



**GRAND RAPIDS
PUBLIC UTILITIES**

Service is Our Nature

Operating Reserve Policy

GRAND RAPIDS PUBLIC UTILITIES
COMMISSION

August 2023

Grand Rapids Public Utilities Commission (GRPUC) Operating Reserve Policy

A. Scope

The GRPU maintains accumulated Utility Operating Reserves for the Electric, Water, Wastewater Collection (Sanity Sewer and domestic treatment) in order to effectively manage rate fluctuations, operating contingencies, working capital and operating financing.

B. Policy Statement

The GRPUC has established a reasonable accumulated reserve target in order to cover the financial needs of the utilities and mitigate impacts to ratepayers. The target is the accumulated Operating Reserves will be maintained at a constant percentage (50%) of the previous year's audited annual expenses to ensure that the reserves grow over time in proportion to the infrastructure growth in the GRPUC service territory.

From time to time, unplanned surpluses may be generated in a given year and the accumulated Operating Reserve may exceed the targeted maximum. Should this occur, any amount over the threshold (50% of previous year's audited annual expenses) will be transferred to the respective Utilities Asset Replacement Reserve sub account to support the Utility's capital program.

C. Objectives

The purpose of this policy is to ensure that the accumulated Utility Funds' Operating Surplus is maintained at an adequate level to provide for rate stabilization, operating contingencies, working capital and operating financing and that any unplanned surplus above the target threshold will be transferred to the respective Utility Asset Replacement Reserve sub account to address ongoing asset management needs.

A reserve provides protection from risk. GRPUC faces risks like revenue shortfalls during recessions and losses from extreme events, like natural disasters or required actions of the State of Minnesota in severe weather which GRPUC follows, or a disruption in the power supply or production of a utility service. Reserves help make sure that GRPU can respond quickly and decisively to extreme events. Reserves also support vital public services during revenue declines.

D. Definitions

Operating Reserve – Current Assets (cash, investments, due from City, interest receivable, accounts receivable, lease receivable) less Current Liabilities (accounts payable, due to other governments, due to City of Grand Rapids, sales tax payable, accrued payroll).

Operating Expenses – Total operating expenses less depreciation and amortization.
Excluding the operating expenses for non-domestic waste water treatment.

E. Principles - Size of Reserve

1. The GRPUC's goal is to maintain the accumulated Utilities' Operating Reserve at a constant percentage (50%) of the previous year's annual audited expenses. The 50% reserve target represents approximately six months average operating expenses which ensures adequate contingency for all reasonable unanticipated expenses.
2. Any unplanned surplus earned in a given year will be transferred to an accumulated Utilities Asset Replacement Reserve sub account to support the GRPUC's capital program. Electric, Water, Wastewater Collection (Sanity Sewer & domestic treatment) each shall have a separate Utilities Asset Replacement Reserve sub account.

GRPUC's business services department will conduct long-range forecasting to decide if GRPUC is likely to stay within the establish reserve goal. If the goal reserve amount is not kept during the forecast period, the Business Services Manager will inform the General Manager. The General Manager will propose a plan for the replacement of the reserves. GRPUC will review and approve the plan as part of the annual budget process. Grand Rapids Public Utilities will try to replace the reserves within a one budget cycle if that is practical.

If the reserve is exceeded during the forecast period, then the respective Utilities Asset Replacement Reserve sub account will continue to grow with no maximum amount.

F. Authority

The General Manager, with the support of the GRPUC's managers, is responsible to maintain the accumulated Utilities' Operating Reserve at the level determined in this policy.

The General Manager has been authorized by the GRPUC to use the reserves for purposes consistent with this policy.

President

Date

Secretary

Date

Adopted Date:

Revised Date: