



# HUNTSVILLE UTILITIES POLICY

<b>Revision Approval Date:</b> Gas & Waterworks Board-3/28/2024 Electric Board- 3/27/2024	<b>Date Posted: 3/28/2024</b>	<b>Implementation Date: 4/1/2024</b>
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**Policy #: FM-18**

**Policy: Minimum Cash Reserve**

**Purpose:** To help ensure financial stability, timely completion of capital improvements, and enable Huntsville Utilities (HU) to meet requirements for large, unexpected expenditures. This policy attempts to quantify the minimum amount of cash HU should keep on 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.

**Methodology:**

The methodology outlined in this policy is based on certain assumptions related to:

- Operation and maintenance expense
- Estimated purchases for natural gas and electricity
- Debt service
- Capital improvement plans
- Property/casualty insurance fund
- Workers' compensation fund
- Electric Emergency fund
- Gas Rate Stabilization fund

After the reserve minimum is determined, management should consider the minimum "in total" and not each individual category.

**Risk Factor Calculation**

- The cash reserve will include 30 days of annual operating expenses, excluding depreciation expense and energy purchases (addressed individually within this Policy). These amounts will be taken from prior fiscal years audited financial statements.
- The cash reserve for the Electric and Gas systems will include an average of the prior three fiscal years energy purchases.
- The cash reserve will include 100% of the current planning year's debt service, including interest and principal.
- The cash reserve will include 20% of the five-year capital improvement program, less any improvements funded through the issuance of debt, reimbursements, aid to construction and major one-time capital investments.



## Minimum Cash Reserve

- Includes cash reserve amounts for workers' compensation, property/casualty insurance, emergency, and rate stabilization funds as specified in FM-19 Board Designated Funds Policy.

### Minimum Restoration

If certain events occur that result in cash reserves falling below the minimum levels, the Board(s) should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include several options:

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

The minimum cash requirements will be compared with each system's cash reserves 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:** 12/1/17 (former FM-07, FM-08, and FM-13)

**Revision/Review Date:** 1/09/2020 (NC); 10/1/2021 (NC); 7/1/22; 12/1/23; 2/1/24