



Staff Report Item 19

TO: East Bay Community Energy Board of Directors
FROM: Howard Chang, COO & Treasurer
SUBJECT: Resolution to adopt a Budget Stabilization GASB 62 Fund (Action Item)
DATE: September 16, 2020

Recommendation

Adopt a Resolution to create a Budget Stabilization GASB 62 Fund to create a more stable short-term financial position by allowing EBCE to defer revenue in years when financial results are strong.

Background and Discussion

Currently EBCE maintains reserve accounts for cash related purposes, such as emergency need for capital or purchasing power. These reserve accounts were established by Resolution R-2018-26 in June of 2018 and is maintained in accordance with the Financial Reserve Policy, P-2018-10. While these reserves are useful for building a financially stable long-term position for EBCE, it is not very effective for financial stability within shorter term variations that can occur from issues like macro-economic cycles, energy market volatility, and budgeting for ongoing Local Development project needs beyond a single fiscal year.

To create a more stable short-term financial position, staff is proposing to create a Budget Stabilization GASB 62 Fund independent from the current General Operating Reserve Accounts. This fund would allow EBCE to defer revenue in years when financial results are strong and be used in years when financial results may be negatively impacted by uncontrollable events.

The Budget Stabilization GASB 62 Fund would be an accounting treatment established under Government Accounting Standards Board Statement 62 (GASB 62). GASB 62 codifies and standardizes “the presentation of deferred outflows of resources and deferred inflows of resources and their effects on net position.” This is to say, revenues may be “deferred” into a fund when it is determined that excess revenues are available to make such deposits. These deferred revenues may then be accrued, or recognized, in successive years to offset uncontrolled cost variations and preserve positive net position for the agency.

Deferral of revenues into the Budget Stabilization GASB 62 Fund would reduce revenues and their contribution to net position in the year of deferral by the same amount. Recognition of revenues from the Budget Stabilization GASB 62 Fund would increase revenues and net position in the year of the recognition.

In addition to providing internal, organization financial stability, this accounting method could help stabilize the rates EBCE charges to customers by providing a mechanism to limit reactionary changes to product rates. Having money from fruitful years to help offset costs in more lean years can help assuage the need to generate revenue in any specific single year.

Current estimated surplus is approximately \$22.5 million above the Board approved 2019-2020 fiscal year budgeted net position of \$60 million. This amount is subject to change as the audit is finalized. Staff is recommending deferring \$12,680,000 of the surplus revenues, which reflects the Local Development budget for 2020-2021 plus unrecognized expenses budgeted in the 2019-2020 fiscal year. This unrecognized amount is currently estimated at approximately \$4,371,000 and is subject to change as the audit is finalized. As part of the 2020-2021 budget setting process, the board previously approved deferring the unrecognized local development expenses from the 2019-2020 fiscal year to 2020-2021. Staff is also recommending that this amount of the deferred revenue be available for recognition in 2020-2021.

Fiscal Impact

There is to be a fiscal impact to EBCE's net position in the previous fiscal year of 2019-2020 to be equal to the amount of deferred revenues. Staff has set this to \$12,680,000, which is equal to the Local Development budget for two years, including \$4,731,000 of unrecognized expenses from the 2019-2020 fiscal year.

This is not expected to affect EBCE's current Financial Reserve Policy (P-2018-10) funding actions or mechanisms.

For the current fiscal year of 2020-2021, differed revenues up to the amount authorized to match the Local Development unrecognized amount from the previous fiscal year may be accrued as needed on a quarterly basis. Further recognition of differed revenues will be subject to Board approval.

Attachments:

- A. Resolution to adopt a Budget Stabilization Fund
GASB 62; and
- B. Budget Stabilization Fund presentation

RESOLUTION NO. 2020-
A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE EAST BAY COMMUNITY ENERGY AUTHORITY ESTABLISHING A GASB 62 FUND
FOR BUDGET STABILIZATION

WHEREAS The East Bay Community Energy Authority (“EBCE”) 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 EBCE and parties to the JPA in March of 2020.

WHEREAS EBCE has exceeded budgeted performance in the 2019-2020 fiscal year with revenue surplus suitable for GASB 62 compliance for accrual in the 2020-2021 fiscal year.

WHEREAS The Board of Directors deems it prudent to establish, designate, and maintain a Rate Stabilization GASB 62 Fund to provide a contingency available to satisfy financial covenants, stabilize customer rates, fulfill local development obligations, and other such matters as may be approved from time to time by the Board of Directors, to be funded as deferred surplus revenues from time to time as suitable over-performing years allow.

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

Section 1. The Board of Directors hereby authorizes the establishment of an operating reserve fund designated the “Budget Stabilization GASB 62 Fund,” which shall be accounted for as a separate fund from all other EBCE funds, although amounts credited to it may be commingled with other funds of EBCE.

Section 2. The Board of Directors hereby authorizes the Chief Executive Officer and the Treasurer, or their designee, to deposit from time to time such amount as the Treasurer may determine as prudent and appropriate into the Budget Stabilization GASB 62 Fund from any source of moneys designated as surplus in accordance with the budget previously approved by the Board.

Section 3. The Budget Stabilization GASB 62 Fund shall be recognized by GASB 62 and provide a contingency available upon approval by the Board of Directors to satisfy financial covenants, rate stabilization, and such other matters as may be approved from time to time by the Board of Directors.

Section 4. The Chief Executive Officer and the Treasurer, or their designee, are hereby authorized to apply deferred revenues from the 2019-2020 fiscal year in the 2020-2021 fiscal year in an amount not to exceed the Local Development budgeted expenses not yet realized in the 2019-2020 fiscal year as determined by that year's audited financial statements.

Section 5. The Chief Executive Officer and the Treasurer, or their designee, are hereby authorized and directed to do any and all things to effectuate the purposes of this Resolution.

ADOPTED AND APPROVED this 16th day of September, 2020.

Dan Kalb, Chair

ATTEST:

Stephanie Cabrera, Clerk of the Board



Budget Stabilization Fund

PRESENTED BY:

DATE:



Budget Stabilization GASB 62 Fund

- Government Accounting Standards Board Ruling 62 (GASB 62) codifies and standardizes “the presentation of deferred outflows of resources and deferred inflows of resources and their effects on net position.”
 - This allows for deferring the accrual of surplus revenues from a prosperous time period to be realized in future time periods
 - Any deferred revenues will reduce net position by an equal amount in the time period deferred, and increase net position by an equal amount in the time period
 - This is an accounting treatment different than reserve funds, as reserve funds are withheld cash amounts from already accrued and realized revenues
- Spreads benefits from strong financial earning periods into potentially weaker periods

Budget Stabilization GASB 62 Fund

- Stabilizes short-term variations in revenue to preserve positive net position
 - Consistent positive net position has many advantages:
 - Stabilizes EBCE rates charged to customers, which helps preserve value proposition
 - Helps maintain consistent funding of LDBP programs year-over-year
 - Fosters strong financial covenant agreements with counter parties
- Because deference is in strong earning periods which have revenues in excess of budgeted net position, this policy will not negatively affect EBCE on-going operational performance or cash reserve allocation mechanisms

How It Works

- Approx. \$22.5 M is current estimated net position surplus above Board approved 2019-20 budget net surplus of about \$60 M
- Approx. \$12.7 M of 2019-20 revenue would be deferred to 2020-2021 fiscal year, reducing net position surplus to approx \$9.8 M above 2019-20 budget
- Deferred revenue may then be realized in the 2020-21 fiscal year or subsequent years

(Please note: These numbers are subject to change with audit confirmation)

Specific Benefit to Local Development

- \$4.4M of Local Development expenses were not spent in 2019-20 fiscal year
- Board approved utilizing these underspent funds in the 2020-21 budget
- The creation of Budget Stabilization GASB 62 Fund allows the aligning of revenues and expenses to the same time period, earmarked for the 2020-21 budget year
- Staff is recommending deferring an additional amount to total \$12.7M which equals the total Local Development budget. This can then be realized to stabilize the budget in future periods.