REAVES UTILITY INCOME FUND
Form N-CSRS
July 07, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21432

REAVES UTILITY INCOME FUND
(Exact name of registrant as specified in charter)

1290 Broadway, Suite 1100, Denver, Colorado	80203
(Address of principal executive offices)	(Zip code)

JoEllen L. Legg, Secretary

Reaves Utility Income Fund

1290 Broadway, Suite 1100

Denver, Colorado 80203
(Name and address of agent for service)

Registrant s telephone number, including area code: 303-623-2577

Date of fiscal year end: October 31

Date of reporting period: April 30, 2008

Item 1. **Reports to Stockholders.**

REAVES UTILITY INCOME FUND

Semi-Annual Report

April 30, 2008
(unaudited)

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April 30, 2008 (unaudited)

Dear Shareholders:

The past few months presented challenges across our economy to which the Reaves Utility Income Fund (the Fund) has not been immune. For the six-month period ending on April 30, 2008, the Fund has delivered a total return on investment of -10.2% of net asset value per common share, with all dividends reinvested. Factoring in the stock price performance plus dividends, the Fund produced a total return of -8.5% during the period.

These returns reflect market turmoil related to the credit market and concern about inflation, among other factors. As detailed in the portfolio managers summary that follows, these factors put pressure on the price of equities in general and on high-yielding equities in particular. The highest yielding holdings in the Fund, the telephone and electric utility sectors, were particularly hard-hit, down about 10% and 6.8%, respectively.

The Fund s price did see a significant rebound in April, rising from a low price of $20.71 on March 17, 2008 to finish the quarter at $22.70 an increase of more than 9.5%.

Additionally, current market conditions do not fundamentally impact the ability of companies owned by the Fund to pay dividends. Indeed, I am pleased to report the Fund increased its monthly dividend to common shareholders at the end of 2007 by 4.5% to 11.5 cents. In addition the Fund paid a special dividend of $0.71 at the end of 2007. The increases continue a pattern that has seen the Fund deliver dividend increases and special dividends each year since its inception. Shareholders invested in the Fund since the first dividend record date in April 2004 have received dividend payments totaling approximately $6.13 per share.

During the 2007 calendar year, 77.71% of those dividends have been qualified dividend income, which are taxed at a maximum 15% federal rate, as opposed to a rate as high as 35% for non-qualifying and other types of dividend income. This presents a significant tax advantage to our shareholders.

As detailed in their following commentary, which also includes full holdings and financial statements, the portfolio managers remain confident in the fundamentals supporting the Fund s investments. Feel free to contact us with any questions about the Fund by calling 1-800-644-5571 or visiting www.utilityincomefund.com.

Thank you for being a shareholder.

Sincerely,

Ned Burke

President, Reaves Utility Income Fund

management discUssion & analysis

April 30, 2008 (unaudited)

It may not have been quite the perfect storm that has roiled the equities markets since the end of October, but it has come close. After ending the fiscal year on October 31, 2007 at $26.26, the Fund s market price declined 13.6% in value in the ensuing six months to close the first half of the fiscal year at $22.70. The total return for the same period, including reinvested dividends, however, was -8.5% and -10.1% based on the Fund s market price and net asset value, respectively. That performance metric masks a significant rebound in April. From peak to trough, the Fund s share price declined 21.4% from $26.34 on December 10, 2007 to $20.71 on March 17, 2008.

The current market turmoil, however, does not have a fundamental impact on the ability of companies owned by the Fund to pay and grow their dividends. Indeed, we are pleased to report that the Fund increased its monthly dividend to common shareholders at the end of 2007 by 4.5% to 11.5 cents. In addition, the Fund paid a special dividend of $0.71 at the end of 2007.

Several factors account for much of the carnage. First, the deepening crisis in the credit markets spilled over to equities as investors judged the impacts of the housing crisis and subsequent credit squeeze on the overall economy to be more severe than they had previously thought. Second, there was and continues to be more than a whiff of inflation in the air as commodity prices rose to record levels and investors worried about the possibility of rising raw materials costs rippling through the larger economy. Third, in our opinion, there was significant and ongoing de-leveraging by hedge funds and other highly levered investors. During periods of intense market turmoil, as we have recently experienced, investors sell what they can to raise cash. Fourth, we think we witnessed the unwinding of the yen-based carry trade. In this transaction, investors borrow at very low rates in Japan, convert the proceeds into US dollars, and invest in high-yielding instruments in the US. This trade becomes less profitable as the US dollar falls in value vs. the yen, which is exactly what happened throughout the fall and winter. Over the period, the US dollar fell 10.0% from 115.43 yen to the dollar to 103.91 yen to the dollar. Combined, these factors put pressure on the prices of equities in general and on high-yielding equities in particular, and we saw the impact on the Fund s telephone and electric utility holdings. Indeed, these two sectors, the highest yielding in the Fund, were the hardest hit. In the Fund s underlying portfolio, telephones were down about 10.0% and electrics were down about 6.8%.

To be sure, specific issues, linked to several companies in the underlying portfolio, also accounted for some of the decline. AT&T, the largest holding of the Fund, came under considerable selling pressure on fears of a price war among the major wireless providers. Those fears were stoked by Verizon s decision to offer unlimited voice packages at $99 monthly and by the rapid decisions of AT&T and T-Mobile to follow suit. In our opinion, the sell-off in AT&T was overdone, and we think the price points were set high enough such that rational pricing will continue to prevail. The early results suggest that it has. BCE is another telephone holding whose share price declined dramatically in the period from $43.61 to $36.48. The Ontario Teachers Pension Fund, with some private equity buyers, entered into an agreement with BCE to take the company private at CAD$42.75. Several major banks, including Citigroup, agreed to finance the acquisition. Terms were set several months before the sub-prime crisis broke. Investor concerns mounted throughout the spring that the bank syndicate would walk away from the deal. Several of the banks were involved in the Clear Channel Communications dispute. The situation continues to be in flux as of this writing. Subsequent to April 30, 2008, three of the four major banks in the syndicate did indeed press for more favorable terms. In an unrelated, but equally negative development, the Quebec Appellate Court ruled quite unexpectedly in favor of a group of bondholders who challenged the original transaction. The case is likely to end up in the Supreme Court of Canada. While the level of uncertainty has increased, we believe that a completed deal at a price higher than the current $35.24 is still more likely than not.

In the electric sector, the acquisition of the electric utility assets of Acquila, Inc. by Great Plains Energy, the largest electric holding of the Fund, ran into regulatory headwinds over the winter. The deal had been expected to close in February, but has been delayed as the company argued against additional concessions recommended by the Missouri Public Utility Commission staff. Because of the delay in the approval process, Great Plains delayed its filing of a rate case before the commission. The regulatory hurdles contributed to the selling pressure on the shares in our opinion. Nonetheless, we think the acquisition is in the best interests of the Missouri rate-payers, and we believe the company will prevail. A successful resolution of the issues could come as early as July 1 of this year.

In spite of the generally negative market conditions, to date we have observed no meaningful deterioration in the earnings growth outlook or the financial condition of the electric utilities and telecoms held by the Fund We expect most of the electric utilities in the portfolio to raise their dividends by as little as 4% to in excess of 14% for Constellation Energy. Likewise, we expect many of the telecoms in the portfolio to raise their dividends as well. AT&T, for example, raised its dividend 12.7% at the end of calendar 2007 from $1.42 to $1.60. Going forward, management expects dividend growth to be roughly commensurate with earnings growth.

Rising oil and natural gas prices helped buoy the performance of the Fund s gas and energy holdings. Over the period, the price of oil (West Texas Intermediate) increased 20% from $94.53 to $113.46 per barrel while the price of natural gas (Henry Hub) soared 48% from $7.28 to $10.81 per million BTUs. The gas utilities sector was essentially flat as strong performance at Equitable Resources was offset by weakness in the shares of Sempra Energy. Investors began to appreciate the potential for material growth of gas reserves from shale for Equitable Resources. At the same time the market feared that the agreement between Sempra Energy and Royal Bank of Scotland, to form a joint venture between their commodity trading businesses, would not close because of the financial crisis. This concern proved unfounded and the deal, in fact, closed on April 1. Nonetheless, the uncertainty represented an overhang on the share price. We added to our Sempra holdings in the period given our expectation for Sempra to achieve double-digit earnings and dividend growth over the next 3 to 5 years. We remain positive on gas utilities and natural gas prices. The need for additional electric generation in the US, we believe, will be met primarily by gas-fired generation for some time to come.

In summary, the volatility since the market s peak in October 2007 has not caused us to change our views of the fundamentals supporting the Fund s investments. The need for significant investment in our energy infrastructure will motivate regulators and legislators to provide the rate support needed for selected utilities to finance construction of generation, transmission, distribution and pipelines. Clearly the US economy is slowing, and may even be in recession. However, a consumer-led recession will have little impact in our view on the longer-term investment requirement to refurbish the nation s energy and communications infrastructure. We are beginning to be more concerned with inflation than recession. We have already mentioned rising commodity prices; and would note further that the yield on the ten-year Treasury has climbed back over 4% as of this writing. We are not unmindful of the adverse short-term impact of a rising interest rate environment on a utilities portfolio. We monitor the interest rate situation closely and are prepared to reposition the portfolio to take advantage of price dislocations should rates tick up above current expectations.

Recent disruptions caused by an imbalance between buy and sell orders in the market for auction rate securities in the U.S. have led to questions about the impact to closed-end funds. The Fund issued outstanding Auction Market Preferred Shares (AMPS) in June 2004. The AMPS issued by the Fund are senior equity securities and have priority over the Fund s common shares as to distribution of assets and dividends, as described in the Fund s AMPS prospectus.

Under normal auction market conditions, dividends on the AMPS for each dividend period are set at a rate determined through an auction process that brings together bidders who seek to buy AMPS and holders of AMPS who seek to sell. Investors and potential investors typically purchase the AMPS in an auction by submitting orders to a broker-dealer. However, as stated in the Fund s prospectus, there may not be enough bids at the auction to accommodate all of the sellers. In such an unusual circumstance, which we are currently experiencing, the auction fails and the holders of the preferred shares receive an interest rate determined by terms specified in the prospectus: the greater of LIBOR plus 125 basis points or 125% of LIBOR.

As always we appreciate the support of our shareholders and remain focused on opportunities to grow the Fund s net asset value and monthly dividend.

Sincerely,

Ronald J. Sorenson

statement of investments

April 30, 2008 (unaudited)

	SHARES		VALUE
COMMON STOCKS 131.64%			
Consumer Staples 8.45%			
Altria Group, Inc.	520,300	$	10,406,000
Philip Morris International, Inc.(a)	530,300		27,061,209
Reynolds American, Inc.	50,000		2,692,500
UST, Inc.	175,000		9,112,250
			49,271,959
Electric 54.19%			
Ameren Corp.	502,000		22,770,720
Consolidated Edison, Inc.	417,000		17,347,200
Duke Energy Corp.	1,797,400		32,910,394
Exelon Corp.	325,000		27,781,000
Great Plains Energy, Inc.	1,802,869		46,225,561
Integrys Energy Group, Inc.	465,000		22,268,850
ITC Holdings Corp.	62,000		3,458,360
National Grid PLC	325,000		4,526,633
NSTAR	80,000		2,576,800
PG&E Corp.	35,000		1,400,000
PPL Corp.	906,000		43,506,120
Progress Energy, Inc.	400,000		16,796,000
Public Service Enterprise Group, Inc.	823,600		36,164,276
TECO Energy, Inc.	1,541,400		24,677,814
TransAlta Corp.	145,000		4,895,200
Xcel Energy, Inc.	420,000		8,736,000
			316,040,928
Energy 1.52%			
ConocoPhillips	15,000		1,292,250
Diamond Offshore Drilling	3,000		376,230
Total-ADR	18,000		1,512,000
Transocean, Inc.(a)	38,478		5,673,966
			8,854,446
Financials 0.49%			
Forestar Real Estate Group LLC(a)	46,666		1,161,983
Guaranty Financial Group, Inc.(a)	46,666		356,995
Lloyd TSB Group-ADR	40,000		1,370,800
			2,889,778
Food 1.91%			
Kraft Foods, Inc.	353,160		11,170,451
Gas 18.52%			
AGL Resources, Inc.	55,000		1,870,000
Equitable Resources, Inc.	162,000		10,751,940
ONEOK, Inc.	654,300		31,484,916
Sempra Energy	350,000		19,834,500
South Jersey Industries, Inc.	45,700		1,668,507

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	SHARES		VALUE
COMMON STOCKS			
Gas (continued)			
Spectra Energy Corp.	1,040,000	$	25,688,000
Vectren Corp.	590,600		16,702,168
			108,000,031
Industrial 5.72%			
General Electric Co.	1,020,000		33,354,000
Materials 0.30%			
Temple-Inland, Inc.	150,000		1,750,500
Pharmaceuticals 0.72%			
Pfizer, Inc.	210,000		4,223,100
Telecommunications 2.72%			
America Movil SAB de C.V.-ADR	169,000		9,795,240
CommScope, Inc.(a)	98,000		4,659,900
Telefonica-ADR	16,000		1,382,080
			15,837,220
Telephone 36.25%			
AT&T Corp.	2,280,965		88,296,155
BCE, Inc.	945,700		34,499,136
BT Group PLC-ADR	75,000		3,310,500
Citizens Communications Co.	3,716,300		39,838,736
Deutsche Telekom AG-ADR	50,000		892,500
Embarq Corp.	92,000		3,824,440
Telecom Corp. of New Zealand-ADR	617,001		9,063,745
Telecom Italia-ADR	30,000		628,500
Verizon Communications	110,000		4,232,800
Vodafone Group PLC-ADR	170,000		5,382,200
Windstream Corp.	1,825,000		21,425,500
			211,394,212
Transportation 0.31%			
General Maritime Corp.	70,000		1,829,100
Water Utilities 0.54%			
American Water Works Co., Inc.(a)	150,000		3,160,500
TOTAL COMMON STOCKS			
(Cost $630,438,638)			767,776,225
PREFERRED STOCKS 3.48%			
Consumer Discretionary 0.22%			
Comcast Corp., Sr Notes, 7.000%, 5/15/55	54,000		1,310,580

	SHARES		VALUE
PREFERRED STOCKS (continued)			
Electric 2.12%			
AES Trust III, 6.750%, 10/15/29	133,100	$	6,308,940
BGE Capital Trust II, 6.200%, 10/15/43	180,000		4,239,000
Entergy Mississippi, Inc., 4.560%,	3,520		292,050
Public Service Co. of			
New Mexico, Series 1965, 4.580%	11,667		1,070,083
Southern Cal Edison, 4.320%,	24,300		462,915
			12,372,988
Financials 1.14%			
GMAC LLC, 7.375%, 12/16/44	50,000		833,500
Merrill Lynch & Co., 3.740%, (b)(c)	380,000		5,787,400
			6,620,900
TOTAL PREFERRED STOCKS			
(Cost $24,048,362)			20,304,468
LIMITED PARTNERSHIPS 2.45%			
Copano Energy LLC	24,000		889,920
Enbridge Energy Partners LP	70,000		3,508,400
ONEOK Partners LP	132,000		7,662,600
Williams Partners LP	25,000		903,500
Williams Pipeline Partners LP	71,500		1,348,490
TOTAL LIMITED PARTNERSHIPS			
(Cost $13,683,856)			14,312,910

	BOND RATING MOODY/S&P		PRINCIPAL AMOUNT	
CORPORATE BONDS 2.78%				
Electric 0.33%				
Calpine Generating Co.,				
11.500%, 4/1/11(a)(d)(e)	WR/D	$	14,000,000	1,925,000
Gas 0.09%				
Copano Energy LLC,				
8.125%, 3/1/16(e)	B2/B+		500,000	522,500
Telephone 2.36%				
Level 3 Financing, Inc.,				
9.250%, 11/1/14(e)	Caa1/CCC+		8,000,000	7,320,000
US West Communications,				
7.500%, 6/15/23	Ba1/BBB-		7,000,000	6,440,000
				13,760,000
TOTAL CORPORATE BONDS				
(Cost $15,097,748)				16,207,500

	SHARES		VALUE
MUTUAL FUNDS 0.74%			
Loomis Sayles Institutional High Income Fund	548,386	$	4,315,798
TOTAL MUTUAL FUNDS			
(Cost $4,000,000)			4,315,798

		Principal Amount		
SHORT TERM INVESTMENTS 0.90%				
Goldman Sachs Financial Square Funds				
Treasury Instruments Fund, 1.095%	$	5,235,166		5,235,166
TOTAL SHORT TERM INVESTMENTS				
(Cost $5,235,166)				5,235,166
Total Investments				
(Cost $692,503,770) - 141.99%				828,152,067
Liabilities in Excess of Other Assets - (0.79%)				(4,631,457)
Liquidation Preference of Auction Market Preferred Shares- (41.20%) Series M7, F7, W28 (including dividends payable on preferred shares)				(240,291,140)
TOTAL NET ASSETS - 100.00%			$	583,229,470

(a) Non Income Producing Security
(b) Floating or variable rate security - rate disclosed as of April 30, 2008.
(c) Next reset date 5/28/08.
(d) Issue is currently in default. See Note 6 in Notes to Financial Statements.
(e) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.
At April 30, 2008, these securities amounted to a value of $9,767,500 or 1.67% of net assets.
ADR American Depositary Receipt

Ratings:

Moody s and S&P s ratings are believed to be the most recent as of April 30, 2008

See Notes to Financial Statements

statement of assets & liabilities

April 30, 2008 (unaudited)

Assets:		
Investments, at value (Cost - see below)	$	828,152,067
Foreign Cash (Cost $248)		248
Dividends receivable		1,792,800
Interest receivable		580,869
Total Assets		830,525,984
Liabilities:		
Due to custodian		2,607,846
Payable for investments purchased		3,750,837
Accrued investment advisory fees		389,065
Accrued administration fees		179,308
Accrued trustees fees		21,033
Accrued S&P ratings fees		10,048
Accrued Fitch ratings fees		4,186
Other payables		43,051
Total Liabilities		7,005,374
Preferred Stock (unlimited shares authorized):		
Auction market preferred shares, Series M7, F7, & W28, including dividends payable on preferred shares ($25,000 liquidation value per share, no par value, 3,200 shares issued and outstanding for each series)		240,291,140
Total Preferred Stock		240,291,140
Net Assets	$	583,229,470
Cost of Investments	$	692,503,770
Composition of Net Assets Attributable to Common Shares:		
Paid in capital		429,344,213
Overdistributed net investment income		(3,752,438)
Accumulated net realized gain on investments, options and foreign currency transactions		21,989,398
Net unrealized appreciation on investments, options, and translation of assets and liabilities denominated in foreign currencies		135,648,297
Net Assets	$	583,229,470
Shares of common stock outstanding of no par value, unlimited shares authorized		22,677,001
Net asset value per share	$	25.72

See Notes to Financial Statements

statement of opeRations

For the Six Months Ended April 30, 2008 (unaudited)

Investment Income:		
Dividends (Net of foreign withholding taxes of $273,515)	$	21,148,599
Interest on investment securities		945,903
Other income		229
Total Income		22,094,731
Expenses:		
Investment advisory fees		2,458,507
Administration fees		1,133,051
Trustees fees		45,749
Broker/dealer fees		303,969
S&P ratings fees		5,968
Fitch ratings fees		2,486
Auction agent fees		8,951
Total Expenses		3,958,681
Net Investment Income		18,136,050
Net realized gain/(loss) on:		
Investment securities		21,072,411
Written options		(23,751)
Foreign currency transactions		(83,249)
Change in unrealized appreciation/(depreciation) on investments, options, and translation of assets and liabilities denominated in foreign currencies		(106,151,049)
Net loss on investments, options, and foreign currency transactions		(85,185,638)
Distributions to Preferred Shareholders:		
From net investment income		(5,807,702)
Net Decrease in Net Assets Attributable to Common Shares from Operations	$	(72,857,290)

See Notes to Financial Statements

statements of changes in net assets

	For the Six Months Ended April 30, 2008**	For the Year Ended October 31, 2007
Common Shareholder Operations:		
Net investment income	$ 18,136,050	$ 30,278,387
Net realized gain/(loss) from:		
Investment securities	21,072,411	25,504,197
Written options	(23,751)	77,436
Foreign currency transactions	(83,249)	(8,726)
Change in unrealized appreciation/ (depreciation) on investments, options, and translation of assets and liabilities denominated in foreign currencies	(106,151,049)	85,024,138
Distributions to Preferred Shareholders:		
From net investment income	(5,807,702)	(9,060,199)
From net realized gains		(3,810,000)
Net increase/(decrease) in net assets attributable to common shares from operations	(72,857,290)	128,005,233
Distributions to Common Shareholders:		
From net investment income	(15,420,360)	(29,706,872)
From net realized gains	(16,146,024)	(1,244,967)
Net decrease in net assets from distributions to common shareholders	(31,566,384)	(30,951,839)
Net Increase/(Decrease) in Net Assets Attributable to Common Shares	(104,423,674)	97,053,394
Net Assets Attributable to Common Shareholders:		
Beginning of period	687,653,144	590,599,750
End of period *	$ 583,229,470	$ 687,653,144
* Includes overdistributed net investment income of:	$ (3,752,438)	$ (660,426)
** unaudited		

See Notes to Financial Statements

Financial highlights

	For the Six Months Ended 4/30/08**	For the Year Ended 10/31/07	For the Year Ended 10/31/06	For the Year Ended 10/31/05	For the Period 2/24/04 (inception) to 10/31/04
Per Common Share Operating Performance:					
Net asset value - beginning of period	$ 30.32	$ 26.04	$ 22.12	$ 19.29	$ 19.10
Income from investment operations:					
Net investment income	0.54	1.33	0.99	1.05	0.85
Net realized and unrealized gain/(loss) on investments	(3.49)	4.88	4.94	3.29	0.24
Distributions to preferred shareholders:					
From net investment income	(0.26)	(0.40)	(0.50)	(0.32)	(0.06)
From net realized gain		(0.17)			
Total from investment operations	(3.21)	5.64	5.43	4.02	1.03
Distributions to Common Shareholders:					
From net investment income	(0.68)	(1.31)	(1.51)	(1.19)	(0.68)
From capital gains	(0.71)	(0.05)			
Total distributions to common shareholders	(1.39)	(1.36)	(1.51)	(1.19)	(0.68)
Capital Share Transactions:					
Common share offering costs charged to paid in capital					(0.04)
Preferred share offering costs and sales load charged to paid in capital					(0.12)
Total capital share transactions					(0.16)
Net asset value per common share - end of period	$ 25.72	$ 30.32	$ 26.04	$ 22.12	$ 19.29
Market price per common share - end of period	$ 22.70	$ 26.26	$ 22.45	$ 19.46	$ 18.00
Total Investment Return - Net Asset Value (1)	(10.21)%	23.00%	26.75%	21.63%	4.93%
Total Investment Return - Market Price (1)	(8.50)%	23.57%	24.21%		