Provo City, Utah
Energy Department Fund Balance and Reserve Policy

Introduction

The purpose of this policy is to define an adequate amount of fund reserves that protects the power department's ability to provide reliable electrical service and stable rates during periods of cost uncertainties in power supply, revenue fluctuations due to weather or a sluggish economy, emergencies, and rising capital improvement expenses. It is important for the power department to maintain the financial flexibility to manage rate increases and/or rate adjustments for customers of the electrical utility.

This Fund Balance and Reserve policy addresses the cash reserve requirements for the electrical system. The primary reasons for having a fund reserve balance policy are:

- Maintaining business practices
- Enhance credit worthiness
- Handle cash flow requirements (seasonal costs)
- Manage emergencies and uncertainties
- Meet debt requirements and obligations
- Adjust rates given unforeseen power costs

The adequacy of the Fund Balance and Reserve Fund guidelines will be updated every year with the budget process.

Methodology

The methodology used to calculate cash reserve requirements for the electrical system is based on the fiscal year operating revenue. The desired fund balance at the end of each fiscal year should be 180 days of cash-on-hand of the budgeted operating expenditure.

For Example: FY 2025	Operating Expenditure	$ 74,378,857
	Cost per Day	$ 203,778
	180 Days Cash	$ 36,679,984

The above methodology attempts to quantify the amount of cash the City should keep in reserve for the electrical system. The reserves should be invested in a manner to be available when called upon as a liquid asset.

Other Terms

a. If certain events occur that result in the electrical system's cash reserves falling below 50% of the above cash reserve levels for longer than six months, the Energy Board, Administration and Municipal Council will take corrective action to restore the cash reserves to the above required levels over a maximum of three years. Actions may include a combination of the following options:

- Cost reductions including transfers and expenditures
- Issuance of bonds to fund capital improvement programs
- Implement permanent rate adjustments

b. The power department shall maintain Debt Service Reserves for the electrical system according to the requirements as outlined in the bonding documents at any time that bonds are issued for capital projects and for which the debt service shall be paid from the revenues of the electrical system.

c. The Municipal Council shall not exceed the transfer from the Energy Fund to the General Fund at the current 11% of electric revenues (Residential, General Service and Industrial).

d. The Reserve Funds may be available for use in large multiple year power department capital projects, during unanticipated emergencies and disasters, or unplanned power cost events as determined by the Energy Director and approved by the Mayor and Municipal Council.

Adopted by the Energy Board of Provo City, Utah on ______________________________, 2025