



## Staff Report Item 10

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| <b>To:</b>      | Ava Community Energy Authority Board of Directors |
| <b>From:</b>    | Russell Mills, CFO                                |
| <b>Subject:</b> | Rate Stabilization Fund Policy                    |
| <b>Date:</b>    | September 17, 2025                                |

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### **Summary/Recommendation**

Adopt a resolution renaming the existing GASB 62 Budget Stabilization Fund as the Rate Stabilization Fund (RSF) and approving a Rate Stabilization Fund Policy.

### **Financial Impact**

Renaming the GASB 62 Budget Stabilization Fund and approving RSF Policy will have no material impact on Ava's current fiscal year approved budget, net position, or financial operations.

### **Analysis and Context**

Ava currently maintains a GASB 62 Budget Stabilization Fund (the "Fund"). This Fund was established by a resolution from the Board of Directors (the "Board") in September of 2020—resolution R-2020-26. This resolution allowed the accrual and deferral of excess revenue, identified as budget surplus revenues, to be recognized in successive periods to offset uncontrolled cost variations and preserve positive net position for Ava. The balance of the Fund is accounted separately from all other Ava funds, and the mechanisms of accounting are governed under the Governmental Accounting Standards Board (GASB).

The benefits of having the Fund are important for Ava and its customers. The Fund stabilizes rates and protects the value proposition, among other things. Counterparties

also view it as a credit positive which helps Ava receive more favorable terms and covenants with contracts and margin allowances. The Fund is an integral part of Ava's liquidity resources that maintains our ability to operate and supports our "A" credit rating.

Ava's current levels of liquidity utilization are represented as a waterfall from available funds:

1. Working Capital—Operational cash flow retained for expected business cycle liquidity needs
2. Budget Stabilization Fund—Deferred revenues available for short-term budget cycle liquidity challenges, or for other financial matters necessary for maintaining budget stability year-to-year
3. Credit Facility—Posting letters of credit to retain working capital and only drawn if necessary for operating maintenance
4. Reserve Funds—Financial strength base layer set aside and used only in case of extremely dire emergencies ("Disaster/Earthquake") and with Board approval

At the July Board meeting, staff presented details from a recent survey of reserve policies from 22 similar agencies. The goals of the survey were to discover how many maintained rate stabilization funds, how those funds integrated with reserve policies, comparative RSF sizes, contribution and utilization practices, and other relevant best practices.

The following is a summary of the results:

- Six held separate RSF policies. Four set RSF sizes as a percentage of operating & maintenance costs at an average of 20%. The other two set RSF sizes at 20% of expected gross revenues
- Nine mentioned using Operating Reserves for rate stability but did not mention having a distinctly separate RSF
- An additional six mentioned allowing use of reserves in general for stabilizing rates
- Eight of those that mentioned using reserves for stabilizing rates allowed CEO discretion for utilization, four required board approval, and the remaining three did not specify
- One of those that allowed CEO discretion granted unlimited use of reserves to maintain the rate threshold to PG&E to the CEO as long as days cash on hand did not fall below 90 days.

### **Staff Recommendations**

To be consistent with industry usage and convention, staff's first recommendation is formally renaming the GASB 62 Budget Stabilization Fund to the Rate Stabilization Fund (RSF).

Whereas previously, the Board had approved a resolution establishing a rate stabilization mechanism, no formal policy was specifically outlined. Staff's second recommendation is for the Board to approve a formal Rate Stabilization Policy. The original resolution gave guidance for management contributions to the RSF. This new policy gives specific management guidance for utilization of the RSF, including the establishment of an RSF target of 20% of operating expenses, consistent with industry standards.

Approving these recommendations will make Ava consistent with best industry practices, improve upon how rate stabilization practices complement with other financial liquidity resources (working capital, line of credit, and reserves), and allow greater flexibility for Ava to maintain its value proposition to customers when encountering short term financial stresses.

#### **Committee Recommendation**

This item was brought forth to the Full Board on July 16, 2025 and to the Finance, Administrative, and Procurement Subcommittee on September 8, 2025, with the recommendation to approve renaming the Budget Stabilization Fund to the Rate Stabilization Fund and approve the Rate Stabilization Fund Policy as presented.

#### **Attachments**

- A. Resolution Adopting a Rate Stabilization Fund and Policy
- B. Rate Stabilization Fund Policy
- C. Rate Stabilization Fund Policy PPT

**RESOLUTION NO. R-2025-xx**  
**A RESOLUTION OF THE BOARD OF DIRECTORS**  
**OF AVA COMMUNITY ENERGY AUTHORITY ADOPTING A RATE STABILIZATION FUND**  
**AND POLICY**

**WHEREAS** The Ava Community Energy Authority (“Ava”) was formed as a community choice aggregation agency (“CCA”) on December 1, 2016, Under the Joint Exercise of Power Act, California Government Code sections 6500 *et seq.*, among the County of Alameda, and the Cities of Albany, Berkeley, Dublin, Emeryville, Fremont, Hayward, Livermore, Piedmont, Oakland, San Leandro, and Union City to study, promote, develop, conduct, operate, and manage energy-related climate change programs in all of the member jurisdictions. The cities of Newark and Pleasanton, located in Alameda County, along with the City of Tracy, located in San Joaquin County, were added as members of Ava and parties to the JPA in March of 2020. The city of Stockton, located in San Joaquin County was added as a member of Ava and party to the JPA in September of 2022. The city of Lathrop, located in San Joaquin County, was added as a member to Ava and party to the JPA in October of 2023. On October 24, 2023, the Authority legally adopted the name Ava Community Energy Authority, where it had previously used the name East Bay Community Energy Authority since its inception.

**WHEREAS** Ava currently maintains a GASB 62 Budget Stabilization Fund (the “Fund”) established by resolution R-2020-26, which allows for the accrual and deferral of excess revenue, identified as budget surplus revenues, to be recognized in successive periods to offset uncontrolled cost variations and preserve positive net position for Ava by mechanisms of accounting governed under the Governmental Accounting Standards Board (GASB).

**WHEREAS** the Fund is an integral part of Ava’s waterfall of liquidity resources and is used for short-term budget cycle liquidity challenges and other financial matters necessary for maintaining rate stability year-to-year for Ava’s customers.

**WHEREAS** similar agencies refer to funds that provide a similar rate stability mechanism as a Rate Stabilization Fund (RSF).

**WHEREAS** similar agencies that maintain a RSF have specific policies established that give guidance for management of the RSF.

**NOW, THEREFORE, THE BOARD OF DIRECTORS OF AVA COMMUNITY ENERGY AUTHORITY DOES HEREBY RESOLVE AS FOLLOWS:**

Section 1. The GASB 62 Budget Stabilization Fund is hereby renamed the Rate Stabilization Fund (RSF).

Section 2. The Rate Stabilization Fund Policy attached to the staff report associated with this Resolution, is hereby approved.

ADOPTED AND APPROVED this 17<sup>th</sup> day of September, 2025.

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Betsy Andersen, Chair

ATTEST:

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Adrian Bankhead, Clerk of the Board

### RATE STABILIZATION FUND POLICY

Policy Number: XX

Approval Date: 9/17/2025

Agenda Item: {To be added by Clerk}

Approved by Resolution: {To be added by Clerk}

#### PURPOSE:

The purpose of this Policy is to set guidelines for the processes for funding, utilizing, and managing the Rate Stabilization Fund (RSF) as a source of liquidity to manage financial and operational risk.

#### POLICY OBJECTIVES:

The establishment of the RSF will allow Ava to defer revenue in years when fiscal results are strong and to apply deferred revenue in years when financial results are negatively impacted by uncontrollable events. The RSF will provide Ava with a mechanism to protect customers from risks related to energy market volatility, extreme events, and regulatory changes, as well as maintain financial covenants, achieve annual budget objectives, and other such fiscal matters.

#### FUNDING MECHANISM:

Funding the RSF is accounted for under Governmental Accounting Standards Board (GASB) rules which codify and standardize the accounting management of revenue recognition for public agencies. Deferrals of revenue as a transfer to the RSF reduces net revenue recognized on budget statements, and net position in that period of deferral, by the same amount.

The Board of Directors (the “Board”) has authorized the Chief Executive Officer (CEO) and the Treasurer, or their designee, to defer revenue to the RSF from time to time such amount as may be determined as appropriate from any source designated as surplus in accordance with the budget previously approved by the Board, as established by resolution R-2020-26.

#### UTILIZATION MECHANISM:

Recognition of contributions to the RSF is also governed by GASB rules. Recognition of revenues as a transfer from the RSF increases net revenues recognized on budget statements, and net position in that period of recognition, by the same amount.

The Board has authorized the CEO and the Treasurer, or their designee, to utilize deferred revenues from the RSF from time to time in such amounts as necessary to stabilize rates, satisfy financial covenants, achieve budget objectives, and to implement direction provided by the Board.

#### REPORTING:

The RSF balance is recorded on Ava's Statement of Net Position. Transfers to and from the RSF are recorded in the Statements of Revenues, Expenses, and Changes in Net Position. Both statements are presented quarterly, and audited annually, in Ava's financial statements.

TARGET FUND BALANCE:

The RSF balance target is 20% of operating expenses.

RSF HOLDINGS AND INVESTMENTS:

RSF balances are not required to be held in a separate account and may be commingled with other funds held by Ava for investment purposes but will be accounted for and reported separately. All Ava fund balances, including the RSF, are subject to Ava's Board-approved and State Government Code compliant investment policy.



# Rate Stabilization Fund Policy Board Meeting

Russell Mills| September 17, 2025





# Introduction & Background

- Ava currently maintains a Budget (Rate) Stabilization Fund, established in 2020 by Resolution R-2020-26
  - The Board approved establishing, allocating funds and maintaining a GASB 62 Budget Stabilization Fund (RSF) to provide a contingency available to satisfy financial covenants, stabilize customer rates, fulfill local development, among other uses
  - To authorize the CEO and Treasurer, or their designee, to make deposits into the fund from any surplus from a Board approved budget as appropriate and prudent; Recognition of deposits for necessary financial functions are to be approved by the Board
- The fund is intended to create a more stable short-term financial position by deferring revenue in years when financial results are strong and be recognized in years when financial results may be negatively impacted by uncontrollable events
- The fund has primarily been maintained to allow matching of timing for on-bill credits, the solar & storage incentive program, and a one-time allocation towards long-term renewable energy & clean energy storage investments
- A formal policy was not created after the resolution was passed. Because of its growing importance, staff proposes formalizing the adoption of a Policy and renaming the fund to a "Rate Stabilization Fund (RSF)".

# How Ava Utilizes Rate Stabilization Funds

- Stabilizes Ava's rates charged to customers, helping preserve the value proposition
- Fosters strong financial covenant agreements with counterparties
- Funds are an integral part of Ava's waterfall of liquidity resources that maintain our ability to operate and supports our financial strength and "A" ratings
  - Ava also maintains a Reserve Fund, established in 2018 and amended in 2021, and is intended to provide financial stability for long-term business sustaining objectives
  - Currently, fund utilization is considered along with other layers of protection to provide mitigation against potential risks related to energy market volatility, extreme events and regulatory changes

## The waterfall consists of four distinct levels for utilization:

1. **Working Capital – Ongoing Operational Cash Flow**
2. **Rate Stabilization Fund – Smooth out cash flows during challenging budget cycles**
3. **Credit Facility – Post LOCs to operate and only draw if necessary**
4. **Reserve Funds – Financial strength base layer set aside as a "Disaster/Earthquake" fund**

# Survey of Comparable RSF Best Practices

In considering the adequacy of Ava's current authority and funding, staff has completed a broad survey of 22 public agencies to discover comparable best practices for RSF policies and management

The goals of the survey were as follows:

- Discover how many companies have an RSF and how it integrates with reserve policies
- Compare RSF fund sizes and triggers for utilization
- Discover best practices for RSF utilization discretion

## Agencies Surveyed

- AC Transit
- Alameda Municipal Power
- Ava Community Energy
- Central Coast Community Energy
- City of Burbank Water & Power
- Clean Energy Alliance
- Clean Power Alliance
- Clean Power SF
- Desert Community Energy
- EBMUD
- LADWP
- MCE
- Orange County Power Authority
- Peninsula Clean Energy
- Pico Rivera IME
- Pioneer Community Energy
- Redwood Coast Energy Authority
- SMUD
- San Diego Community Power
- Silicon Valley Clean Energy
- Sonoma Clean Power
- Valley Clean Energy

# Results of the Survey of Comparable Best Practices

## Statistics of Respondents:

- 6 (27%) Respondents had a separately outlined Rate Stabilization Fund Policy
  - 4 respondents set RSF levels as a percent of Operating and Maintenance costs
    - The average percent of O&M costs was about 20%
  - 2 respondents set RSF levels as a percent of expected gross revenues
    - Both respondents use 20% of gross revenues
- 9 (41%) Respondents had mentions in the Operating Reserves for rate stability, but did not have a distinctly separate fund or policy or Rate Stabilization
- 15 (68%) Respondents talked about using reserves as a tool for rate stability
- Respondents that mentioned using reserves for rate stability had the similar withdrawal restrictions as their operating reserve fund policy:
  - 8 agencies allow CEO discretion for utilization of reserves, 4 require board approval, and 3 do not specify.
- 1 respondent specifically granted the CEO unlimited use of reserves to maintain the rate threshold to PG&E, as long as days cash on hand did not fall below 90 days.

# Policy Adoption Recommendation

## Recommendation

- Formally establish a "Rate Stabilization Fund Policy (RSF)"
  - Renames fund established in 2020 to "Rate Stabilization Fund" from GASB 62-Budget Stabilization
- Authorizes funding and utilization to the CEO and Treasurer consistent with Board authorization and with similar objectives and uses
- Includes a funding level target
  - Target 20% of operating expenses
  - Consistent with best practices and complementary to other levels in financial resource waterfall (working capital, line of credit and reserves)
- The RSF target will be considered with the Reserve Policy target and range when considering recommendations to the board for allocating funds into either account.
  - May lead staff to evaluate modifications to the reserve policy in the future

# Questions and Discussion?