

## 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 establish a Rate Stabilization Fund (RSF) as a source of liquidity to manage financial and operational risk. This Policy will also set guidelines for the processes for funding, utilizing, and managing the RSF.

### 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 revenue, and the change in net revenues 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 deposit 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.

### MECHANISM OF FUND UTILIZATION:

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

The CEO and the Treasurer, or their designee, are authorized to utilize deferred revenues in the RSF as necessary to stabilize rates, satisfy financial covenants, achieve budget objectives, and other such matters as may be authorized from time to time 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.

**MAXIMUM AND TARGET FUND BALANCE:**

The RSF balance is capped at 30% of Ava's annual budgeted operating expenses with a target of 20% of operating expenses.

**FUND HOLDINGS AND INVESTMENTS:**

Fund 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 always accounted for and reported separately. All fund balances are subject to Ava's Board approved and State Government Code compliant investment policy.

# Introduction & Background

- Ava currently maintains a Budget (Rate) Stabilization Fund, established in 2020, 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
- Ava also maintains a cash Reserve Fund, established in 2018 and amended in 2021, and is intended to provide financial stability for long-term business sustaining objectives
- Currently, these funds operate together along with other layers of protection to provide mitigation against potential risks related to energy market volatility, extreme events and regulatory changes
- Staff is providing a recommendation to the board for action this month and seeking feedback from this subcommittee on the following:
  - Changes the name of the Budget Stabilization Fund to a Rate Stabilization Fund (RSF) to align with industry norm
  - Formalizes existing practices as established operating policy for the RSF as a strategic reserve of revenues with defined guidelines for funding, utilizing, and overall management
  - Recommended allocation amount from this year's budget surplus to the RSF

# Current Fund Status

- Ava established a "Rate" Stabilization GASB 62 Fund in 2020 by Resolution R-2020-26
  - This resolution established the following objective:
    - In accordance with the Statement 62 under the Governmental Accounting Standards Board (GASB), allow the accrual of deferral of excess revenue to be recognized in successive periods to offset uncontrolled cost variations and preserve positive net position for Ava
  - This resolution thereby established the following practices:
    - 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 balance of the fund is to be accounted separately from all other Ava funds
- The current balance of the fund is approximately \$57.6MM
  - Up to \$35.3MM may be utilized to balance the current fiscal year budget by resolution R-2025-23
  - \$10.5MM approved for recognition in 2027 for renewable energy as deemed by resolution R-2023-58
  - \$15MM approved for recognition at a later date for solar + storage incentives by resolution R-2024-26
  - If budget amount is fully utilized, the net balance after the 3 approved recognitions is -\$3.2M

# Utilization of Ava's 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

## 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

# Ava Budget Stabilization Fund Record of Utilization

- The current balance is approximately \$57.6MM with ~\$32.1MM retained specifically for rate stabilization
- Based on the strong forecasted surplus for 2024-25 of >\$107MM, staff proposes a recommendation to allocate all to the Fund
- If we allocate the full surplus, this would increase the Rate Stabilization Fund to \$129.4MM at end of current fiscal year
- The Rate Stabilization Fund is intended to be used to balance surplus and deficit reflecting over and under-collection year to year to stabilize customer rates

FY Contribution Recognition			Balance Purpose	
2020	12,680,000	-	12,680,000	R-2020-26 establishes method to stabilize Local Development balance until Fund is established
2021	15,814,000	12,680,000	15,814,000	R-2020-26 recognizes LD balance with fund establishment via Budget. Contributed to PCIA PUBA balance through December 2023 as allocated by Audit
2022	-	-	15,814,000	No Activity
2023	37,200,000	-	53,014,000	R-2023-37 contributes ~\$10.5MM each for on-bill credits and PPA premium plus \$16.2MM for rate stabilization as allocated by audit
2024	37,407,824	10,504,837	79,916,987	R-2024-2 contributes for on-bill credits and NBT from FY 23-24 surplus revenue as allocated by audit . R-2023-58 recognizes on-bill credits from FY 2023 contribution
2025	-	22,319,294	57,597,693	R-2024-73 recognizes net on-bill credits from previous FY contribution
2026	<b>107,109,000</b>	<b>35,327,000</b>	129,379,693	<b>Bold contribution</b> is potential contribution from FY 2024-25. <b>Bold recognition</b> is Board approved for balancing FY 2025-26 budget by R-2025-23
2027	-	10,504,837	118,874,856	R-2024-26 recognize PPA premium contribution from 2023
2027	-	14,963,130	103,911,726	Possible recognition of NBT incentives contributed in FY 2024 by R-2024-2

# Recommended Allocation and Policy Modifications

Ava forecasts a FY24-25 surplus of \$107 million

## Recommended Allocation

- Allocate 100% of the FY2024-25 Surplus to the Rate Stabilization Fund

## Recommended Policy Creation

- Formally establish and rename the Policy and Fund to "Rate Stabilization Fund" (RSF)
- Authorizes funding and utilization to the CEO and Treasurer consistent with prior Board authorization
- Staff proposes adding a funding level cap and target
  - Up to 30% of operating expenses with a 20% target
  - Consistent with best practices and complementary to other levels in financial resource waterfall (working capital, line of credit and reserves)

Scenario	Contribution*	Balance	Pct OpEx**
<b>Budget Waterfall As Approved</b>			
Reserves	77,851,000	408,724,400	45.4%
Solar & Storage Incentives	10,000,000	24,963,130	
Customer Credits	19,258,000	19,258,000	
Rate Stabilization Fund***	-	22,270,693	2.5%
<b>100% Allocation to RSF</b>			
Reserves	-	330,873,400	36.8%
Rate Stabilization Fund	107,109,000	129,379,693	14.4%
<b>90% RSF/10% Reserves</b>			
Reserves	10,710,900	341,584,300	38.0%
Rate Stabilization Fund	96,398,100	118,668,793	13.2%
<b>80% RSF/ 20% Reserves</b>			
Reserves	21,421,800	352,295,200	39.2%
Rate Stabilization Fund	85,687,200	107,957,893	12.0%

\* Contributions to Reserves and RSF is based on 6/30/2025 estimates

\*\* Operating Expenses for FY 2025-26

\*\*\* Balance of RSF at end of FY 2025-26 after budgeted recognition

# Questions and Discussion?