BUDGET ADOPTION, CONTROL AND REPORTING POLICY

I. PURPOSE

This budget policy provides clarity about budget authority for the Chief Executive Officer (CEO) of Silicon Valley Clean Energy (SVCE) and lays out budget adoption and periodic budget reporting requirements. The policy also allows for sufficient flexibility to address changes in the market price of energy consistent with SVCE's Financial Reserves Policy.

II. POLICY

Budget Adoption

The CEO shall prepare a proposed budget overview and submit it to the Board for the following fiscal year two months prior to the end of the fiscal year. The Authority's Budget shall be balanced and in alignment with the Strategic Plan. The Authority's Budget reflects all activities, including operating and capital programs expenditures. A balanced budget is one in which expenditures are matched by revenues and recommended changes to Reserves.

The Chief Executive Officer shall submit a recommended budget document for adoption to the Board of Directors for approval by Resolution in the month following the proposed budget submittal. When approved by the Board, the budget shall be considered adopted and appropriated at the level it is controlled by the CEO, discussed below.

In the event that the Board of Directors does not adopt the Authority's Budget by the end of the fiscal year, the Board of Directors may adopt a continuing appropriations resolution until such time as the Authority's Budget is adopted. A continuing

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appropriations resolution would provide that payments for services performed on behalf of the Authority and authorization of awarded contracts would continue until such time as the Authority's Budget is adopted.

Staff will prepare a five-year financial forecast as part of the budget process projecting revenues and expenditures for all operating funds and planned capital projects in alignment with the Strategic Plan.

The budget document will also contain the following, at a minimum a schedule showing revenues, expenses, and changes to financial reserves. The first year of the five-year horizon is the budget to be considered and formally adopted by the Board by Resolution. The final four years are shown for planning purposes and may be shown at more summary levels.

The first-year proposed budget shall further show:

- Expenditures by expense type/category across the organization;
- Projected revenues;
- Organization chart(s) showing all proposed budgeted positions in the organization;
- A current salary schedule for job classifications to be in effect for the proposed fiscal year (Salaries may be adjusted by the CEO in the fiscal year, with salary changes being reported to the Board).

Budget Control

After adoption, the budget shall be controlled by the CEO at the total annual expenditure level for the SVCE organization, which includes power purchases, employee costs, contract and professional services, capital improvements, debt service, and all other costs. The total budget may be amended by the Board during the year by Resolution.

The CEO may institute separate budget procedures internally that give him/her further controls at the department and/or expenditure category level if he/she so desires.

Budget Reporting

A budget-to-actual status update report shall be presented to the Board on a quarterly basis.

Authority to Flexibly Staff and Over hire Budgeted Positions

Under the personnel delegation resolution, the CEO is designated as the Personnel Officer and is authorized and directed to administer the personnel system, with duties that include the following with budgetary impacts:

- Define and prepare position classifications including the establishment of minimum standards of employment and qualifications for the various positions;
- Prepare a schedule of compensation including salary and other benefits covering all employees;
- Prepare and present to the Authority Board a budget for implementation of the personnel system including employee salary and benefit costs as part of the annual budget process.

Notwithstanding the duties defined in the resolution above, the CEO is also granted authority to take the following actions which may affect the annual budget:

- Outsource functions that are currently staffed by positions when contracting is more advantageous to the operations of the organization or is more cost effective;
- Bring in-house any functions that are currently outsourced if the result would be advantageous to the operations of the organization or more cost effective;
- Adjust salary schedules for market flexibility during the year to attract and retain talent;
- Over-hire the number of positions shown in the annual budget as follows:
    - On a temporary basis to minimize the impact that pending vacancies may have on the organization by allowing for cross training and overlap;
    - On a permanent basis to improve operations and organization effectiveness, provided that the CEO may not over hire on a permanent basis in excess of 10% of the

authorized number of positions shown in the annual budget without prior approval of the Board.

- In no case shall positions be added or salaries be adjusted during the year that cause the total annual budget to be exceeded in total by fiscal year-end without prior Board approval by Resolution.
- In those instances where the CEO does over-hire positions during the year, he/she shall report such actions to the Board in a timely manner.

Power/Energy Purchases Contingency

The nature of the energy markets is one of rapid changes in prices and market volatility. The ability to quickly adapt to those changes is important for maintaining consistent power delivery to customers. Therefore, the CEO is granted authority to overspend the total annual budget for energy purchases by the lesser of 10% of the annual power supply budget, or $30 million, without Board approval provided the over expenditure is due to higher energy costs or greater customer demand. Overspending for these purposes may require use of reserves and the conditions on use of reserves as stated in the Financial Reserves Policy apply, where reserves cannot be drawn down more than 10% of the year’s budgeted cost of power supply or $30 million, whichever is less, nor below the baseline Minimum Operating Reserve level without Board approval.