



CHUGACH ELECTRIC ASSOCIATION, INC.  
ANCHORAGE, ALASKA

AUDIT AND FINANCE COMMITTEE MEETING

AGENDA

Rachel Morse, Chair  
Harold Hollis, Vice Chair

Susan Reeves  
Jim Henderson  
Bettina Chastain

---

**November 6, 2019**

**5:00 p.m.**

**Chugach Board Room**

---

- I. CALL TO ORDER (5:00 p.m.)
  - A. Roll Call
- II. APPROVAL OF THE AGENDA\*
- III. APPROVAL OF THE MINUTES\*
  - A. November 5, 2019 (Portades)
- IV. PERSONS TO BE HEARD
  - A. Member Comments
- V. CEO REPORTS AND CORRESPONDENCE (none)
- VI. NEW BUSINESS\* (scheduled) (5:10 p.m.)
  - A. Recommendation on Discounting for 2020 Capital Credit Payments\* (Highers)
- VII. EXECUTIVE SESSION\* (scheduled) (5:25) p.m.)
  - A. Strategic Planning
    - 1. First Amendment to CoBank Master Loan Agreement (5:25 p.m.)
    - 2. KPMG 3<sup>rd</sup> Quarter 2019 Review (5:45 p.m.)
    - 3. Board and Auditor Discussion (6:05 p.m.)
    - 4. Review Chugach's 2019 Audit Plan (6:25 p.m.)
    - 5. September 30, 2019, SEC Form 10Q Review (6:45 p.m.)
    - 6. Key Topics for the Accounting and Finance Committee (ML&P Acquisition) (Highers) (7:05 p.m.)
- VIII. NEW BUSINESS\* (continued) (7:35 p.m.)
  - A. September 30, 2019, SEC Form 10Q Filing\* (Curran) (7:40 p.m.)
  - B. First Amendment to CoBank Master Loan Agreement\* (Highers) (7:45 p.m.)
- IX. DIRECTOR COMMENTS (7:50 p.m.)
- X. ADJOURNMENT\* (7:55 p.m.)

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Anchorage, Alaska**

**AUDIT AND FINANCE COMMITTEE MEETING**  
**AGENDA ITEM SUMMARY**

**November 6, 2019**

**ACTION REQUIRED**

**AGENDA ITEM NO. VI.A.**

<u>      </u>	<b>Information Only</b>
<u>  X  </u>	<b>Motion</b>
<u>  X  </u>	<b>Resolution</b>
<u>      </u>	<b>Executive Session</b>
<u>      </u>	<b>Other</b>

---

**TOPIC**

Recommendation on Discounting for 2020 Capital Credit Payments

**DISCUSSION**

Chugach's Bylaws require Board approval of capital credit payments. This resolution authorizes the payment not to exceed \$300,000 during 2020 to retire early (discounted) capital credits. If the funding and approval of payments is preauthorized, staff can expeditiously process these requests without having to come to the Board for approval prior to making payments throughout the year.

**MOTION**

Move that the Audit and Finance Committee recommend the Board of Directors approve the attached resolution authorizing early (discounted) capital credit payments for 2020 not to exceed 300,000.



## **RESOLUTION**

### **Discounting for 2020 Capital Credit Payments**

WHEREAS, Chugach Electric Association, Inc. (Chugach) has developed a plan to pay discounted capital credits to former members before normal retirements; and

WHEREAS, Chugach has received a Private Letter Ruling from the Internal Revenue Service stating the discounted capital credits retirement plan does not jeopardize Chugach's tax-exempt status; and

WHEREAS, the plan provides that the amount available for discounted capital credit payments to former members can be increased or decreased at the discretion of the Board of Directors; and

WHEREAS, Chugach's bylaws require Board approval of capital credit retirements; and

WHEREAS, the Board of Directors has determined that a retirement under this early payment plan in 2020 will not impair the financial condition of the Association; and

WHEREAS, early payments of capital credits include payments to estates of deceased patrons; and

WHEREAS, estate and other early payments will be made on a frequent basis and it would delay these payments if Board approval is required for each specific early retirement being paid;

NOW THEREFORE, BE IT RESOLVED, Chugach shall make early payments of capital credits to former members and estates who request early retirements under the plan in the actual discounted amount, not to exceed \$300,000 in cash payments for 2020.

BE IT FURTHER RESOLVED, before receiving a payment under this plan, any member with an outstanding electric debt will be required to first pay the outstanding debt or acknowledge the capital credit payment will be reduced by the amount necessary to satisfy the outstanding debt.

BE IT FURTHER RESOLVED, any payments under the plan for 2020 will be in accordance with Board Policy 304.

## **CERTIFICATION**

I, Stuart Parks, do hereby certify that I am the Secretary of Chugach Electric Association, Inc., an electric non-profit cooperative membership corporation organized and existing under the laws of the State of Alaska: that the foregoing is a complete and correct copy of a resolution adopted at a meeting of the Board of Directors of this corporation, duly and properly called and held on the 6<sup>th</sup> day of November, 2019; that a quorum was present at the meeting; that the resolution is set forth in the minutes of the meeting and has not been rescinded or modified.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of this corporation on the 6<sup>th</sup> day of November 2019.


---


Secretary

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Anchorage, Alaska**

**October 25, 2019**

**TO:** Lee Thibert, Chief Executive Officer

**THRU:** Arthur Miller  Executive Vice President, Regulatory and External Affairs

**FROM:** Teresa Kurka, Director, Member Services 

**SUBJECT:** **Discounted Capital Credit Payments**

Chugach Electric Association, Inc. (Chugach) implemented an early payment program for the retirement of capital credits in late 2004. The authority for this program is Board Policy 304 Capital Credit Policy. With this option, former members can receive their capital credits early at a discounted amount as approved by the Board. The program was submitted to the Internal Revenue Service and a private letter ruling was received to ensure it did not impact Chugach's tax-exempt status.

The goals of the early retirement plan are as follows:

- Reduce administrative expenses by no longer needing to send checks and maintain records for memberships that are "cashed out".
- Build equity by recognizing the difference between the amount paid and the face value of the capital credits retired as donated capital.
- Reduce future funding requirements. When a former member takes an early payment, the amount by which it is discounted (i.e., the donated portion) is also the total of future years capital credits for the membership that no longer need to be funded.
- Provide a voluntary option to former members to collect capital credits prior to normal retirements.

Only former members are eligible to cash in their capital credits, and any outstanding debts are recovered against payment amounts. Per Board Policy 304, the discount rate for determining payment amounts is Chugach's recent cost of equity filed with the Regulatory Commission of Alaska or, alternatively, the 10-year National Rural Utilities Cooperative Finance Corporation (NRUCFC) borrowing rate plus 3 percent. Chugach's current cost of equity is 5.6 percent and the NRUCFC rate plus 3 percent is 8.25 percent.

***Discounted Capital Credit Payments***

The current funding level is \$300,000 per year and this amount can be adjusted at the discretion of the Chugach Board of Directors. I am recommending the amount for 2020 be set at the same \$300,000 amount as it was for 2019. Below is a summary of early retirements for 2017, 2018 and 2019 (year-to-date September), which shows recent trends in member participation in the program.

Description	2017	2018	2019
Authorized Board Funding Level	\$275,000	\$275,000	\$300,000
Number of Payments Made	257	339	228
Amount paid to Member (Discounted)	\$271,882	\$274,144	\$270,491
Bad debts recovered	\$1,002	\$775	\$13,437
Donated capital	\$212,426	\$194,021	\$354,186
Capital credits retired	\$485,310	\$468,940	\$638,114

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Anchorage, Alaska**

**AUDIT AND FINANCE COMMITTEE MEETING**  
**AGENDA ITEM SUMMARY**

**November 6, 2019**

**ACTION REQUIRED**

**AGENDA ITEM NO. VIII.A.**

<u>      </u>	<b>Information Only</b>
<u>  <b>X</b>  </u>	<b>Motion</b>
<u>      </u>	<b>Resolution</b>
<u>      </u>	<b>Executive Session</b>
<u>      </u>	<b>Other</b>

---

**TOPIC**

September 30, 2019, SEC Form 10Q Filing

**DISCUSSION**

The Form 10Q as reviewed in executive session.

**MOTION**

Move that the Audit and Finance Committee recommend management file the Securities and Exchange Commission Form 10Q by the due date incorporating any amendments to the document which will be reviewed and approved by KPMG. Mr. Hayhurst and Ms. Highers will immediately inform the Board, in writing, of any material or significant changes.

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Anchorage, Alaska**

**AUDIT AND FINANCE COMMITTEE MEETING**  
**AGENDA ITEM SUMMARY**

**November 6, 2019**

**ACTION REQUIRED**

**AGENDA ITEM NO. VIII.B.**

<u>      </u>	<b>Information Only</b>
<u>  <b>X</b>  </u>	<b>Motion</b>
<u>      </u>	<b>Resolution</b>
<u>      </u>	<b>Executive Session</b>
<u>      </u>	<b>Other</b>

---

**TOPIC**

First Amendment to CoBank Master Loan Agreement

**DISCUSSION**

The First Amendment to CoBank Master Loan Agreement as reviewed in executive session.

**MOTION**

Move that the Audit and Finance Committee recommend the Board of Directors authorize the Chief Executive Officer to enter into the First Amendment to CoBank Master Loan Agreement as discussed in executive session.