

Introduced by: \_\_\_\_\_

**ORDINANCE NO. \_\_\_\_\_**

**AN ORDINANCE OF THE CITY OF PASADENA, CALIFORNIA, AMENDING PASADENA MUNICIPAL CODE CHAPTER 13.04 TO REMOVE STRANDED INVESTMENT CHARGE AND RESERVES AND INCLUDE A RESERVE FOR WORKING CAPITAL**

**WHEREAS**, the Stranded Investment Reserve was established in 1996 as part of Pasadena Water and Power's ("PWP") strategy to address above-market energy costs anticipated from the Intermountain Power Project and Magnolia projects, which were expected to lose value due to industry restructuring;

**WHEREAS**, since the establishment of the Stranded Investment Reserve, its assets have retained value, with much lower exposure to stranded costs than initially anticipated;

**WHEREAS**, in today's financial environment, industry best practices recommend that utility reserves focus on operational liquidity, cash flow stability, and risk mitigation for operational and capital needs;

**WHEREAS**, establishing a Reserve for Working Capital will allow PWP to realign Stranded Investment Reserve funds into reserve categories to better address modern utility risks, including unexpected cost increases, seasonal revenue variances, and operational stability.

**NOW, THEREFORE**, the People of the City of Pasadena ordain as follows:

**SECTION 1.** This ordinance, due to its length and corresponding cost of publication, will be published by title and summary as permitted in Section 508 of the Pasadena City Charter. The approved summary of this ordinance is as follows:

**"Summary**

This proposed ordinance amends Chapter 13.04 of the Pasadena Municipal Code to rename the Reserve for Stranded Investment reflected in Section 13.04.175 to Reserve for Working Capital and repurpose the section to establish Working Capital targets to be the sum of an Operational Reserve, a Debt Service Reserve, a Capital Expenditures Reserve, a General Fund Transfer Reserve, an Energy Services Charge Reserve, a Transmission Services Charge Reserve, and a

Contingency Reserve. The provisions also address the Use of Reserves, Replenishment of Working Capital, and Reporting on Reserves. Section 13.04.173, Subsection H, is amended to reflect that the subject of Section 13.04.173 H.3., now will be addressed in Section 13.04.175. Moreover, Section 13.04.176, Stranded Investment Surcharge, is deleted in its entirety.

Ordinance No. \_\_\_\_\_ shall take effect upon publication.”

**SECTION 2.** Pasadena Municipal Code, Title 13, Chapter 13.04, Section 13.04.173, Subsection H is hereby amended to read:

“H. The PCA shall be added to the energy service charge set forth in the service schedules, and shall be calculated monthly as follows:

1. Commencing July 1, 2002, a separate Energy Services Charge Fund (ESCF) account shall be maintained for balancing costs, revenues, and credits associated with energy delivered to Full Service Customers. Any Energy Charge Fund over collection or under collection existing on July 1, 2002 shall be deposited in the ESCF balance.

2. The ESCF account balance shall be calculated as the sum of actual revenues from the Energy Services Charge, the Energy Revenue Credit, and any other credits authorized by the City Council, less the actual Energy Costs incurred.

3. Reserved.

4. The Energy Services Charge shall be calculated based on the Energy Cost Forecast, Energy Revenue Credit Forecast, Full Service Energy Sales Forecast, and the ESCF balance as follows:

[Energy Cost Forecast - Energy Revenue Credit Forecast - Fund Balance]

[Full Service Energy Sales Forecast]

5. The PCA shall be calculated based on the twelve month forecast of Energy Services Revenue, Energy Cost, Energy Revenue Credit, Full Service Energy Sales, ESCF balance and Fund Reserve Target as follows:

[Energy Cost Forecast - Energy Revenue Credit Forecast - Fund Balance -

Energy Services Revenue Forecast + Reserve Target]

[Full Service Energy Sales Forecast]

6. The result of the formula shall be rounded to the nearest mill per kilowatt-hour. This shall be the PCA to be implemented.”

**SECTION 3.** Pasadena Municipal Code, Title 13, Chapter 13.04, Section 13.04.175 is hereby amended to read:

**“13.04.175 – Reserve for Working Capital.**

- A. There is created separate accounts within the Light and Power Fund known cumulatively as the "Reserve for Working Capital" ("Reserve").
- B. The separate account within the Light and Power Fund historically known as the “reserve for stranded investments” shall hold all funds in the investment portfolio as specifically authorized until such funds have reached their maturity date. The City Treasurer shall transfer the funds at the point of maturity to the Light and Power Fund.
- C. “Working Capital” is a measure of an organization’s short-term financial health, calculated as the difference between current assets and current liabilities. In the context of the Light and Power Fund, Working Capital represents the readily available financial margin that the utility has to meet day-to-day operational expenses and manage financial obligations. Maintaining an amount less than the minimum is detrimental to the utility.
- D. The Working Capital targets set herein establish the amount sufficient to have continued stability of services and rates and mitigate risks from revenue shortfalls and unanticipated expenses.
- E. The targets and minimums for Working Capital is the sum of the following:
  - 1. Operational Reserve:
    - a. Target: Maintain a reserve equivalent to 90 days of operating expenses.
    - b. Minimum: Maintain a reserve equivalent to 60 days of operating expenses.
    - c. Purpose: Provides readily available cash for short-term operational needs and manages cash flow fluctuations due to variability in sales.
  - 2. Debt Service Reserve:

- a. Target: Maintain a reserve equivalent to one year of debt service payments for outstanding bond or credit obligations.
  - b. Minimum: Maintain a reserve equivalent to one year of debt service payments for outstanding bond or credit obligations.
  - c. Purpose: Ensures timely fulfillment of debt service requirements, creditworthiness (and lowest-cost borrowing), and compliance with bond or financial covenants.
- 3. Capital Expenditures Reserve:
  - a. Target: Maintain a reserve equivalent to one year of budgeted capital expenditures.
  - b. Minimum: Maintain a reserve equivalent to one year of budgeted capital expenditures.
  - c. Purpose: Provide cash for capital investments, supporting infrastructure sustainability without impacting cash flow.
- 4. General Fund Transfer Reserve:
  - a. Target: Maintain an amount equivalent to one year of the budgeted General Fund Transfer.
  - b. Minimum: Maintain an amount equivalent to one year of the budgeted General Fund Transfer.
  - c. Purpose: Guarantees the ability to meet annual transfer obligations to the General Fund, promoting stable budgetary support.
- 5. Energy Services Charge Reserve:
  - a. Target: Maintain an amount equivalent to 90 days of projected power supply costs.
  - b. Minimum: Maintain an amount equivalent to 60 days of projected power supply costs.
  - c. Purpose: Mitigates financial impact of volatility in the energy market.
- 6. Transmission Services Charge Reserve:



- a. Target: Maintain an amount equivalent to 90 days of transmission services cost.
- b. Minimum: Maintain an amount equivalent to 60 days of transmission services cost.
- c. Purpose: Mitigates financial impact of volatility in the transmission services.

7. Contingency Reserve:

- a. Target: Maintain an amount equivalent to the sum of 90 days of operating expenses and 90 days of capital expenditures.
- b. Minimum: Maintain an amount equivalent to the sum of 60 days of operating expenses and 60 days of capital expenditures.
- c. Purpose: Provides a reserve for unforeseen expenses, including unplanned operational costs or emergency capital needs, ensuring level of service continuity.

F. Use of Reserves:

Reserves may be used in situations where unanticipated financial needs arise, such as unexpected operating expenses, capital emergencies, or shortfalls in revenue. The decision to access reserves will be made by the City Council through the appropriations process and as identified through fiscal impacts within approved Council actions. The use of funds before the Working Capital target has been met shall first be used from contingency reserves, then reserves for market volatility (the energy services charge and transmission services charge reserves), and finally out of operating reserves. The debt service reserves shall be restricted from use for anything other than their legally stated purpose.

G. Replenishment of Working Capital

When Working Capital levels fall below target, a structured plan will be developed to return to the target. The replenishment timeline will consider the following factors:

- 1. Severity of the Shortfall: For significant shortfalls, replenishment efforts may span multiple fiscal years to avoid overburdening current operations.

2. Economic Conditions: During economic downturns, replenishment may be deferred until financial conditions improve.
3. Available Surplus and Revenue Growth: Excess operating surpluses, unexpected revenue, or growth in base revenues will be prioritized for reserve replenishment until target levels are restored.

A formal replenishment plan, including timelines and annual budget contributions, will be reviewed and updated annually. Replenishment contributions will typically begin within one year following a shortfall, with the goal to restore reserves to target levels within five years, adjusted as needed based on economic and operational conditions.

H. Reporting on reserves:

The Working Capital targets and reserve levels will be reviewed annually during the budget process to ensure ongoing adequacy and alignment with financial goals, anticipated risks, and evolving best practices. When projections show that Working Capital reserves are approaching the minimum levels, this shall be reported to Council as soon as is practicable.”

**SECTION 4.** Pasadena Municipal Code, Title 13, Chapter 13.04, Section 13.04.176 is hereby deleted in its entirety.

**SECTION 5.** The City Clerk shall certify the adoption of this ordinance and shall cause this ordinance to be published by title and summary.

**SECTION 6.** This ordinance shall take effect upon publication.

Signed and approved this \_\_\_\_\_ day of \_\_\_\_\_, 2025.

\_\_\_\_\_  
Victor Gordo  
Mayor of the City of Pasadena

I HEREBY CERTIFY that the foregoing ordinance was adopted by the City Council of the City of Pasadena at its meeting held this \_\_\_\_\_ day of \_\_\_\_\_ 2025, by the following vote:

AYES:

NOES:


ABSENT:

ABSTAIN:

Date Published:

\_\_\_\_\_  
Mark Jomsky  
City Clerk

Approved as to form:

  
\_\_\_\_\_  
Dion O'Connell  
Assistant City Attorney