

# Budget Surplus & Reserve Allocation from 2022-23 FY

Finance, Administrative, &  
Procurement Subcommittee

November 8, 2023



# Background & Discussion

- June 15, 2022, the BOD approved the FY 2022-23 Budget by resolution R-2022-19
- The Budget proposed a waterfall allocation for surplus revenues:
  - The first \$50 million is to be retained for working capital needs
  - The next \$75 million is to go to the Reserve Fund
  - The remaining amount is to be split 50/50 to:
    - One-time on-bill credits to customers
    - Incremental long-term renewable energy/clean storage investments
- This presentation presents the budget performance, discusses the waterfall allocations, and confirms the amounts



# Budget Performance Comparison

- Revenue from Operations was \$87.7MM above budget from rising rate environment and other income from contractual recovery of damages
- Cost of Energy was \$134.2MM above budget from rising cost environment
- Overhead was \$6.8MM below budget from delays in staffing, reduced contracting, and delayed marketing costs
- Investment income was \$2.3MM above budget from rising interest rates
- \$6.1MM in budgeted capital costs were unrealized as related to new building rehab
- \$18.9MM in Local Development costs are yet unrealized
- Net change was \$10.2MM below budget

BUDGET COMPARISON	FY 2022-23		FY 2022-23
	Budget	Actual	Variance
<b>Operating Revenue</b>			
Electricity Sales	785,779,000	868,650,009	82,871,009
Uncollectible	(15,841,000)	(17,292,003)	(1,451,003)
Other Income	15,000	6,325,756	6,310,756
<b>Total Revenue</b>	<b>769,953,000</b>	<b>857,683,762</b>	<b>87,730,762</b>
<b>Operating Expenses</b>			
<b>Energy Operations</b>			
Cost of Energy	523,996,000	658,204,854	134,208,854
Data Manager/Customer Service	7,834,000	7,879,828	45,828
Metering/Billing Service	2,715,000	2,718,799	3,799
Scheduling Coordinator	696,000	695,066	(934)
<b>Total Energy Operations</b>	<b>535,241,000</b>	<b>669,498,547</b>	<b>134,257,547</b>
<b>Overhead Operations</b>			
Personnel	15,712,000	12,950,359	(2,761,641)
Marketing & Communications	2,876,000	1,447,641	(1,428,359)
Legal, Policy, & Regulatory Affairs	2,488,000	1,511,987	(976,013)
Other Professional Services	2,292,000	1,229,215	(1,062,785)
General & Administrative	3,884,000	3,395,126	(488,874)
Depreciation	180,000	90,761	(89,239)
<b>Total Overhead Operations</b>	<b>27,432,000</b>	<b>20,625,089</b>	<b>(6,806,911)</b>
<b>Net Operating Revenue</b>	<b>207,280,000</b>	<b>167,560,126</b>	<b>(39,719,874)</b>
<b>Non-Operating Activity</b>			
Investment Income	262,000	2,609,002	2,347,002
Grants	-	1,498,666	1,498,666
Interest & Financing Costs	(1,440,000)	(678,679)	761,321
Capital Expenditures	(7,000,000)	(930,775)	6,069,225
Local Development	(22,550,000)	(3,662,255)	18,887,745
<b>Total Non-Operating Activity</b>	<b>(30,728,000)</b>	<b>(1,164,041)</b>	<b>29,563,959</b>
<b>Net Increase</b>	<b>176,552,000</b>	<b>166,396,085</b>	<b>(10,155,915)</b>
<b>Waterfall</b>			
Allocation to Local Development Fund	-	20,386,411	20,386,411
Working Capital	50,000,000	50,000,000	-
Reserves	75,000,000	75,000,000	-
Available for 50/50 Split	51,552,000	21,009,674	(10,155,915)
On-bill Credits	25,776,000	10,504,837	(15,271,163)
Investment in LT Renewables	25,776,000	10,504,837	(15,271,163)



# Budget Surplus & Reserve Allocation

- June 15, 2022, the BOD established an allocation methodology with a waterfall treatment of the budget surplus, which is net of an allocation to Local Development Funding
  - \$50 million contribution to working capital to manage variable cash flow throughout the year and energy markets volatility
  - \$75 million contribution to Reserves, which requires Board action to access and utilize
  - ~\$10.5 million to customer on-bill credits, anticipated to be released in Dec/Jan timeframe
  - ~\$10.5 million to incremental long-term renewable energy/clean storage investments. Staff will present and seek Board approval on utilization of these funds in the future.

<b>BUDGET COMPARISON</b>	<b>FY 2022-23 Budget</b>	<b>FY 2022-23 Actual</b>	<b>FY 2022-23 Variance</b>
<b>Waterfall</b>			
Allocation to Local Development Fund	-	20,386,411	20,386,411
Working Capital	50,000,000	50,000,000	-
Reserves	75,000,000	75,000,000	-
Available for 50/50 Split	51,552,000	21,009,674	(10,155,915)
On-bill Credits	25,776,000	10,504,837	(15,271,163)
Investment in LT Renewables	25,776,000	10,504,837	(15,271,163)



# Reserve Fund Discussion

- June 20, 2018, the BOD approved by resolution R-2018-26 to adopt a financial reserve policy
  - Established targets as well as minimum and maximum contribution limits based on revenues
- January 20, 2021, the BOD approved by resolution R-2021-2 to amend the reserve policy to a single sum reserve
  - Simplified methodology, aligned with industry standards, and set target ranges of 25-75% of annual operating costs
  - Use of reserves funds requires BOD approval
- June 15, 2022, the BOD pre-established a contribution of \$75 million in the surplus waterfall towards Reserves



# Annual Contributions

- With this year's contribution, the balance of the reserve fund will be \$230,873,400, which is 31.5% of this year's operating costs
- No contribution was made in 2020-2021 due to insufficient net position

<b>Fiscal Year</b>	<b>Contribution</b>	<b>Withdraws</b>	<b>Balance</b>	<b>OpEx to Cover</b>	<b>PctOps</b>
2018-2019	40,513,687	-	40,513,687	410,686,000	9.9%
2019-2020	49,704,640	-	90,218,327	383,045,000	23.6%
2020-2021	-	-	90,218,327	471,897,000	19.1%
2021-2022	65,655,073	-	155,873,400	562,667,000	27.7%
2022-2023	75,000,000	-	230,873,400	732,885,000	31.5%
2023-2024*	100,000,000	-	330,873,400	912,066,000	36.3%

\*Approved contribution with projected operating expenses to cover as of 10/1/2023



# Thank you!



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