### D. Cash and Investments

SVP's cash and investments pool is maintained by the City except for fiscal agent cash and investments.

While maintaining safety and liquidity, the City maximizes investment return by pooling its available cash for investment purposes. Unless there are specific legal or contractual requirements to do otherwise, interest earnings are apportioned among funds according to average monthly cash and investment balances. It is generally the City's intention to hold investments until maturity. City investments are stated at fair value (see Note 3).

Cash and cash equivalents for purposes of the statement of cash flows include pooled cash and investments and cash designated for construction. Transactions with City-wide cash management pools are similar to those with external investment pools; therefore, since pooled cash and investments have the same characteristics as demand deposits in that the City's individual funds and component units may withdraw additional monies at any time without prior notice or penalty, pooled cash and investments are considered essentially demand deposit accounts.

Cash and investments with fiscal agent, a bond reserve investment pool, and amounts classified as deposits are not considered cash and cash equivalents.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### E. Due from City of Santa Clara

During the course of operations, transactions occur between SVP and the City for goods provided or services rendered. The related receivables, net, are classified as "Due from the City of Santa Clara" on the accompanying statement of net position.

### F. Inventory of Materials and Supplies

Inventory of materials and supplies is accounted for using the consumption method and is stated at average cost. Inventory consists of expendable supplies held for consumption by the electric utility.

### G. Capital Assets

All capital assets with a value of $5,000 and buildings, improvements and infrastructure with costs exceeding $20,000 or more with useful lives exceeding two years are capitalized. These assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated acquisition value on the date contributed. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets (buildings and improvements: 20 to 50 years; and equipment: 3 to 25 years) and is charged as an expense against operations. Accumulated depreciation is reported on the statement of net position.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Capital assets and the related obligations under lease/purchase agreements are capitalized and accounted for in accordance with Accounting Standards Codification (ASC) Topic 840. Interest is capitalized on construction in progress in accordance with ASC Topic 835, Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings, and Certain Gifts and Grants. Accordingly, interest capitalized is the total interest cost for the date of the borrowings net of any interest earned on temporary investments of the borrowed proceeds until the specified asset is ready for its intended use. There was no interest capitalized for the fiscal year ended June 30, 2019.

### H. Joint Ventures

SVP participates in several joint ventures in accordance with GAAP. If SVP's equity in net losses of a joint venture exceeds its investments, use of the equity method is suspended except to the extent that SVP is obligated to provide further support or has guaranteed obligations of the joint venture.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SVP advances funds to certain of its joint ventures in the form of refundable advances, project advances, and operating and maintenance advances. Refundable advances accrue interest at rates stated in the related agreements. Operating, maintenance, and project advances are charged to operations when incurred.

Capitalized project costs are charged to operations in the event that a project is determined to be not economically feasible.

### I. Compensated Absences

Amounts of vested or accumulated vacation leave and certain benefits that are not expected to be liquidated with expendable available financial resources are reported in the SVP financial statements as an expense and liability.

In accordance with GAAP, Accounting for Compensated Absences, a liability for sick leave and benefits is accrued using the vesting method. The vesting method provides that a governmental entity estimate its accrued sick leave liability based on the sick leave accumulated at the statement of net position date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. Estimated sick leave payments are recorded as an expense and liability by SVP.

### J. Risk Management

SVP is covered under the City's self-insurance programs via Internal Service Funds. There were no significant reductions in insurance coverage from the prior year by major categories of risk and the amount of settlements did not exceed insurance coverage for the past three fiscal years. Additional information with respect to the City's self-insurance programs can be found in the City's Comprehensive Annual Financial Report (CAFR).

### K. Electric Power Purchased

SVP purchases power from various suppliers and agencies (including joint powers agencies) for resale to its customers (see Note 10). SVP also engages in numerous wholesale power transactions with the objective of reducing its overall cost of purchased power. Gross wholesale power sales and wholesale power purchases are recorded as nonoperating revenue and expense, respectively (see Note 9).

### L. Bond Discounts/Issuance Costs

Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recognized in the current period.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### M. Revenue Recognition

Operating revenues are recognized based on cycle billings periodically rendered to customers. Operating revenues for services provided, but not billed at the end of the fiscal year, are recognized and accrued based on estimated consumption. Operating revenues primarily include the sales of electric power to residential, commercial, industrial, and municipal customers.

Non-operating revenues primarily represent wholesale resources sales, interest income, public benefit charge revenues, grants, rents, and other non-recurring miscellaneous income.

### N. Taxes on Income

As an agency of the City, SVP falls under the review of the Internal Revenue Code Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal income or state franchise taxes.

### O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

### P. Net Position and Fund Equity

SVP may fund certain programs with a combination of restricted and unrestricted net position. The policy is to first apply restricted net position followed by unrestricted net position if necessary.

### Q. Use of Estimates

The preparation of financial statements in conformity with GAAP in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 3 – CASH AND INVESTMENTS

SVP's cash and investments pool is maintained by the City except for fiscal agent cash and investments. A full description of the City's cash and investment policy is in Note 7 of its Comprehensive Annual Financial Report (CAFR).

### A. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy and the California Government Code allow the City to invest in certain types of investments, provided the credit ratings of the issuers are acceptable to the City. The table below also identifies certain provisions of the City's Investment Policy and the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

## NOTE 3 – CASH AND INVESTMENTS (continued)

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum Percentage or Portfolio | Maximum Investment In One Issuer |
|---|---|---|---|---|
| U.S. Treasury Obligations | 5 years | N/A | None | None |
| U.S. Agency Securities [1] | 5 years | Top three ratings categories | 80% | 40% |
| Negotiable Certificates of Deposit | 1 year | N/A | 25% | 5% |
| Bankers Acceptances | 180 days | N/A | 25% | 5% |
| Commercial Paper | 270 days | A | 25% | 10% |
| California Local Agency Investment Fund | N/A | N/A | None | $65M Per A/C |
| Repurchase Agreements | 60 days | N/A | 50% | 20% |
| Reverse Repurchase Agreements (requires City Council approval) | 92 days | N/A | 20% | 10% |
| Securities of Local Agencies of California | 5 years | N/A | 20% | 5% |
| Medium Term Corporate Notes | 5 years | Top three ratings categories | 15% | 5% |
| Mutual Funds / Money Market Funds | N/A | Top rating category | 20% | 10% |
| Investment Pools | N/A | N/A | None | None |

[1] Securities issued by the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), local agencies and other U.S. government-sponsored enterprises.

### B. Investments Authorized by Debt Agreements

The City invests bond proceeds restricted for construction in instruments that are stated in the Investment Policy and in various return-guaranteed investment agreements. These investments are invested in accordance with bond indentures and the maturities of each investment should not exceed the final maturity of each bond. Bond proceed investments are reported monthly to the City Council.

## NOTE 3 – CASH AND INVESTMENTS (continued)

SVP also maintains required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if SVP fails to meet its obligations under these debt issues. The California Government Code 53601 (L) allows these funds to be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, other agreements, or certificates of participation in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

### C. Pension Rate Stabilization Program

In February 2017, the City Council approved a Pension Rate Stabilization Program, (PRSP) Trust administered by Public Agency Retirement Services (PARS). The PRSP is an irrevocable trust and qualifies as an Internal Revenue Section 115 trust. This trust will assist the City in mitigating the CalPERS contribution rate volatility. Investments of funds held in Pension Rate Stabilization Program (PRSP) are governed by the Investment Guideline Document for the investment account and by the agreement for administrative services with the Public Agency Retirement Services (PARS), rather than the general provisions of the California Government code or the City's investment policy. The City elected a discretionary investment approach which allows the City to maintain oversight of the investment management, control on target yield and the portfolio' risk tolerance. The assets in this program will eventually be used to fund Pension Plan obligations.

As part of the year-end process for fiscal year 2016-17, the City Council approved SVP to designate and deposit $3.5 million in fiscal year 2018 towards pre-funding the City's pension obligations. As of June 30, 2019, the balance in the pension rate stabilization program trust was $4.3 million.

### D. Credit and Interest Rate Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is the greater the sensitivity of its fair value to changes in market interest rates to be.

Information about the sensitivity of the fair values of SVP's investments to market interest rate fluctuations is provided by the following table that shows the distribution to SVP's investment by maturity.

**For the years ended June 30, 2019 and 2018**

## NOTE 3 – CASH AND INVESTMENTS (continued)

| | | Maturity | | | | 2019 | 2018 |
|---|---|---|---|---|---|---|---|
| Type of Investment | Credit Rating | Under 180 Days | 181 - 365 Days | 1 - 3 Years | 3 - 5 Years | Fair Value | Fair Value |
| **Cash and Investments - City Treasury:** | | | | | | | |
| Cash | N/A | $ 46,916,076 | $ - | $ - | $ - | $ 46,916,076 | $ 40,398,118 |
| U.S. Treasury notes and bonds | Aaa | 2,081,738 | - | 29,290,627 | 61,691,585 | 93,063,950 | 49,998,852 |
| Federal Farm Credit Bank | Aaa | 7,188,482 | 3,715,848 | 26,302,021 | 15,246,391 | 52,452,742 | 48,681,404 |
| Federal Home Loan Bank | Aaa | 3,020,330 | 3,636,339 | 20,841,026 | 8,590,839 | 36,088,534 | 33,747,177 |
| Federal National Mortgage Association | Aaa | 16,622,356 | 16,584,631 | 35,170,081 | 2,096,306 | 70,473,374 | 75,532,462 |
| Federal Home Loan Mortgage Corporation | Aaa | 4,570,508 | 4,139,703 | 6,235,325 | 4,820,145 | 19,765,681 | 33,454,733 |
| Mutual Fund - Fidelity | Aaam | 8,903,035 | - | - | - | 8,903,035 | 12,309,126 |
| State Investment Pool (LAIF) | Not Rated | 26,538,297 | - | - | - | 26,538,297 | 20,144,444 |
| Cash and Investments - City Treasury | | 115,840,822 | 28,076,521 | 117,839,080 | 92,445,266 | 354,201,689 | 314,266,316 |
| **Cash and Investments - Other:** | | | | | | | |
| Cash (Debt Fund) | N/A | 27,710 | - | - | - | 27,710 | 327 |
| Mutual Fund - Money Market Funds (Debt Funds) | Aaam | 21,100,303 | - | - | - | 21,100,303 | 23,950,080 |
| Pension Rate Stabilization Investment (Money Market Fund) | Not Rated | 155,642 | - | - | - | 155,642 | 123,009 |
| Pension Rate Stabilization Investment (Mutual Fund) | Not Rated | 4,356,737 | - | - | - | 4,356,737 | 3,389,014 |
| Collateral Obligations (JP Morgan & Others) | Not Rated | 1,405,371 | - | - | - | 1,405,371 | 919,873 |
| Investments - Other | | 27,045,763 | - | - | - | 27,045,763 | 28,382,303 |
| Total Cash and Investments | | $ 142,886,585 | $ 28,076,521 | $117,839,080 | $ 92,445,266 | $ 381,247,452 | $ 342,648,619 |

The City is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF's investment portfolio mainly consists of Treasuries, loans, Federal Agency securities, and collateralized mortgage obligations. Each regular LAIF account is permitted to have up to 15 transactions per month, with a minimum transaction amount of $5,000, a maximum transaction amount of $65 million and at least 24 hours advance notice for withdrawals of $10 million or more. Bond proceeds accounts are subject to one time deposit with no cap and are set up with a monthly draw down schedule. The carrying value of LAIF approximates fair value. See City's Comprehensive Annual Financial Report Note 7 to the financial statements for additional detail on the fiscal year 2018-19 investment portfolio.

Mutual funds are available for withdrawal on demand.

## NOTE 3 – CASH AND INVESTMENTS (continued)

### E. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

### F. Fair Value Hierarchy

SVP categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation input used to measure the fair value of asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. See City's Comprehensive Annual Financial Report Note 7 to the financial statements for more detailed information.

**For the years ended June 30, 2019 and 2018**

## NOTE 3 – CASH AND INVESTMENTS (continued)

| | Investments and Derivative Instruments Measured at Fair Value 6/30/2019 | Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Exempt [1] |
|---|---|---|---|---|---|
| **Investments by Fair Value Level** | | | | | |
| **Short Term Investments** | | | | | |
| Federal Farm Credit Banks | $ 52,452,742 | $ - | $ 52,452,742 | $ - | $ - |
| Federal Home Loan Banks | 36,088,534 | - | 36,088,534 | - | - |
| Federal National Mortgage Association | 70,473,374 | - | 70,473,374 | - | - |
| Federal Home Loan Mortgage Corp | 19,765,681 | - | 19,765,681 | - | - |
| Mutual Fund - Fidelity Money Market | 8,903,035 | - | 8,903,035 | - | - |
| **Total Short Term Investments** | 187,683,366 | - | 187,683,366 | - | - |
| **Debt Securities and Other** | | | | | |
| Mutual Fund - Money Market Funds (Debt Fund) | 21,100,303 | - | - | - | 21,100,303 |
| Pension Rate Stabilization Investment (Money Market Fund) | 155,642 | 155,642 | | | |
| Pension Rate Stabilization Investment (Mutual Fund) | 4,356,737 | 3,818,424 | 538,313 | | |
| US Treasury Notes | 93,063,950 | 93,063,950 | - | - | - |
| Collateral Obligations (JP Morgan & Others) | 1,405,371 | - | - | - | 1,405,371 |
| **Total Debt Securities and Other** | 120,082,003 | 97,038,016 | 538,313 | - | 22,505,674 |
| **Total Investment by Fair Value Level** | 307,765,369 | $ 97,038,016 | $ 188,221,679 | $ - | 22,505,674 |
| **Investments Measured at the Amortized Cost** | | | | | |
| **State Investment Pool (LAIF)** | 26,538,297 | - | - | - | 26,538,297 |
| **Total Investments** | 334,303,666 | $ 97,038,016 | $ 188,221,679 | $ - | $ 49,043,971 |
| **Cash in Banks** | 46,943,786 | | | | |
| **Total Cash and Investment** | $ 381,247,452 | | | | |

[1] Accounts in exempt column are Mutual Fund-Money Market, Collateral Obligation and LAIF investments which are exempt from fair value hierarchy, or reported at amortized cost.

The City utilizes a third party pricing service to determine fair market prices for its individually held investments. Evaluations are based on market information available at the time and generated using proprietary evaluated pricing models and methodologies.

**For the years ended June 30, 2019 and 2018**

## NOTE 3 – CASH AND INVESTMENTS (continued)

Level 1 investments are valued using a marketable actively traded assets closing price for identical assets. Level 2 investments are determined by using quoted prices for similar assets.

## NOTE 4 – CAPITAL ASSETS

### A. Capital Assets Summary

| | Balance June 30, 2018 | Additions | Retirements | Transfers | Balance June 30, 2019 |
|---|---|---|---|---|---|
| Non Depreciable Assets: | | | | | |
| Land | $ 14,371,743 | $ - | $ - | $ - | $ 14,371,743 |
| Construction In Progress | 72,993,391 | 21,331,719 | - | (8,816,676) | 85,508,434 |
| Total Non Depreciable Assets | 87,365,134 | 21,331,719 | - | (8,816,676) | 99,880,177 |
| Capital assets being depreciated: | | | | | |
| Buildings and Improvements | 913,208,421 | - | - | 8,816,676 | 922,025,097 |
| Machinery & Equipment | 9,619,849 | 320,469 | (44,116) | - | 9,896,202 |
| Total capital assets being depreciated | 922,828,270 | 320,469 | (44,116) | 8,816,676 | 931,921,299 |
| Less accumulated depreciation for: | | | | | |
| Buildings and Improvements | (427,092,719) | (19,994,372) | - | - | (447,087,091) |
| Machinery & Equipment | (7,915,223) | (370,812) | 44,116 | - | (8,241,919) |
| Total accumulated depreciation | (435,007,942) | (20,365,184) | 44,116 | - | (455,329,010) |
| Net Depreciable Assets | 487,820,328 | (20,044,715) | - | 8,816,676 | 476,592,289 |
| Enterprise Activity Capital Assets, Net | $ 575,185,462 | $ 1,287,004 | $ - | $ - | $ 576,472,466 |

## NOTE 4 – CAPTIAL ASSETS (continued)

### B. Construction in Progress

Construction in progress as of June 30, 2019 consisted of the following in SVP Projects.

| Projects | Authorized | Expended | Commitments |
|---|---|---|---|
| Serra Substation | $ 16,559,500 | $ 1,523,380 | $ 15,036,120 |
| Implement Advanced Meter Infrastructure | 28,756,829 | 25,844,046 | 2,912,783 |
| SVP Utility Center | 25,202,222 | 188,173 | 25,014,049 |
| Fairview Substation | 29,575,905 | 18,242,359 | 11,333,546 |
| Phase Shifting Transformer at Northern Receiving Station | 29,260,606 | 25,336,018 | 3,924,588 |
| Other Projects | 31,433,449 | 14,374,458 | 17,058,991 |
| Total | $ 160,788,511 | $ 85,508,434 | $ 75,280,077 |

## NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS

Changes in long-term debt for the year ended June 30, 2019, consisted of the following:

| Type of Indebtedness Rate, Issue Date and Maturity | Outstanding as of June 30, 2018 | Debt Retired / Defeased | Additions and Amortization of Discounts | Outstanding as of June 30, 2019 | Current Portion |
|---|---|---|---|---|---|
| Obligation Bonds: | | | | | |
| 2008 Series B Subordinate Revenue Bonds, Adjustable rate, 05/29/08-12/18/18 | $ 59,265,000 | $ 59,265,000 | $ - | $ - | $ - |
| 2011 Series A Refunding Revenue Bonds, 5%-6% 03/22/11-07/01/32 | 54,830,000 | - | - | 54,830,000 | - |
| 2013 Series A Refunding Revenue Bonds 3%-5%, 04/24/13-07/01/28 | 51,335,000 | 3,720,000 | - | 47,615,000 | 3,910,000 |
| 2018 Series A Refunding Revenue Bonds, 5%, 12/18/18 - 07/01/27 | - | - | 48,800,000 | 48,800,000 | 4,205,000 |
| Unamortized Discount/Premium | 5,607,418 | 961,282 | 6,419,569 | 11,065,705 | - |
| Subtotal Electric Utility Revenue Bonds | 171,037,418 | 63,946,282 | 55,219,569 | 162,310,705 | 8,115,000 |
| Direct Placement: | | | | | |
| Bank of America Loan Agreement 2.67%, 06/16/14-07/01/2024 | 26,490,000 | 3,492,000 | - | 22,998,000 | 3,585,000 |
| Bonds and Notes from Direct Borrowing | $197,527,418 | $ 67,438,282 | $ 55,219,569 | $ 185,308,705 | $11,700,000 |

## NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

### A. Electric Revenue Refunding Bonds, Series 2008 B

On May 29, 2008, SVP issued $86.6 million of Variable Rate Demand Subordinated Electric Revenue Bonds, Series 2008B (Electric 2008B Bonds) to refinance $80.53 million of Electric 1998A Bonds on July 1, 2008. The Electric 2008B Bonds mature annually beginning July 1, 2009 through July 1, 2027. The Electric 2008B Bonds are variable-rate, multi-modal bonds that were initially issued in the weekly mode. Payment of principal and interest on the Electric 2008B Bonds was originally made from proceeds of draws on a Letter of Credit originally provided by Dexia Credit Local. On May 11, 2011, the Letter of Credit provided by Dexia was replaced by a Letter of Credit provided by Bank of America, N.A. In connection therewith, the name of the bonds was changed from "Subordinated Electric Revenue Refunding Bonds" to "Electric Revenue Refunding Bonds". On November 1, 2012, the Letter of Credit provided by Bank of America, N.A. was replaced by a Letter of Credit provided by The Bank of Tokyo-Mitsubishi UFJ, Ltd with extended expiration date of January 29, 2019. The Electric 2008B Bonds were refunded on December 18, 2018 by the Electric 2018A Bonds described below. The 2008B bonds were redeemed in full and the interest rate swap agreement was terminated on the same date. The refunding resulted in overall debt service savings of $4,484,252. The net present value of the debt service savings is called an economic gain and after a reduction for prior funds on hand of $3,595,858, amounted to $522,034.

### B. Electric Revenue Refunding Bonds, Series 2011A

On March 22, 2011, SVP issued $54.83 million of Electric Revenue Refunding Bonds, Series 2011A (Electric 2011A Bonds) to refinance $49.66 million outstanding principal amount of Electric 2008A Bonds. The Electric 2011A Bonds mature annually beginning on July 1, 2028 through July 1, 2032 and bear coupon rates ranging from 5.00% to 6.00%. Debt service on the Electric 2011A Bonds is secured by a pledge of net revenues of SVP.

In the event of default, SVP will transfer to the trustee all adjusted net revenues held by it and received thereafter and the trustee will disburse all adjusted net revenues and any other funds then held or thereafter received by the trustee under the provisions of indenture. In the case of default, the trustee will be entitled to declare the bond obligation of all bonds then outstanding to be due and payable immediately.

### C. Electric Revenue Refunding Bonds, Series 2013A

On April 24, 2013, SVP issued $64.38 million of the Electric Revenue Bonds, Series 2013A (Electric 2013A Bonds), to provide funds, together with other available moneys, to refinance outstanding Electric 2003A Bonds. The Electric 2013A Bonds mature annually beginning on July 1, 2014 through July 1, 2028 and bear coupon rates ranging from 3.00% to 5.00%. Debt service on the Electric 2013A Bonds is secured by a pledge of net revenues of SVP.

## NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

In the event of default, SVP will transfer to the trustee all adjusted net revenues held by it and received thereafter and the trustee will disburse all adjusted net revenues and any other funds then held or thereafter received by the trustee under the provisions of indenture. In the case of default, the trustee will be entitled to declare the bond obligation of all bonds then outstanding to be due and payable immediately.

### D. Bank of America Loan Agreement, Series 2014

On June 16, 2014, SVP entered into a Tax-Exempt Multiple Draw Term Loan with the Bank of America Preferred Funding Corporation (the "Electric 2014 Loan Agreement") to fund the phase-shifting transformer project and the acquisition of property for future utility use. The loan is a tax-exempt multiple draw term loan that allows SVP to draw funds as needed. The first draw occurred on June 16, 2014 for approximately \$24.4 million, which includes \$15.8 million for the Phase Shifting Transformer engineering, equipment purchase, and initial construction activities and \$8.5 million for the land purchase. The second draw occurred on April 15, 2015 for \$6.0 million to cover the construction and commissioning of the Phase Shifting Transformer. The loan terms allowed SVP to capitalize interest for up to two years in the amount of \$1,134,031 with the initial loan payment due July 1, 2016. The loan carries an interest rate of 2.67% and the final payment is due on July 1, 2024. Debt service on the Electric 2014 Loan Agreement is secured by a pledge of net revenues of SVP on a basis subordinate to outstanding Electric Revenue Bonds.

In the event of default, SVP will transfer to the trustee all adjusted net revenues held by it and received thereafter and the Trustee will disburse all adjusted net revenues and any other funds then held or thereafter received by the trustee under the provisions of indenture. In the case of default, the trustee will be entitled to declare the bond obligation of all bonds then outstanding to be due and payable immediately.

### E. Electric Revenue Refunding Bonds, Series 2018A

On December 18, 2018, SVP issued \$48.8 million of Electric Revenue Refunding Bonds, Series 2018A (Electric 2018A Bonds) to refinance \$54.58 million outstanding principal amount of Variable Rate Demand Electric Revenue Refunding Bonds, Series 2008B and terminate a related swap agreement. The Electric 2018A Bonds bear 5% coupon rate, mature annually beginning on July 1, 2019 through July 1, 2027, and were sold at an All-In True Interest Cost of 2.32%. Debt service on the Electric 2018A Bonds is secured by a pledge of net revenues of SVP.

In the event of default, SVP will transfer to the trustee all adjusted net revenues held by it and received thereafter and the trustee will disburse all adjusted net revenues and any other funds then held or thereafter received by the trustee under the provisions of indenture. In the case of

## NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

default, the trustee will be entitled to declare the bond obligation of all bonds then outstanding to be due and payable immediately.

### F. Pledge of Future Electric Revenues

The pledge of future Electric Fund revenues ends upon repayment of the $174.2 million in outstanding principal on the bonds and loan which is scheduled to occur in fiscal year 2032-33. For fiscal year 2018-19, Electric Fund revenues including operating revenues and non-operating interest earnings amounted to $415 million and operating costs including operating expenses, but not interest, depreciation or amortizations amounted to $331.1 million. Net revenues available for debt service amounted to $83.9 million which represented a coverage ratio of 3.48 on the $24.1 million of debt service.

### G. Derivative Instruments

In fiscal year 2009-10, SVP implemented GAAP, which addresses recognition, measurement and disclosures related to derivative instruments to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with the interest rate and energy exposures. Under hedge accounting, the increase (decrease) in the fair value of a hedge is reported as a deferred cash flow hedge on the statement of net position.

Interest Rate Swap Agreements-2008 Series B Bonds

On December 18, 2018, in connection with the issuance of Electric Revenue Refunding Bonds, Series 2018A and the related refunding of outstanding Variable Rate Demand Electric Revenue Refunding Bonds, Series 2008B Bonds, SVP terminated its variable-to-fixed interest rate swap agreement with JPMorgan Chase and paid a termination payment to JPMorgan Chase in the amount of $3,738,000, as well as a payment of $74,514 to terminate an associated letter of credit.

The swap is classified as a debt instrument. SVP had no outstanding swap agreements at June 30, 2019 and had negative fair values of $4,198,214 including accrued interest at June 30, 2018.

Notional Amounts and Fair Values – Future Derivative Instruments

SVP maintains a Market Risk Management Policy, which among other things, sets forth the guidelines for the purchase and sale of certain financial instruments defined as hedge instruments in support of market power purchase and sales transactions. The primary goal of these guidelines is to provide a framework for the operation of an energy price hedging program to better manage SVP's risk exposure in order to utilize resources, stabilize pricing and costs for the benefit of SVP and its customers.

## NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

Consistent with hedge accounting treatment meeting effectiveness tests, changes in fair value are reported as deferred flows of resources on the statement of net position until the contract expiration that occurs in conjunction with the hedged expected energy purchase/sales transaction. When hedging contracts expire, at the time the purchase/sales transactions occur, the deferred balance is recorded as a component of Purchased Power. For energy derivatives, fair values are estimated by comparing contract prices to forward market prices quoted by third party market participants.

SVP had no future derivative instruments outstanding at June 30, 2019 and had deferred outflow of $109,674 and deferred inflow of $21,505 of future derivative instruments outstanding at June 30, 2018.

Credit Risk

Credit risk is the risk of loss due to a counterparty defaulting on its obligations. SVP is exposed to credit risk if hedging instruments are in asset positions. As of June 30, 2019, SVP was not exposed to credit risk because there were no open derivative contracts, nor swap agreement.

SVP's policy for requiring collateral on hedging instruments varies based on individual contracts and counterparty credit ratings. Under the brokerage agreements with Archer Daniels Midland Company, the accounts are prefunded by SVP. If the account value falls below zero, margin calls are invoked. At June 30, 2019, SVP had posted collateral of $1,405,371 deposited with CAISO and Archer Daniels Midland Company for wholesale trading.

It is also SVP's policy to negotiate netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, the non-defaulting party may accelerate and terminate all outstanding transactions and net their fair values so that a single amount will be owed by (or to) the non-defaulting party.

Termination Risk

SVP’s futures contracts are traded over the counter and have no termination risk.

Price Risk

With respect to price risk under these future contracts, on purchase contracts (long positions), SVP receives the CAISO NP15 average daily rate at settlement and pays the fixed contracted rate entered into on the trade date; on sales contracts (short positions), SVP pays the CAISO NP15 average daily rate at settlement and receives the fixed contracted rate entered into on the trade date. SVP is exposed to risk because the contract prices are different from the settlement prices.

## NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

### H. Other

Various debt agreements governing SVP's revenue bonds contain a number of covenants including those that require SVP to maintain and preserve the enterprise in good repair and working order, to maintain certain levels of insurance, and to fix and collect rates, fees, and charges so as to maintain certain debt coverage ratios. SVP is in compliance with these specific covenants and all other material covenants governing the particular revenue bond issues. No event of default as defined in the bond indentures has occurred or was occurring as of the date of this report.

### I. Repayment Requirements

As of June 30, 2019, the debt service requirements to maturity for SVP's long-term debt are as follows:

**Long-term Debt**
**Future Debt Service Requirements**

| Year Ending | Revenue Bonds | | | Loan from Direct Placement | | |
|---|---|---|---|---|---|---|
| June 30 | Principal | Interest | Total | Principal | Interest | Total |
| 2020 | $ 8,115,000 | $ 7,316,756 | $ 15,431,756 | $ 3,585,000 | $ 566,187 | $ 4,151,187 |
| 2021 | 8,600,000 | 6,898,881 | 15,498,881 | 3,681,000 | 469,186 | 4,150,186 |
| 2022 | 9,105,000 | 6,456,256 | 15,561,256 | 3,779,000 | 369,595 | 4,148,595 |
| 2023 | 9,655,000 | 5,987,256 | 15,642,256 | 3,880,000 | 267,347 | 4,147,347 |
| 2024 | 10,220,000 | 5,490,381 | 15,710,381 | 3,983,000 | 162,376 | 4,145,376 |
| 2025-2029 | 55,805,000 | 19,809,950 | 75,614,950 | 4,090,000 | 54,602 | 4,144,602 |
| 2030-2033 | 49,745,000 | 5,601,972 | 55,346,972 | - | - | - |
| | $ 151,245,000 | $ 57,561,453 | $ 208,806,452 | $ 22,998,000 | $ 1,889,292 | $24,887,292 |

**Reconciliation of Long-term Debt:**

| | |
|---|---|
| Principal Outstanding as of June 30, 2019 | $ 174,243,000 |
| Unamortized Discount/Premium - Electric Revenue Bonds | 11,065,705 |
| Total Long-term Debt | $ 185,308,705 |

## NOTE 6 – PARTICIPATION IN JOINT VENTURES

### A. Investment in Joint Ventures

SVP (through the City) participates in significant joint ventures: Northern California Power Agency (NCPA), Transmission Agency of Northern California (TANC), M-S-R Public Power Agency (MSR PPA), M-S-R Energy Authority (MSR EA).

The separately issued financial statements of these joint ventures (as noted below) are available on request.

| | Date of latest audited financial statement | Joint venture's address |
|---|---|---|
| NCPA | 6/30/2018 | 651 Commerce Dr. Roseville, CA 95678 |
| TANC | 6/30/2018 | P.O. Box 15129 Sacramento, CA 95851 |
| MSR EA | 12/31/2018 | P.O. Box 4060 Modesto, CA 95352 |
| MSR PPA | 12/31/2018 | P.O. Box 4060 Modesto, CA 95352 |

As described in paragraph (D) below, the carrying value of SVP's investment in MSR PPA is $0. SVP's financial statements as of June 30, 2019 and 2018 reflect the following investments in joint ventures:

| | June 30, 2019 | | June 30, 2018 | | |
|---|---|---|---|---|---|
| | Participating percentage | Investment | Participating percentage | Investment | Method of accounting |
| NCPA | | | | | |
| Geothermal | 44.39% | $35,021,527 | 44.39% | $45,701,000 | Equity |
| Hydroelectric | 37.02% | | 37.02% | | |
| Combustion Turbine | 41.67% | | 41.67% | | |
| Lodi Energy Center | 25.75% | | 25.75% | | |
| TANC | 9.57% | 2,310,785 | 8.61% | 1,790,705 | Equity |
| MSR EA | 33.40% | - | 33.40% | - | Suspended |
| MSR PPA | 35.00% | - | 35.00% | - | Suspended |
| Total | | $37,332,312 | | $47,491,705 | |

### B. Northern California Power Agency (NCPA)

NCPA was formed in 1968 as a joint powers agency in the State of California. Its membership consists of fifteen public agencies. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on

## NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

an elective basis. Therefore, the participation percentage varies for each project in which it participates.

A Commission comprised of one representative from each joint venture member governs NCPA. The Commission is responsible for the general management of the affairs, property, and business of NCPA. Under the direction of the General Manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

### Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

### Hydroelectric Project

NCPA contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District (CCWD). In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA also has an option to purchase power from the project in excess of the CCWD's requirements for the subsequent 50 years, subject to regulatory approval.

### Geothermal Project

The NCPA Geothermal Plants have historically experienced greater than anticipated declines in steam production from the existing geothermal wells. Although initially operated as baseload generation projects at full capability (238MW), NCPA changed its steam field production from baseload to load-following and reduced average annual steam production. Along with other steam field operators in the area, the Agency began implementing various operating strategies to further reduce the rate of decline in steam production. The Agency has modified both steam turbine units and the associated steam collection system to enable generation with lower pressure steam at higher mass-flow rates to optimize the utilization of the available steam resource.

Based upon current operation protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease further, reaching approximately 66 MW by the year 2039.

## NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

Combustion Turbine Project No. 1

NCPA owns five dual (natural gas and fuel oil) combustion turbine units, each of which is nominally rated at 25 MW, which are collectively known as the Combustion Turbine Project No. 1. These units were completed in 1986 and are designed to provide peak power and reserve requirements and emergency support. Each purchaser is responsible under its power sales contract for paying entitlement share in Combustion Turbine Project No. 1 of all NCPA's costs of such project.

Lodi Energy Center

On May 24, 2010, SVP entered into an agreement with NCPA for a 25.75% interest in the Lodi Energy Center, a 280 MW combined cycle natural gas fired power plant, located in Lodi, California. The project received approval from the California Energy Commission in April 2010 and was placed into operation in November 2012.

### C. Transmission Agency of Northern California (TANC)

TANC was organized under the California Government Code pursuant to a joint powers agreement entered into by 15 Northern California utilities. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to plan, acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or from user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro-rata share of the costs to operate TANC and for payment of debt service, and has the right to participate in future project agreements.

The joint powers agreement remains in effect until all debt obligations and interest thereon have been paid, unless otherwise extended by the members.

California-Oregon Transmission Project

TANC is a participant and also the Project Manager of the California-Oregon Transmission Project (Project), a 340 mile long, 500 kilovolt alternating current transmission project between Southern Oregon and Central California. As Project Manager, TANC is responsible for the overall direction and coordination of all Project operations and maintenance, additions and betterments, and for general and administrative support.

The Project was declared commercially operable on March 24, 1993, with a rated transfer capability of 1,600 megawatts and provides a third transmission path between the electric systems of the Pacific Northwest and those in California. The Project has successfully met and completed all major environmental requirements. As of June 30, 2018, the most recent data

## NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

available, TANC's investment in the Project was $537.6 million, less accumulated depreciation and amortization of $271.9 million.

In connection with its participation in the Project, TANC has an entitlement balance of the Project's transfer capability of approximately 1,362 megawatts and is obligated to pay an average of approximately 80 percent of the operating costs associated with the Project. TANC incurred and initially capitalized all costs for project construction since they were expected to be recovered through reimbursement from Project participants and from the successful operations of the Project transmission lines. The Project agreement among the participating members provides that each member agrees to make payments, from its revenues, to TANC for project costs incurred and for payment of debt service.

SVP has historically been obligated to pay 20.47% of TANC's COTP operating and maintenance expenses and 20.70% of TANC's COTP debt service and 22.16% of the Vernon acquisition debt. SVP has also been entitled to 20.4745% of TANC's share of COTP transfer capability (approximately 278 MW net of third party layoffs of TANC) on an unconditional take-or-pay basis. Starting on July 1, 2014, SVP laid-off 147 MWs of this entitlement to other TANC members under a 25 year agreement. During the term of this agreement the parties taking on the entitlement will pay all associated debt service, operations and maintenance costs, and all administrative and general costs. SVP's portion of the operating and maintenance expenses and the COTP debt service is 10.008 %.

### D. M-S-R Public Power Agency (MSR PPA)

MSR PPA is a joint power agency formed in 1980 by the Modesto Irrigation District, the City of Santa Clara, and the City of Redding, California, to develop or acquire and manage electric power resources for the benefit of the members. The personnel of its members and contract professional staff perform the administrative and management functions of MSR PPA. The member's income and expenses sharing ratio is as follows: Modesto Irrigation District – 50 percent, City of Santa Clara – 35 percent, and City of Redding – 15 percent.

SVP's equity in MSR PPA's net losses exceeds its investments and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2018, the date of the latest available audited financial statements, SVP's unrecognized share of member's deficit of MSR PPA was $18.4 million. Under the joint exercise of power agreement, which formed MSR PPA, SVP is responsible for funding up to 35 percent of MSR PPA's operating cost, to the extent such funding is necessary. During the years ended June 30, 2019 and 2018, SVP made no contributions to fund its share of operating deficits. If there were such contributions, they would be included in SVP's expenses.

## NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

MSR PPA's principal activity is a 28.8% ownership interest in a 507-megawatt unit of a coal-fired electricity generating plant located in New Mexico (San Juan Plant). The San Juan plant was jointly owned by the Public Service Company of New Mexico (PNM) (38.5%), MSR PPA (28.8%) and other municipal power entities (32.7%). MSR PPA was also a participant in the Southwest Transmission Project, a 500-kilovolt alternating current transmission project between Central Arizona and Southern California, which provides firm transmission from the San Juan plant into California. MSR PPA has transmission contracts to complete the path to bring power to the Members' distribution systems. The Members share in the income and expense of the San Juan Plant and the Southwest Transmission Project in the ratio of the MSR PPA ownership percentages. On May 25, 2016, MSR PPA sold its interest in the Southwest Transmission Project. On December 31, 2017, MSR PPA divested its ownership interest in the San Juan plant

In 2006, MSR PPA entered into a Wholesale Purchase and Sale Agreement and a Shaping and Firming Agreement with Avangrid Renewables, Inc. to provide renewable wind energy to the Members from the Big Horn I Wind Energy Project (Big Horn I Project) with a nominal installed capacity of approximately 199.5 MW. SVP receives the power purchased by MSR PPA from the Big Horn I Project. SVP's share equates to approximately a 105 MW share of the output at a cost comparable to combined cycle gas-fuel generation. Power deliveries commenced on October 1, 2006 and will continue through September 30, 2026. Through an amendment of the original agreements MSR PPA has an obligation to continue to take the same output through September 30, 2031, or if the Big Horn Project is repowered MSR PPA will have a right of first offer to negotiate a long-term power purchase for such repowered project. The participation in this project is as follows:

| | |
|---|---|
| Modesto Irrigation District | 12.5% |
| City of Santa Clara | 52.5% |
| City of Redding | 35.0% |

In 2009, MSR PPA entered into a Power Purchase Agreement and Redelivery Agreement with Avangrid Renewables Inc. to purchase additional wind power energy from the same site, called Big Horn II, with a nominal installed capacity of 50 MW for a twenty-year period. Deliveries of energy under this project began on November 1, 2010. The participation in this project is as follows: Modesto Irrigation District – 65%; City of Santa Clara – 35%.

<u>MSR PPA San Juan</u>

In 2015, the MSR PPA Commission approved a number of agreements (the "San Juan Restructuring Agreements") to provide for the interests of MSR PPA and certain other San Juan Participants (the "exiting participants") in the San Juan Generation Station to be transferred to the remaining San Juan Participants effective December 31, 2017. In addition to the ownership divesture, the San Juan Restructuring Agreements provide for, among other things, the allocation

## NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

of ongoing responsibility for decommissioning costs, mine reclamation costs and any environmental remediation obligations among the exiting participants and the remaining San Juan Participants, and the establishment and funding of mine reclamation and plant decommissioning trust funds. The San Juan Restructuring Agreements were subsequently executed by all nine San Juan Generation Station owners and PNM Resources Development Company (a non-utility affiliate of PNM) and, following receipt of regulatory approvals, became effective on January 31, 2016. Various other implementing agreements and amendments to existing San Juan project agreements to effect the restructuring have also been executed. Closing of the ownership restructuring of the San Juan Generation Station and the divestiture of M-S-R PPA's interests in San Juan Unit No. 4 was completed on schedule on December 31, 2017.

### E. M-S-R Energy Authority (MSR EA)

MSR EA is a joint power agency formed in 2008 by the Modesto Irrigation District, the City of Santa Clara, and the City of Redding, California, to develop or acquire and manage natural gas resources for the benefit of the members. The personnel of its members and contract professional staff perform the administrative and management functions of MSR EA. Each member's income and expense sharing ratio is as follows: Modesto Irrigation District – 33.3%; City of Santa Clara – 33.4%; and City of Redding – 33.3%.

SVP's equity in MSR EA's net losses exceeds its investment and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2018, the date of the latest available audited financial statements, SVP's unrecognized share of member's deficit of MSR EA was $27.2 million. Under the joint exercise of power agreement, which formed MSR EA, SVP is responsible for funding up to 33.4% of MSR EA's operating cost, to the extent such funding is necessary. During the years ended June 30, 2019 and 2018, SVP made no contributions to fund its share of operating deficits. If there were such contributions, they would be included in SVP's expenses.

In 2009, the City of Santa Clara, along with the Cities of Modesto and Redding participated in the M-S-R Energy Authority Gas Prepay Project. The Gas Prepay Project provides the City, through a Gas Supply Agreement with MSR EA dated September 10, 2009, a secure and long-term supply of natural gas of 7,500 MM Btu (Million British thermal unit) daily or 2,730,500 MM Btu annually through December 31, 2012, and 12,500 MM Btu daily, or 4,562,500 MM Btu annually thereafter until September 30, 2039. The agreement provides this supply at a discounted price below the spot market price (the Pacific Gas & Electric City gate index) over the next 30 years. As of December 31, 2018, bonds issued by MSR EA to finance the City's share of the Gas Prepay Project were outstanding in the principal amount of $500,200,000. These bonds were initially sold on August 27, 2009. Under the Gas Supply Agreement, MSR EA will bill the City for actual quantities of natural gas delivered each month on a "take-and-pay" basis. MSR EA has contracted with Citigroup Energy, Inc. ("CEI") to use the proceeds of the Gas

## NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

Prepay bond issue to prepay CEI for natural gas. CEI has guaranteed repayment of the bonds, and responsibility for bond repayment is non-recourse to the City. Moreover, any default by the other Gas Prepay Project participants is also non-recourse to the City.

### F. Contingent Liability

Under the terms of the various joint venture agreements, SVP is contingently liable for a portion of the long-term debt of the entities under take-or-pay agreements, letters of credit, guarantees or other similar agreements.

Based on the most recent audited financial statements of the individual joint ventures, SVP was contingently liable for long-term debt as of June 30, 2019 as follows:

| Agreements | Total Debt | Silicon Valley Power's Debt Share | Silicon Valley Power's Contingent Liability |
|---|---|---|---|
| NCPA 06/30/18 | $ 736,932,468 | 32.62% | $ 240,364,297 |
| TANC 06/30/18 | 200,290,000 | 9.69% | 19,405,122 |
| MSR PPA 12/31/18 | 98,850,000 | 35.00% | 34,597,500 |
| TOTAL | $ 1,036,072,468 | | $ 294,366,919 |

In addition, SVP would be, under certain conditions, liable to pay a portion of costs associated with the operations of the entities. Under certain circumstances, such as default or bankruptcy of the other participants, SVP may also be liable to pay a portion of the debt of these joint ventures on behalf of those participants and seek reimbursement from those participants.

Take-or-Pay commitments expire upon final maturity of outstanding debt for each project. Final fiscal year debt expirations as of June 30, 2018 are as follows:

| Project | Debt Expiration | Entitlement Share % | Debt Service Share % |
|---|---|---|---|
| NCPA - Geothermal Project (NGP) | July-2024 | 44.3905% | 44.3905% |
| NCPA - Hydroelectric Project (NHP) | July-2032 | 37.0200% | 37.0200% |
| NCPA - Lodi Energy Center (NLEC)** | June-2040 | 25.7500% | 30.6292% |
| TANC - CA-OR Transmission Project (COTP) | May-2024 | 9.5700% | 9.6900% |
| MSR PPA -San Juan Plant | July-2022 | 35.0000% | 35.0000% |

** The SVP's debt service share in NLEC on issue one is 46.1588%, on issue two is 0%.

## NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

A summary of SVP's "Take-or-Pay" contracts and related projects and its contingent liability for the debt service including principal and interest payments at June 30, 2018 is as follows:

| Fiscal Year | NGP | NHP | NLEC | COTP | MSR PPA | Total |
|---|---|---|---|---|---|---|
| 2019 | $ 2,191,001 | $ 13,860,409 | $ 7,658,253 | $ 838,994 | $ 9,711,800 | $ 34,260,457 |
| 2020 | 2,191,513 | 13,510,819 | 7,568,560 | 576,705 | 9,711,800 | 33,559,397 |
| 2021 | 2,195,431 | 13,524,404 | 7,568,602 | 603,700 | 9,712,500 | 33,604,637 |
| 2022 | 2,197,534 | 13,469,653 | 7,566,771 | 633,717 | 9,711,100 | 33,578,775 |
| 2023 | 2,198,863 | 13,482,473 | 7,567,678 | 664,572 | | 23,913,586 |
| 2024-2028 | 3,087,584 | 53,115,121 | 38,156,954 | 3,783,640 | - | 98,143,299 |
| 2029-2033 | - | 40,921,388 | 38,619,608 | 4,824,619 | - | 84,365,615 |
| 2034-2038 | - | - | 38,618,066 | 6,083,615 | - | 44,701,681 |
| 2039-2041 | - | - | 22,527,489 | 1,395,560 | - | 23,923,049 |
| Total | $ 14,061,926 | $ 161,884,267 | $ 175,851,981 | $ 19,405,122 | $ 38,847,200 | $ 410,050,496 |

## NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

### A. General Information about the Pension Plan

Plan Descriptions

All qualified regular and probationary employees are required to participate in the City's Miscellaneous Agent Multiple-Employer defined benefit plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues a publicly available report that include a full description of the pension plan regarding benefit provisions, assumptions and membership information and can be found on the CalPERS website.

## NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

### Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees or beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The pre-retirement death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

| | Miscellaneous | |
|---|---|---|
| Hire date | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 2.7% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.00 - 2.70% | 1.00 - 2.50% |
| Required employee contribution rates | 8% | 5.75% |
| Required employer contribution rates | 10.169% | 10.169% |
| Required unfunded liability contribution | $5,941,887 | |

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. SVP is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

## NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

The contributions to the Plan were as follows:

| | Miscellaneous | |
|---|---|---|
| | June 30, 2019 | June 30, 2018 |
| Contributions - employer | $8,258,503 | $8,832,102 |

### B. Net Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

SVP reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

| | Proportionate Share of Net Pension Liability | |
|---|---|---|
| | June 30, 2019 | June 30, 2018 |
| Miscellaneous | $ 94,238,259 | $ 92,735,319 |

SVP's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. SVP's proportion of the net pension liability was based on a projection of SVP's long-term share of contributions to the pension plan relative to the projected contributions of all funds of the City. SVP's proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2018 was as follows:

| | Miscellaneous |
|---|---|
| Proportion - June 30, 2017 | 34.97% |
| Proportion - June 30, 2018 | 34.97% |
| Change - Increase (Decrease) | 0.00% |

For the years ended June 30, 2019 and 2018, SVP recognized pension expense of $13,788,025 and $12,008,295, respectively. At June 30, 2019 and 2018, SVP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

## NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

Miscellaneous Plan:

| June 30, 2019 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 8,258,503 | $ - |
| Differences between expected and actual experience | 2,493,207 | (253,680) |
| Changes in assumptions | 4,315,077 | (1,235,166) |
| Net differences between projected and actual earnings on plan investments | 222,557 | - |
| Total | $ 15,289,344 | $ (1,488,846) |

| June 30, 2018 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 8,832,102 | $ - |
| Differences between expected and actual experience | - | (753,184) |
| Changes in assumptions | 8,630,157 | - |
| Net differences between projected and actual earnings on plan investments | 1,923,557 | - |
| Total | $ 19,385,816 | $ (753,184) |

$8,258,503 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Measurement Period Ended June 30 | Annual Amortization |
|---|---|
| 2019 | $ 6,498,862 |
| 2020 | 929,440 |
| 2021 | (1,432,338) |
| 2022 | (453,969) |

## NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

### C. Actuarial Assumptions

For the measurement period ended June 30, 2018, the total pension liability was determined by rolling forward the June 30, 2017 total pension liability. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

| | Miscellaneous |
|---|---|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.50% |
| Payroll Growth | 3.0% |
| Projected Salary Increase | Varies by Entry-Age and Service |
| Investment Rate of Return | 7.15% (1) |
| Post Retirement Benefit Increase | Contract COLA up to 2% until Purchasing Power Protection applies, 2.5% thereafter |
| Mortality (2) | Derived using CalPERS' Membership Data for all Funds (2) |

(1) Net of pension plan investment and administrative expenses; including inflation.

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the CalPERS' December 2017 experience study report available on CalPERS' website.

The underlying mortality assumptions and all other actual assumptions used in the June 30, 2017 valuation were based on the results of a December 2017 actuarial experience study for the period 1997 to 2015. Further details of the Experience Study can be found on the CalPERS website.

Changes of Assumptions

For the measurement date of June 30, 2018, the inflation rate reduced from 2.75% to 2.5%.

## NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

Discount Rate

The discount rate used to measure the total pension liability for the Plan was 7.15%. The projection of cash flows used to determine the discount rate for the Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all period of projected benefit payments to determine the total pension liability for the Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' assets classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

## NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

| Asset Class[a] | Current Target Allocation | Real Return Years 1 - 10[b] | Real Return Years 11+[c] |
|---|---|---|---|
| Global Equity | 50.0% | 4.80% | 5.98% |
| Fixed Income | 28.0% | 1.00% | 2.62% |
| Inflation Assets | - | 0.77% | 1.81% |
| Private Equity | 8.0% | 6.30% | 7.23% |
| Real Assets | 13.0% | 3.75% | 4.93% |
| Liquidity | 1.0% | - | -0.92% |
| Total | 100% | | |

(a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
(b) An expected inflation of 2.0% used for this period.
(c) An expected inflation of 2.92% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents SVP's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what SVP's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | Miscellaneous | |
|---|---|---|
| | June 30, 2019 | June 30, 2018 |
| 1% Decrease | 6.15% | 6.15% |
| Net Pension Liability | $ 125,983,325 | $ 123,540,956 |
| Current Discount Rate | 7.15% | 7.15% |
| Net Pension Liability | $ 94,238,259 | $ 92,735,319 |
| 1% Increase | 8.15% | 8.15% |
| Net Pension Liability | $ 67,770,996 | $ 67,083,805 |

## NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

## NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

### A. Plan Description

The City's single-employer defined benefit Other Post Employment Benefit (OPEB) Plan Trust Fund, which was established by City Council in fiscal year 2007-08 in accordance with GAAP, provides reimbursements to retirees for qualified expenses. Employees who have retired from the City with at least ten years of service and meet certain criterion based upon retirement date, household income in the most recent calendar year and age are entitled to reimbursements for qualified expenses. Annual maximum reimbursement amounts differ depending on when an employee retired from City service. The majority of retirees may be eligible for a maximum of $4,296 in annual reimbursements. Amendments to benefit provisions are negotiated by the various bargaining units at the City and must be approved by Council. In fiscal year 2007-08, the City established an irrevocable exclusive agent multiple-employer defined benefit trust which is administered by Public Agency Retirement Services (PARS). The City is the Plan administrator, and PARS administers the investment trust for the City's Plan. The trust is used to accumulate and invest assets necessary to reimburse retirees. Separate financial reports are issued by PARS for the OPEB Plan Trust. The report can be obtained by writing to PARS at 4350 Von Karman Avenue, Suite 100, Newport Beach, CA 92660, or by calling 1-800-540-6369.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to and deduction from the OPEB's fiduciary net position have been determined on the same bases. For this purpose OPEB benefit payments are recognized when currently due and payable in accordance with the benefits terms. Investments are report at fair value.

Generally accepted accounting principles require that the reporting results must pertain to liability and asset information within certain defined timeframes. For the fiscal year 2018-19 the following time frames were used.

## NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

| | |
|---|---|
| Measurement Date | June 30, 2019 |
| Measurement Period | July 1, 2018 to June 30, 2019 |
| Actuarial valuation date [1] | June 30, 2018 |

(1) Update procedures were used to roll forward the Total OPEB Liability from the valuation date to the measurement date.

### B. Contributions

The OPEB Plan trust annual contributions are based upon actuarial determine contributions. The contribution requirements are established and may be amended by the City Council. Plan members do not make contributions to the plan; the plan is funded entirely by employer contributions. For the fiscal year ending June 30, 2019, SVP contributed $748 thousand.

### C. Actuarial Assumptions

The June 30, 2019 total OPEB liability was based on the following actuarial methods and assumptions:

## NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

Actuarial Assumptions Used in Total OPEB Liability

| Actuarial Assumption | June 30, 2019 Measurement Date |
|---|---|
| Actuarial valuation date | June 30, 2018 |
| Discount rate | 5.25% at June 30, 2019<br>Crossover analysis showed benefit payments always fully funded by plan assets |
| Inflation | 2.75% |
| Salary increases | Aggregate -3% |
| Investment rate of return | 5.25% at June 30, 2019 |
| Funding policy | Full pre-funding to PARS trust<br>PARS portfolio: Moderately Conservative |
| Mortality, Disability, Termination, and Retirement | CalPERS 1997-2015 Experience Study |
| Mortality Improvement | Mortality projected fully generational with Scale MP-2018 |
| Healthcare cost trend rates | Non-Medicare - 7.5% for 2020 scaling down to 4.0% for year 2076<br>Medicare - 6.5% for 2020 scaling down to 4.0% for year 2076 |
| Healthcare participation for future retirees - Cash subsidy | Currently covered: 80%<br>Waived: 40% |
| Healthcare participation for future retirees - PEMHCA implied subsidy | Currently covered: 80%<br>Waived: 25% |

### D. Net OPEB Liability, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

SVP's net OPEB liability for the Plan is measured as the proportionate share of the City's net OPEB liability as of June 30, 2019, and the total OPEB liability for the Plan used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019 using standard actuarial methods, based on actuarial methods and assumptions. SVP's proportion of the net OPEB liability was based on a projection of SVP's long-term share of contributions to the OPEB plan relative to the projected contributions of all funds of the City. SVP's proportionate share of the net pension liability for the Plan as of June 30, 2019 was 34.97%.

For the year ended June 30, 2019, SVP reported a net OPEB liability of $13,340 thousand and recognized OPEB expense of $446 thousand. At June 30, 2019, SVP reported deferred outflows

## NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

| June 30, 2019 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes of assumptions | $ - | $ 1,712 |
| Differences between expected and actual experience | - | 482 |
| Net differences between projected and actual earnings on OPEB plan investments | - | 25 |
| Total | $ - | $ 2,219 |

| June 30, 2018 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Net differences between projected and actual earnings on OPEB plan investments | $ 100 | - |
| Total | $ 100 | $ - |

Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

| Measurement Period Ended June 30 | Annual Amortization (in thousands) |
|---|---|
| 2020 | $ (422) |
| 2021 | (422) |
| 2022 | (423) |
| 2023 | (447) |
| 2024 | (422) |
| Thereafter | (83) |

### E. Discount Rate

The discount rate used to measure the total OPEB liability was 5.25% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rate equal to the actuarially determined contributions rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all

## NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Mutual Funds - Equity | 29% | 4.82% |
| Mutual Funds - Fixed Income | 65% | 1.47% |
| REITS | 1% | 3.76% |
| Cash and equivalent | 5% | 0.06% |
| | 100% | |
| Expected Inflation | | 2.75% |
| Discount Rate | | 5.25% |

### F. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the net OPEB liability of the Plan as of June 30, 2019 calculated using the discount rate of 5.25%, as well as what the plan's net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate.

| | June 30, 2019 (In Thousands) | June 30, 2018 (In Thousands) |
|---|---|---|
| 1% Decrease | 4.25% | 4.25% |
| Net OPEB Liability | $ 16,009 | $ 19,343 |
| Current Discount Rate | 5.25% | 5.25% |
| Net OPEB Liability | $ 13,340 | $ 16,286 |
| 1% Increase | 6.25% | 6.25% |
| Net OPEB Liability | $ 11,137 | $ 13,792 |

### G. Sensitivity of the Net OPEB Liability to Healthcare Cost Trend Rates

The following table presents the net OPEB liability of the City, as of June 30, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% point lower or 1% point higher than the current rate.

## NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

| | June 30, 2019 (In Thousands) | June 30, 2018 (In Thousands) |
|---|---|---|
| 1% Decrease | 6.5% Non-Medicare<br>5.5% Medicare decreasing to 4.0% | 5.5% Non-Medicare<br>5.7% Medicare decreasing to 5.0% |
| Net OPEB Liability | $10,717 | $13,139 |
| Current Rate | 7.5% Non-Medicare<br>6.5% Medicare decreasing to 4.0% | 6.5% Non-Medicare<br>6.7% Medicare decreasing to 5.0% |
| Net OPEB Liability | $13,340 | $16,286 |
| 1% Increase | 8.5% Non-Medicare<br>7.5% Medicare decreasing to 4.0% | 7.5% Non-Medicare<br>7.7% Medicare decreasing to 5.0% |
| Net OPEB Liability | $16,580 | $20,225 |

## NOTE 9 – WHOLESALE ACTIVITIES

### A. Long-term Power Purchase Contracts

SVP purchases wholesale electric power from various participants of the Western Systems Power Pool (WSPP), NCPA, MSR Public Power Agency (Note 6), Western Area Power Administration, and other sources to supply the power requirements of Silicon Valley Power's electric utility customers under long-term power purchase agreements (PPAs). SVP actively manages the financial risks inherent in these PPAs, including the risks arising from the changing spot market prices that move above and below the contract prices and from contract disputes that may arise from time to time. The cost of power under PPAs is included in materials, services and supplies expense and excluded from wholesale resources purchases.

### B. Restructuring of the California Electric Industry

Deregulation Legislation

The passage of AB1890 in 1998 triggered fundamental changes in the structure of the electric industry in California. Generally, AB1890 provided for creation of the California Power Exchange (Cal PX), which was to be a clearinghouse for energy transactions among investor-owned utilities, independent generators and power marketers, who in turn would serve so called

## NOTE 9 – WHOLESALE ACTIVITIES (continued)

direct-access customers. AB1890 also created the California Independent System Operator (CAISO), which was to manage the state's bulk transmission grid.

However, in 2000 and 2001, the price of electricity at the Cal PX became extremely high, and investor-owned utilities were unable to pay for the energy that they needed from the Cal PX. Eventually the Cal PX filed for bankruptcy and was dismantled. Investor-owned utility PG&E and several energy marketers would also file for bankruptcy and over a decade of litigation ensued.

The CAISO, however, continues to manage the state's bulk electric system and the day-ahead and day-of markets, and it has implemented various price controls and tariffs in an effort to avoid repeating the mistakes of 2000 and 2001. Along with balancing control area responsibility, the CAISO has also announced that it will take on the role of reliability coordinator for the region.

### Energy Wholesale Trading and Risk Management

SVP participates in the wholesale gas and power market and the CAISO's centralized market. Since CAISO's Market Redesign and Technology Upgrade (MRTU), CAISO has become the ultimate buyer and seller in the California day ahead market. Therefore, SVP engages in the trading of commodity forward contracts (gas and electric energy contracts) to secure fuel supply and hedge daily power purchase/sales from/to CAISO. Activities during the fiscal year were substantially considered hedging transactions and, as such, have been accounted for using the settlement method of accounting. Accordingly, related gross purchases and sales totaling $22.5 million and $27.7 million, respectively, for fiscal year ended June 30, 2019, have been separately reported on the statement of revenues, expenses and changes in net position.

The restructured electric wholesale market exposes SVP to various risks including market, credit and operational risks. Active and effective management of these risks associated with the power trading activity is critical to its continued success and contribution to the entire utility. A Risk Management Committee administers and monitors compliance with the Council approved risk policies and the related procedures on a regular basis. The City and SVP believe that it has the resource commitment, effective policies and procedures, and is continuing to improve the control structure and oversight for evaluating and managing the market and credit risks to which it is exposed.

### Credit Arrangements

SVP has risk policies, regulations, and procedures that help mitigate credit risk and minimize overall credit risk exposure. The policies include transacting only with investment grade counterparties, evaluating of potential counterparties' financial condition and assigning credit limits as applicable. These credit limits are established based on risk and return considerations

## NOTE 9 – WHOLESALE ACTIVITIES (continued)

under terms customarily available in the industry. For counterparties below investment grade or lack of solid financial records, SVP requires collateral in the form of parental guarantee, surety bonds, letter of credit, or cash prepayment. Additionally, The City is a signatory to the WSPP netting agreement supplement and otherwise, enters into master netting arrangements whenever possible and, where appropriate, obtains collateral prior to trade execution. Master netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterparty in the event of default.

## NOTE 10 – MAJOR SUPPLIERS

SVP purchases wholesale electric energy through its participation in the NCPA and M-S-R Public Power Agency joint powers agencies, from the Western Area Power Administration, from the market via the California Independent System Operator (CAISO), and from other sources to supply its retail electric utility customers. Additionally, SVP purchases transmission services through its participation in the TANC and from the CAISO.

The purchases of energy and transmission services that represent 5% or more of the total purchased power costs are shown in the table below:

| Supplier | Power Purchased | % of the Total Purchased Power |
|---|---|---|
| NCPA | $ 125,931,347 | 51.05% |
| M-S-R Public Power Agency | 32,620,708 | 13.22% |
| Tri-Dam Project | 29,293,866 | 11.87% |
| EDF Trading North America LLC | 17,251,619 | 6.99% |
| M-S-R Energy Authority | 13,716,509 | 5.56% |

## NOTE 11 – COMMITMENTS AND CONTINGENCIES

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation, which is likely to have a material adverse effect on the financial position of the fund.

SVP has future commitments under construction projects as stated in Construction in Progress in Notes to Financial Statements 4B.

## NOTE 12 – NET POSITION AND STABILIZATION AGREEMENTS

### A. Net Position

Net Position is the excess of all SVP's assets and deferred outflow of resources over all its liabilities and deferred inflow of resources. Net Position is divided into three categories that are described below:

*Net investment in capital assets* describes the portion of Net Position which is represented by the current net book value of SVP's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted for other agreements* describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which SVP cannot unilaterally alter.

*Unrestricted* describes the portion of Net Position which is not restricted as to use.

SVP reported net position at June 30 as follows:

| | 2019 | 2018 |
|---|---|---|
| Net investment in capital assets: | $ 412,291,774 | $ 401,608,451 |
| Restricted: | | |
| Pension benefits | 4,329,866 | 3,512,023 |
| Unrestricted: | | |
| Capital projects | 112,642,866 | 98,821,802 |
| Rate stabilization | 123,947,182 | 120,708,577 |
| Operations | 117,326,122 | 80,897,063 |
| Total Unrestricted | 353,916,170 | 300,427,442 |
| Total Net Position | $ 770,537,810 | $ 705,547,916 |

### B. Stabilization Agreements

Rate Stabilization Fund

In 1996, SVP established the Rate Stabilization Fund and Cost Reduction Fund to assure that the rates were set properly with sufficient operating cash as well as cost reduction and financial stability of the Electric Utility. In December 2010, Council approved to transfer the Cost Reduction Fund as a subaccount to the Rate Stabilization Fund and continued to be used to offset Electric Utility costs in essentially the same manner. As of June 30, 2019, the balance of the Rate Stabilization Fund was $123,947,182.

## NOTE 12 – NET POSITION AND STABILIZATION AGREEMENTS (continued)

Pension Stabilization Fund

In fiscal year 2016-17, the City established an irrevocable pension trust as a way to address unfunded pension liabilities. As part of the year-end process for 2016-17, City Council approved SVP to designate and deposit $3.5 million in fiscal year 2018 toward prefunding pension obligations. As of June 30, 2019, the balance of the Pension Stabilization Fund was $4,329,866.

**CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND**
**(SILICON VALLEY POWER)**

**REQUIRED SUPPLEMENTARY INFORMATION**

This part of the City of Santa Clara Electric Utility Enterprise Fund Financial Statements provides detailed information to better understand the data presented within the financial statements and note disclosures.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS

Discloses the proportionate share of the net pension liability and related ratios, including the proportionate share of fiduciary net position as a percentage of the total pension liability, and proportionate share of the net pension liability as a percentage of covered payroll.

SCHEDULE OF CONTRIBUTIONS – PENSION PLAN

Contains information of the employer's contractually required contribution rates, contributions to the pension plan and related ratios.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY AND RELATED RATIOS

Discloses the proportionate share of the net OPEB liability and related ratios, including proportionate share of fiduciary net position as a percentage of the total OPEB liability, and the proportionate share of the net OPEB liability as a percentage of covered employee payroll.

SCHEDULE OF PLAN CONTRIBUTIONS - OPEB PLAN

Contains information of the employer's contractually required contribution rates, contributions to the OPEB Plan and related ratios.

**Schedule of Proportionate Share of the Net Pension Liability**
**City of Santa Clara Electric Utility Enterprise Fund Miscellaneous Plan,**
**a Cost-Sharing Defined Benefit Pension Plan**
**Last Ten Fiscal Years for the Measurement Periods Ended June 30[1]**

| **Measurement Date** | **June 30, 2018** | **June 30, 2017** |
|---|---|---|
| Plan's Proportion of the Net Position Liability/(Asset) | 34.97% | 34.97% |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) | $ 94,238,259 | $ 92,735,319 |
| Plan's Covered Payroll | $ 26,407,732 | $ 24,928,548 |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of it's Covered Payroll | 356.86% | 372.00% |
| Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | 62.97% | 62.02% |

Notes to Schedule:

[1] Fiscal year 2014-15 was the first year of implementation.

**Schedule of Proportionate Share of the Net Pension Liability**
**City of Santa Clara Electric Utility Enterprise Fund Miscellaneous Plan,**
**a Cost-Sharing Defined Benefit Pension Plan**
**Last Ten Fiscal Years for the Measurement Periods Ended June 30**

| June 30, 2016 | June 30, 2015 | June 30, 2014 |
|---|---|---|
| 34.97% | 34.97% | 34.97% |
| $ 84,615,916 | $ 74,516,387 | $ 69,068,338 |
| $ 21,661,244 | $ 20,300,577 | $ 20,289,905 |
| 390.63% | 367.07% | 340.41% |
| 62.18% | 65.57% | 67.42% |

**Schedule of Contributions**
**City of Santa Clara Electric Utility Enterprise Fund Miscellaneous Plan,**
**a Cost-Sharing Defined Benefit Pension Plan**
**Last Ten Fiscal Years[1]**

| | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Actuarially determined contribution | $ 8,258,503 | $ 8,832,105 |
| Contributions in relation to the actuarially | (8,258,503) | (8,832,105) |
| Contribution deficiency (excess) | $ - | $ - |
| Covered payroll | $ 28,630,755 | $ 26,407,732 |
| Contributions as a percentage of covered payroll | 28.84% | 33.45% |
| Notes to Schedule | | |
| Valuation date | 6/30/2016 | 6/30/2015 |

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 28 years as of valuation date |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% |
| Salary increases | 3.2% to 12.2% depending on age, service and type of employment |
| Investment rate of return | 7.50%, net of pension plan Investment and administrative expenses; includes inflation |
| Retirement age | The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997-2011. |
| Mortality [2] | Derived using CalPERS' Membership Data for all Funds |

(1) Fiscal year 2014-15 was the 1st year of implementation.

(2) The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

## Schedule of Contributions
## City of Santa Clara Electric Utility Enterprise Fund Miscellaneous Plan, a Cost-Sharing Defined Benefit Pension Plan
### Last Ten Fiscal Years

| | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|---|---|---|
| | $ 7,558,410 | $ 6,484,674 | $ 5,335,643 |
| | (7,558,410) | (6,484,674) | (5,335,643) |
| | $ - | $ - | $ - |
| | $ 24,928,548 | $ 21,661,244 | $ 20,300,577 |
| | 30.32% | 29.94% | 26.28% |
| | 6/30/2014 | 6/30/2013 | 6/30/2012 |

**Schedule of Proportionate Share of the Net OPEB Liability and Related Ratios**
**City of Santa Clara Electric Utility Enterprise Fund**
**OPEB Plan, A Cost-Sharing Defined Benefit Plan**
**Last Ten Fiscal Years Ended June 30[1]**

| **Measurement Date** | **June 30, 2019** | **June 30, 2018** |
|---|---|---|
| Plan's Proportion of the Net Posistion Liability/(Asset) | 34.97% | 34.97% |
| Plan's Proportionate Share of the Net OPEB Liability/(Asset) | $ 13,339,656 | $ 16,285,879 |
| Plan's Covered-employee Payroll | $ 52,963,135 | $ 47,313,294 |
| Plan's Proportionate Share of the Net OPEB Liability/(Asset) as a Percentage of it's Covered-employee Payroll | 25.19% | 34.42% |
| Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total OPEB Liability | 37.14% | 28.90% |

Notes to Schedule:

[1] Fiscal year 2017-18 was the first year of implementation.

**Schedule of Proportionate Share of Contributions**
**City of Santa Clara Electric Utility Enterprise Fund**
**OPEB Plan, A Cost-Sharing Defined Benefit Plan**
**Last Ten Fiscal Years Ended June 30[1]**
**(In Thousands)**

| | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Actuarially determined contribution | $ 1,856 | $ 1,911 |
| Contributions in relation to the actuarially determined contributions | (1,876) | (2,203) |
| Contribution deficiency (excess) | $ (20) | $ (292) |
| Covered-emplyee payroll | $ 52,963 | $ 47,313 |
| Contributions as a percentage of covered-employee payroll | 3.54% | 4.66% |

Notes to Schedule:

[1] Fiscal year 2017-18 was the first year of implementation.

**Notes to Schedule of Employer Contribution (OPEB Plan)**

| Methods and Assumptions for 2018-19 Actuarially Determine Contributions | |
|---|---|
| Actuarial valuation date | June 30, 2016 |
| Actuarial cost method | Entry Age Normal , Level Percentage of Payroll |
| Amortization method | Level percent of payroll |
| Unfunded liability amortization | 30 years (closed period) for initial UAAL<br>(22 Years remaining on June 30, 2017)<br>15 years (open period) for method, assumption, plan changes, and gains<br>Maximum 30-year combined period |
| Asset valuation method | Investment gains and losses spread over a 5-year rolling period.<br>Not less that 80% nor greater than 120% of market value |
| Discount rate | 5.25% |
| General inflation | 3.00% |
| Healthcare trend | Non-Medicare - 6.5% increase in 2018<br>scaling down to 5.0% in 2021<br>Medicare - 6.7% increase in 2018<br>scaling down to 5.0% in 2021 |
| Mortality | CalPERS 1997-2011 Experience Study |
| Mortality improvement | Mortality improvement projection with Scale MP-14<br>with 15 year convergence in 2022 |

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