

LA PLATA ELECTRIC ASSOCIATION, INC.
Finance and Audit Committee Minutes of Meeting
Thursday, April 9, 2020
Durango, Colorado

CALL TO ORDER

The Finance and Audit Committee Committee of the La Plata Electric Association Board of Directors was held Thursday, April 9, 2020 via livestream webinar in compliance with the Governor's orders against in-person gatherings of more than 10 people. Committee Chairman Wheeler called the meeting to order at 2:02 p.m. The following committee members were in attendance:

COMMITTEE MEMBERS:

Tim Wheeler, Committee Chairman
Britt Bassett
Guinn Unger
Dan Huntington
Jessica Matlock, CEO
Karl Ramsey, VP Finance

LPEA STAFF

Monica Rodriguez, Controller

EXCUSED ABSENCE: None

GUESTS: Livestream audience

APPROVAL OF AGENDA

Committee Chairman Wheeler addressed the April 9, 2020 Finance and Audit Committee (FAC) meeting agenda.

Motion: Committee Member Huntington moved to approve the April 9, 2020 Finance and Audit Committee meeting agenda as presented. Motion seconded and carried without dissent.

APPROVAL OF MEETING MINUTES

Committee Chairman Wheeler addressed the March 5, 2020 Finance and Audit Committee meeting minutes.

Motion: Committee Member Unger moved to approve the March 5, 2020 Finance and Audit Committee meeting minutes as presented. Motion seconded and carried without dissent.

COMMITTEE DISCUSSION AND POSSIBLE ACTION

BUDGET PROCESS AND SCHEDULE REVIEW – Ramsey reported that March financials are being finalized, a review of the activity codes is underway, staff are shaping the construction work plan, and that he is working with the Controller, Monica Rodriguez, on the budget process. Ramsey took questions and advised that the budget schedule will be distributed electronically and placed on the committee shared drive.

COVID-19 FINANCIAL IMPACT REVIEW – Ramsey stated that the \$1million negative impact to cash flow resulting from the deferral of the rate increase from April 1 to July 1 will be neutralized through the use of the Rate Stabilization Fund (RSF). Other COVID-19 related financial impacts to LPEA include reduced load due to business shut-downs, member difficulty with bill payments, and effects of the moratorium on disconnects for nonpayment (DNP). Ramsey anticipates a conservative estimate of \$350,000 in write-offs, adding that an individual delinquent account cannot be reconnected unless the account is paid in full. Staff continue to analyze load metrics and the revenue impacts of large customers being shut down.

On the positive side, Ramsey is receiving guidance on applying for the Payroll Protection Plan, credit is available through CFC if necessary, and capital projects expenditures could be delayed due to social distancing orders; thus, eliminating the need for loans to complete those projects. Staff are looking at all areas to cut costs while adhering to the code of excellence and remaining good stewards of the service LPEA provides. Discussion ensued on messaging that advises members to keep current on their accounts or make payment arrangements, and provides clarity on the fact that the indefinite moratorium on late fees and DNPs is not a debt forgiveness mechanism.

FINANCIAL GOALS AND TARGETS – Ramsey opened the discussion on determining the parameters of operating with regard to the seven financial key performance indicators (KPI) of a financial health score, operating margins, cash reserves, debt financing, modified debt service coverage, OTIER ratio, and equity percentage. Discussion ensued on the need to look at capital credits owed to members year by year to provide perspective on margins; as well as, a range of percentages, ratios, and other targets measurements for the KPIs that provide realistic and timely insight into LPEA's current path and trajectory toward financial goals and covenants.

Following robust discussion, there was consensus among the committee to direct Ramsey to present a budget model based on the budget timelines and recommendations for appropriate KPI goals as a basis for discussion at the May 14 FAC meeting. The committee will discuss and set KPI goals to present for discussion and recommendation to the full board at the May 20 board meeting.

REVIEW OF FINANCIAL DASHBOARD, REPORTS, AND FORMATS – CEO Matlock expressed appreciation for the feedback on reporting from the committee and the board, noting that the input is helping staff to refine the presentation of data and analysis into a user-friendly format. Committee members expressed overall satisfaction with the dashboard reports, particularly the financial highlights and commentary, and color coding; and there were requests for a few more charts demonstrating various trends.

Ramsey discussed plans to eliminate quarterly reports that replicate monthly reports, while meaningful quarterly reports will be retained and enhanced; noting that, reporting is an iterative process geared toward a balance of statistical reports, highlights and summaries, and simple charts and graphs to meet the diverse needs and styles of twelve directors.

RESERVE FUNDS: RATE STABILIZATION FUND (RSF) – The committee addressed questions of how to use the RSF, whether other funds were needed, and restrictions on the fund. Ramsey advised that the \$2.994 million RSF is currently the only fund, no plans exist to create additional reserve funds, and that utilization of the RSF is at the discretion of the board. Noting that \$1 million from the RSF is earmarked to mitigate the 2020 rate increase deferral, attention should be focused on ways to replenish the RSF.

Addressing questions about the impact of the level of funding for the RSF on liquidity, Ramsey suggested that the \$4 million identified as a revenue shortfall in the 2020 budget process is a desirable figure to target for a base level of funding. As LPEA builds up to the 2021 budget, means for replenishing the fund will be examined with an eye toward achieving \$4 million for the RSF in 2022.

AGENDA DISCUSSION – The committee reviewed and discussed possible upcoming agenda items.

ADJOURN

There being no further business, the Finance and Audit Committee of the La Plata Electric Association, Board of Directors meeting adjourned at 4:54 p.m.

The Finance and Audit Committee meetings are scheduled to take place from 2:00 p.m. to 5:00 p.m., on the 2nd Thursday of every month.

Recorded by C.E. Charistopoulos, and approved by:



Tim Wheeler, Committee Chairman