

**Chugach Electric Association, Inc.**

**Early (Discounted)  
Capital Credit Payments**

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# Policies and Procedures

- Board Policy 126 (Business Planning and Financial Management)
- Capital Credit Early Retirement Plan (Submitted to the IRS)
- CSR Operating Manual (Chapter 9)
- Early Payment Request Form

# Board Policy 126

Section II, E. Patronage Capital, paragraph 2:

“At the Board’s option, early retirements of capital credits may be discounted to approximate the Association’s current cost of equity capital.

. . . the Board will look to the most recent cost of equity capital set by the RCA . . . Alternatively, the Board may use the 10-year NRUCFC borrowing rate plus 3%, if the resulting rate is higher . . .”

# Capital Credit Early Retirement Plan Goals

- Reduce administrative expenses
- Build equity by recognizing “donated capital”
- Reduce future funding requirements
- Provide a voluntary option to patrons to collect capital credits prior to normal retirements

# Capital Credit Early Retirement Plan Specifics

- Funding of \$500,000
- Former members only (outstanding debts will be recovered)
- Discount rate per Board Policy 126 & IRS PLR
- Payment will be present value and member clearly informed of amounts paid and donated

# Early Payment Request Form

- Provides payment information (including offset of any debt)
- Member must check “Yes”
- Form is signed and returned
- “Quote” is good for 30 days

# Determination of Payment Amount

- Use Business Plan to determine funds available for retirements each year
- Project when future years will be retired
- Determine discount factor for each future year
- For each future year CIS calculates present value and amount that would be donated
- Calculation is verified manually

# CIS Information

- CIS system shows yearly balances, present values and donated amounts
- System can be recalibrated by changing schedule of future payments and/or discount rate

# 2005 Results

Payments	662
Discounted Amount	\$398,909
Bad Debts Recovered	<u>1,533</u>
Net Amount Paid	\$397,376
Donated Capital	<u>282,517</u>
Capital Credits Retired	\$681,426