



HUNTSVILLE UTILITIES POLICY

Approval Date: Gas & Waterworks Board-2/19/2019 Electric Board- 1/23/2019	Date Posted: 7/30/2021	Implementation Date: 3/1/2019
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Policy #: FM - 11

Policy: Budget

Purpose: The Operating and Capital Budgets are developed on an annual basis. Through related efforts and documentation, such as departmental business plans and performance measures/key performance indicators, these documents and activities provide a comprehensive plan for the delivery of efficient utility services in a manner that aligns resources with the policy, goals, mission, and vision of Huntsville Utilities (HU). This budget policy supersedes any other HU budget, capitalization and vehicle replacement policies.

The formulation of the Operating and Capital Budget, including the publication of a comprehensive budget document, is one the most important financial activities that HU undertakes each year. This budget policy is intended to provide guidelines to assist in the formulation and consideration of financial discussions and decisions.

Definitions:

Operating Budget: The operating budget includes all revenue and expenses required by the utility to conduct daily operating and maintenance activities. Revenue is classified as sales revenue, other operating revenue or non-operating revenue. Expenses are grouped into the following categories: employee expenses, supplies and materials, services, travel and training, equipment maintenance, utilities, commodity, tax equivalents, debt service and other expenses. The revenue and expense categories are further broken down into planning codes and dollars are budgeted by month by general ledger account number.

Capital Budget: The capital budget consists of expenses incurred for the long-term development of the utility services. Capital expenses will result in additional assets for the utility either through direct purchase or as the result of construction projects. Capital expenditures must be \$5,000 or greater (\$35,000 for infrastructure addition or improvements) with a useful life of 3 years or more.

Vehicle Replacement: Vehicle replacement scheduling is a supplemental budgeting program designed to maximize fleet performance. Scoring for each vehicle is based on a number of factors including age, mileage and maintenance costs. Based on scoring, vehicles fall into categories indicating priority replacement, secondary replacement or ineligible for replacement.

Balanced Budget

HU shall adopt a balanced budget for each utility—Electric (including Fiber), Natural Gas, and Water. A budget is balanced when the sum of estimated revenues and appropriated cash reserves (if needed) is equal to expenditures. Any appropriation of cash reserves should be within the confines of any current cash reserve policies already approved by the Boards.



Budget

The balancing of operating revenues with operating expenditures may be applied over a period of time extending beyond the current year. Temporary shortages, or operating deficits, can and do occur, but unplanned deficits are not appropriate. HU cannot operate in its customers' long-term best interest by operating consistently at a deficit or by using one-time revenue sources to fund ongoing operations.

Basis of Budgeting

Budgets are prepared on the modified cash basis of accounting. This incorporates most of the aspects of the accrual basis of accounting with the following exceptions:

- a. Changes in the fair value of investments are not treated as adjustments to revenues in the annual operating budget.
- b. Debt service and capital lease principal payments are treated as expenses in the annual operating budget.
- c. Proceeds from debt issuance are included as revenue in the annual operating budget.
- d. Depreciation expense is not recognized in the annual operating budget.
- e. Capital purchases are recognized as expenses in the annual operating budget.

Budget Preparation Responsibility

The Budget and Rates Department is responsible for coordinating the overall preparation of HU budgets. To accomplish this, the staff issues budget instructions, conducts budget preparation training sessions, and communicates regularly with employees of the organization.

Department managers or supervisors have the primary responsibility for projecting needed expenditures for both the operating and capital budgets. Expenditure estimates used to prepare the operation and capital budgets shall be based on sound budgeting practices, to ensure estimates are as close as possible to actual expenditure amounts. These budgets should be in line with Board priorities and direction. It is also the department's responsibility for implementing expenditure budgets once they have been approved.

The Budgets and Rates Department has the primary responsibility for formulation of revenue budgets for both the operating and capital budgets. Revenue estimates used for the operating budget shall be based on sound budgeting practices and will be reviewed and approved by the Chief Financial Officer (CFO). Budgeted revenues while being conservative should also try to be as close to actual revenues as possible. HU is sensitive to the balance between the need to fund desirable utility improvements with the need to keep fair and competitive rates for our customers. The use of cash reserves or the issuance of debt should be within the guidelines of any current cash reserve policies, and/or debt policies already approved by the Boards.

The President/Chief Executive Officer (CEO) will review the consolidated expenditure and revenue budgets prepared by the Budget and Rates Department. The Budget and Rates Department, in conjunction with other departments, will make any necessary adjustments to bring the budget into balance and in compliance with Board policies and strategic direction. The recommended budgets will then be given to the appropriate Boards for their consideration. After Board approvals, all capital expenditures over \$25,000 will be sent to the City Council for approval.

Budget Timeline



Budget

In March of each year, the Budget and Rates Department will prepare a budget calendar to set tentative deadlines for the upcoming budget cycle. The goal is to have a final draft of the budgets ready for Board review at the July meetings, with final budgets ready for Board approval in August. City Council can then approve capital expenditures over \$25,000 in September. The approved budgets will be effective for the organization on October 1st.

Budget Monitoring

The CFO will maintain a system for monitoring HU budget performance. This system will provide the Boards with monthly presentations of budget to actual comparisons at both the revenue and expenditure level. There will also be a report showing the progress on capital projects in the capital budget. Other reports as requested by the President/CEO or the CFO that are informative of the financial condition of HU may also be included in the monthly reports.

Budget Adjustment & Amendment Processes

The operating budget may be adjusted or amended in two different ways: an adjustment involving a reallocation of existing appropriations that does not change the budgeted “bottom line” and an amendment of the budget that results in an addition to or reduction of existing appropriations.

- a. Adjustment: Under the first method, departmental expenditures and requirements are monitored throughout the year. Certain departments may develop the need for additional expenditure authority to cover unanticipated costs that cannot be absorbed within the budget, while other departments will not require their full budget authorizations. The Budgets and Rates Department reviews and analyzes all department budgets to determine what adjustments are necessary and whether the adjustments can be made within existing appropriation limits. These changes are then reviewed with the affected department and/or CFO. Any adjustment of more than \$25,000 will also be reviewed and approved by the President/CEO. When an adjustment is needed, Budget and Rates staff will look first to savings within the department; and then transfers between departments. No Board action is needed and the adjustment will be done administratively.

Adjustments may only be made within a given utility’s budget (Electric, Natural Gas, Water) and generally any adjustments must stay within the same classification: additional capital dollars must come from a corresponding capital budget and/or additional operating expense dollars must be transferred from an operating expense budget. Any exception should be approved by the President/CEO.

- b. Amendment: Amending a utility’s budget occurs whenever the requested changes from a department will cause the existing appropriation to change. This is done by an action of the Board(s) that amends the original budget and states the sources of funding for the additional appropriations.

Original Issue Date: 3/1/19

Revision/Review Dates: 7/30/21