

Internal Monitoring Report

Policy: EL-2D Financial Condition and Activities

Frequency: Three times a year

Date: May 25, 2021

Policy Language:

With respect to the actual, ongoing financial condition and activities of the Madison Water Utility, the General Manager shall not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in Outcomes policies.

Accordingly, the General Manager shall not cause or allow conditions, procedures, or decisions that:

1. Fail to ensure long-term financial health.
2. Fail to present a balanced annual operating budget and quarterly updates on actual expenditures and income.
3. Exceed total appropriations for the fiscal year, unless directed to do so by the board.
4. Use any dedicated reserves for purposes other than those for which they are designated, unless directed to do so by the board.
5. Undertake a debt without payoff schedule and identification of revenue stream.
6. Fail to establish an unrestricted reserve equal to a typical three months' operating expenses.
7. Fail to inform the board of where the utility stands with any current rate case in progress.
8. Fail to be able to provide a concise summary of the financial condition of the utility at any time.
9. Fail to adjust spending related to revenue shortfalls in a budget deficit.

General Manager's interpretation and its justification:

This Executive Limitations Policy requires the utility to perform financial management without risk of jeopardy to the utility's financial health and that ensures actual expenditures do not deviate materially from board priorities established in Outcomes policies. The utility has the responsibility to establish, manage and plan for the necessary water rates and borrowings to fund all expenditures and to meet identified capital and operational requirements.

Data directly addressing the General Manager's interpretation:

1. *Ensure the utility's long-term financial health.*

MWU has implemented and uses a financial planning model to evaluate and project funding required for financing infrastructure and operating needs. Through the use of this model, bond sales are planned and

rate increases are developed. Additionally, a ten-year financial forecast has been created to analyze various financial paths for the utility to pursue to maintain its financial health for the future.

MWU also has a multi-year Capital Improvement Plan (CIP) in compliance with the board's Financial Planning/Budget Policy (EL-2C). MWU is in the process of submitting the 2022 CIP to City Finance which is due on May 25, 2021.

The audit for the 12/31/2020 year-end took place on April 6 and 7, 2021. The 2020 financial statements are complete and are expected to be issued on May 21, 2021. No material misstatements were found by the auditors.

Per rate order 3290-WR-115, MWU will be submitting a rate application with the PSC by August 1, 2021. The last rate order went into effect on July 2, 2020.

The General Manager is not aware of any past or present event or matter that would give rise to a future materially adverse condition affecting the long-term financial health of the utility.

I report compliance.

2. Fail to present a balanced annual operating budget and quarterly updates on actual expenditures and income.

The 2021 operating budget has been finalized and the Utility is projecting a \$400,000 fund balance generated. Expenses will continue to be tightly controlled so that cash reserves may continue to increase. The 2021 operating budget was approved by the Common Council on November 11, 2020.

The 2022 operating budget kick off with City Finance is scheduled for May 24, 2021. MWU intends to continue cost control measures in an effort to build cash reserves.

I report compliance.

3. Exceed total appropriations for the fiscal year, unless directed to do so by the board.

Madison Water Utility did not exceed total appropriations in 2020.

I report compliance.

4. Use any dedicated reserves for purposes other than those for which they are designated, unless directed to do so by the board.

MWU's restricted reserves remain only accessible through the City Treasurer's office.

I report compliance.

5. *Undertake a debt without a payoff schedule and identification of revenue stream.*

MWU's debt repayment schedules are included in the utility's annual financial statements. New debt was issued in December 2019 along with the refunding of prior issues. Significant savings were realized and current revenues are sufficient to service the debt.

MWU filed an intent to apply (ITA) with the State Department of Natural Resources for the Safe Drinking Water Loan Program (SDWLP) on October 30, 2020 for the State Fiscal Year 2022 program. We submitted 10 projects with a total estimated cost of \$6,270,000. These projects are included in the SDWLP State Fiscal Year 2022 Project Priority List. These projects were or will be complete by 12/31/2021. These funds will be used to partially pay back the 2019 BANs.

I report compliance.

6. *Fail to establish an unrestricted reserve equal to a typical three months' operating expenses.*

MWU completed the 2020 fiscal year with \$10.2 million in unrestricted cash, exceeding the goal of 3 months operating expenses.

I report compliance.

7. *Fail to inform the board of where the utility stands with any current rate case in progress.*

The Utility does not currently have a rate case in front of the PSC. Per rate order 3280-WR-115, MWU will be submitting a conventional rate case prior to August 1, 2021 for test year 2022.

I report compliance.

8. *Fail to be able to provide a concise summary of the financial condition of the utility at any time.*

The General Manager is prepared to provide a summary of the financial condition of the utility during the informational financial update portion of the board's meeting agenda.

I report compliance.

9. *Fail to adjust spending related to revenue shortfalls in a budget deficit.*

MWU continues to monitor their financial position through various means (budget to actual reports, financial forecast model, revenue projections) and adjusts operational spending accordingly.

I report compliance.

Attachments:

Fund Balance Report
Budget to Actual Report Year-end 2020



FUND BALANCE REPORT

	December 31, 2020	December 31, 2019
Reserves Required by Bond Ordinance:		
• Principal and Interest Account	\$13,089,287	\$10,364,736
• Reserve Account (Minimum \$16,010,398)	\$16,010,922	\$16,663,055
Depreciation Fund (¹)	\$750,000	\$750,000
Construction Fund	\$12,360,866	\$19,258,872
Assessment Revolving Fund	\$1,053,038	\$634,259
Unrestricted Funds		
• PILOT Fund	\$0	\$0
• Unrestricted Cash	\$10,093,738	\$4,961,108
• Operations and Maintenance Reserve Account (Minimum \$150,000)	\$150,000	\$150,000

(¹)Transfer of funds to Construction Fund approved as needed.

Reporting special fund balances as specified in 1978 Waterworks Bond Ordinance.

Refer any questions to Kathy Schwenn, Finance Supervisor, at (608) 266-4645.



FUND BALANCE REPORT

	April 30, 2021	December 31, 2020
Reserves Required by Bond Ordinance:		
• Principal and Interest Account	\$4,975,460	\$13,089,287
• Reserve Account (Minimum \$16,010,398)	\$16,010,922	\$16,010,922
Depreciation Fund (*)	\$750,000	\$750,000
Construction Fund	\$11,980,326	\$12,360,866
Assessment Revolving Fund	\$1,053,038	\$1,053,038
Unrestricted Funds		
• PILOT Fund	\$2,728,800	\$0
• Unrestricted Cash	\$12,165,593	\$10,093,738
• Operations and Maintenance Reserve Account (Minimum \$150,000)	\$150,000	\$150,000

(*)Transfer of funds to Construction Fund approved as needed.

Reporting special fund balances as specified in 1978 Waterworks Bond Ordinance.

Refer any questions to Kathy Schwenn, Finance Supervisor, at (608) 266-4645.

Madison Water Utility
Financial Summary for 2020

	<u>2020</u>	<u>2020 Budget</u>	Variance (Favorable)/Unfavorable	<u>2019 Actual</u>
Metered Retail Sales	43,177,219	43,261,780	84,561	42,356,015
Wholesale Sales	359,576	367,000	7,424	280,675
Public Fire	137,746	87,000	(50,746)	139,369
Other Revenue	1,255,328	562,300	(693,028)	1,168,830
Total Operating Revenue	<u>44,929,869</u>	<u>44,278,080</u>	<u>(651,789)</u>	<u>43,944,889</u>
Total O&M Expenses	<u>(16,384,539)</u>	<u>(16,993,226)</u>	<u>(608,687)</u>	<u>(16,702,226)</u>
Taxes	(594,713)	(617,925)	(23,212)	(583,014)
Depreciation	(8,203,231)	(8,300,000)	(96,769)	(8,101,881)
	<u>(8,797,944)</u>	<u>(8,917,925)</u>	<u>(119,981)</u>	<u>(8,684,895)</u>
Operating Income	<u>19,747,386</u>	<u>18,366,929</u>	<u>(1,380,457)</u>	<u>18,557,768</u>
Interest/Amort Expense	(6,601,637)	(7,012,037)	(410,400)	(7,712,703)
Non-Op Revenues - Interest Inc.	510,333	508,000	(2,333)	1,011,538
Non-Op Revenues - Merch&Job	(30,467)	(74,523)	(44,056)	(31,599)
Non-Op Revenues - Other	222,544	182,220	(40,324)	542,443
Non-Op Expenses	39,361	(175,000)	(214,361)	(180,750)
PILOT	(7,328,178)	(7,500,000)	(171,822)	(7,191,839)
CIAC	2,873,873	3,000,000	126,127	3,600,060
Total Non-Operating Inc(Exp)	<u>(10,314,171)</u>	<u>(11,071,340)</u>	<u>(757,169)</u>	<u>(9,962,850)</u>
Net Income	<u>9,433,215</u>	<u>7,295,589</u>	<u>(2,137,626)</u>	<u>8,594,918</u>