

Kansas City Board of Public Utilities Policy

Financial Guidelines

PA-120-001

1.00 OVERVIEW

Purpose: To define the financial responsibilities of the electric and water utilities of the

Board of Public Utilities, (KCBPU)

1.02 Scope: This policy applies to both the electric and water utilities of the Board of

Public Utilities, and their divisions, departments, and subsections.

Applies to: It is the responsibility of the General Manager to maintain the requirements of

this policy.

2.00 STATEMENTS

2.01 Statement: The electric service and the water service sections of the Utility are charged

with responsibility of providing for their own operating and maintenance expenses, their own construction programs, and capital improvements as well as to maintain compliance with the provisions of this policy and requirements of the Second Amended and Restated Indenture of Trust (Bond Indenture of Trust). Each utility service will be evaluated on a financial basis and on its own merits as a stand-alone unit of the Utility, as its performance will be measured

against each of the stated goals and objectives contained in this policy

statement.

2.02 Statement: Each utility (electric service and water service) will provide for a revenue

requirements study that examines projected outlays for operation, maintenance, construction, fund reserves, debt service requirements and other pertinent financial data for a five-year planning period and recommends a level of revenue and funding sources sufficient to cover such outlays. This internal study will be updated annually to examine the ensuing five-year period of projections. Should a revenue requirements study be prepared that recommends a revision to existing rates or rate structure, it shall be reviewed

by a professional consulting engineer before its recommendations are

Each utility (electric and water) will provide for a cost-of-service study as

presented in a public hearing and for consideration by the Elected Board.

needed but in no event less often than every five-years. Each utility will have a cost-of-service study performed by a professional consulting engineer. Should a

cost-of-service study be prepared that recommends a revision to existing rates or rate structure, it too shall be reviewed by the professional consulting engineer before its recommendations are presented in a public hearing and for

consideration by the Elected Board.

Form No.: 094-1178-D (06-19)

Statement:

2.03

2.04	Statement:	Each section of the Utility is to maintain a debt service coverage ratio excluding Payment-In-Lieu-of-Tax (PILOT) revenue of no less than 1.6 times using maximum annual debt service (MADS).
2.05	Statement:	Each section of the Utility is to maintain a debt service coverage ratio including PILOT revenue of no less than 2.0 on maximum annual debt service (MADS). Debt service coverage is to be calculated using Net Revenues divided by the Maximum Annual Debt Service (MADS), as such terms are defined in the Bond Indenture of Trust.
2.06	Statement:	Each section of the Utility should strive to maintain an equity capitalization ratio above 40 percent. The equity capitalization ratio is defined as total equity divided by capitalization. Capitalization is defined as total debt plus total equity. Within the equity capitalization ratio ranges no rate adjustment needs to be made. Outside this range, the Utility should consider adjusting rates accordingly.
2.07	Statement:	Each section of the Utility should strive to maintain a capital expenditure to depreciation - Capex/Depreciation (%) ratio above 100 percent. The Capex/Depreciation (%) ratio is defined as annual capital spending divided by annual depreciation and amortization.
2.08	Statement:	Each section of the Utility shall maintain the customer deposit cash reserve plus interest, as required by State law.
2.09	Statement:	Each section of the Utility will continue to maintain cash reserves to comply with the Bond Indenture of Trust requirements to accumulate debt service payments, to make deposits in the bond reserve fund if required, to provide for the improvement and emergency fund and any other requirements specifically identified in the Bond Indenture of Trust.
2.10	Statement:	Each section of the Utility is to maintain an operating reserve fund to serve the purposes of operational and financial stability when revenues are insufficient to do so.
		The Electric Utility shall maintain an Operating Reserve of 120 days or better, measured at the end of each fiscal year. The Electric Operating Reserve is equal to the sum of the Operating and Maintenance (O&M) Reserve and the ERC Reserve, as defined below.
		Electric O&M Reserve : The Electric Utility shall maintain a cash reserve for operation and maintenance (0&M) expenses, excluding fuel and purchased power, of one hundred twenty (120) days or better of annual 0&M expenditures, measured at the end of each fiscal year.

Form No.: 094-1178-D (06-19) Page 2 of 4

Energy Rate Component (ERC) Reserve: The purpose of the Energy Rate Component (ERC) reserve is to stabilize working capital targets related to

Financial Guidelines

volatile power supply costs. The Electric Utility shall maintain an ERC reserve equal to one hundred twenty (120) days of annual expenditures recovered though the Energy Rate Component (ERC). The annual target reserve amount shall be calculated by dividing the current year budget for expenditures recovered through the ERC by 365 and multiplying by 120. Staff will monitor the Energy Rate Component (ERC) rider and administer prudent adjustments in a timely manner as calculated by the current published rate formula.

Water Operating Reserve: The Water Utility shall maintain a cash reserve for operation and maintenance (0&M) expenses of one hundred (100) days or better of annual 0&M expenditures, measured at the end of each fiscal year.

Amounts in the Rate Stabilization Fund, Capital Debt Reduction Fund, System Development Reserve and comparable funds and other cash equivalent assets of the Utility are available for such purpose and may be considered in determining whether such Operating Reserves are maintained at such level.

2.11 Statement:

Operating Reserve Levels and Control Measures:

This statement is under review and currently evaluating

the control measures.

2.12 Statement:

Each section of the Utility is to propose an annual budget that sets aside a Construction Reserve allocation of fifty (50%) percent of the normal, on-going construction costs.

2.13 Statement:

The Utility should endeavor to prepare for any major construction project by setting aside monies in a Capital Debt Reduction Fund or such other fund as may be designated by the Utility to reduce the rate impact to customers.

2.14 Statement:

The Utility shall set aside available monies when deemed prudent and necessary into the Rate Stabilization Fund or such other fund as may be designated by the Utility to have cash available to meet future needs of the Utility and reduce the rate impact to customers. Each section of the Utility should endeavor to maintain a Rate Stabilization Fund balance of approximately 2/12ths annual base revenue (exclusive of revenue received under the Energy Rate Component rider, Environmental Surcharge, PILOT, or taxes). Monies in the Rate Stabilization Fund may be used, and fund balances in the Rate Stabilization Fund may be funded and/or replenished, subject to all applicable requirements, policies, and procedures of the Utility, including but not limited to the Bond Indenture of Trust, the Electric Rate Stabilization Rider, or applicable laws. Monies in the Rate Stabilization Fund shall be included in the available cash balance for the purposes of calculating days of cash in the O&M Reserve Fund.

Form No.: 094-1178-D (06-19)

3.00 REVISION HISTORY

Prior Version # [Effective Date]	Owner [Author]		Approver	Board Approval Required ✓ Yes	
44 /00 /0006	Name		Don Gray		
11/08/2006	Title		General Manager		
Current Version # [Effective Date]	Owner [Author]		Approver		
1	Name	Lori Austin	William Johnson		
06/??/2023	Title	CFO/CAO	General Manage	r	
Description of Changes:					
Owner Signature/Date					
General Manager Signature/Date					

