



HUNTSVILLE UTILITIES POLICY

Approval Date: Electric Board-10/23/2019	Date Posted: 12/23/2020	Implementation Date: 11/1/2019
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Policy #: FM-13

Policy: Electric Financial Reserve

Purpose: To help ensure financial stability, timely completion of capital improvements, and enable the utility to meet requirements for large unexpected expenditures, a minimum cash reserve policy should be established. This policy attempts to quantify the minimum amount of cash the utility should keep in reserve. Actual cash reserves may vary substantially above the minimum and is dependent on the life cycle of assets, future capital plan, planned rate increases, and issuance. As budgets are prepared each year, the actual target minimum cash reserve will be calculated each year in compliance with this policy.

Calculation

The cash reserve policy will include 30 days of annual operation expense budget, (or 12.3% of annual operating expenses budget) including tax equivalent payments to the City of Huntsville and excluding depreciation expense. The amounts used to determine the operations expense budget and tax equivalent will be taken from the current-year's approved budget.

Minimum Restoration

If certain events occur that result in cash reserves falling below the minimum cash reserve levels, the Electric Board should take action to restore cash reserves to the minimum levels over the subsequent five years. These actions may include a number of options:

- Rate adjustments
- Cost reductions
- Issuance of bonds to fund capital improvement programs (the utility should strive to fund normal capital improvements through electric rates and cash generation and bond for extra-ordinary capital improvements.)
- Modification of the assumptions used to determine the cash reserve levels

The minimum cash requirements will consist of all Electric funds, excluding restricted funds. Board designated cash reserves are not considered restricted for purposes of this policy, but customer deposits are considered restricted. The methodology outlined in this policy should be used to update the minimum cash calculation during the annual budget process.

Original Issue Date: 10/24/19

Review Date: N/C on 1/1/2021