

Internal Monitoring Report

Policy: EL-2D Financial Condition and Activities

Frequency: Three times a year

Date: April 23, 2019

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.

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. This forecast was submitted to the PSCW on January 31, 2019 to comply with directives outlined in the utility's most recent rate order. The water utility also has

quarterly budget meetings with city finance to update projects for the current budget year. The last meeting was held on April 18, 2019.

The utility is also calculating Key Performance Metrics (KPI's) and developing a Dashboard within the financial software to monitor its financial condition on a routine basis. A draft of the financial statements is complete and the KPI's will be updated upon review of the statements by the financial auditors anticipated for early May 2019.

MWU also has a multi-year budget in compliance with the board's Financial Planning/Budget Policy (EL-2C).

Prior year audit reports included several recommendations to complete certain revenue analytics and reconciliations and close out all work orders that remained open from prior years. The utility has successfully cleared each of these recommendations which were subsequently removed from the 2017 audit report. The sole remaining recommendation suggests the utility create their own materially correct financial statements for the 2018 audit. The draft financial statements are complete and have been submitted to the financial auditors for their review.

The utility issued revenue bonds late in 2018 to cover operating and capital budgets for 2019. New water rates were also implemented and applied to the December 2018 billings which will contribute to revenue growth of the utility. Finance staff is in the process of completing the rate study for 2019 and anticipates submitting the application to the PSCW in early to mid-May 2019.

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 Operating Budget is presented to the board every year in August. Draft 4th quarter 2018 actual income and expenditures have been completed and submitted to the financial auditors for review with anticipation of minimal changes. Actual expenditures will be determined upon finalization of the 2018 financial audit report anticipated for June 2019.

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 2018. A report on budget vs. actual expenditures will be finalized upon finalization of the 2018 financial audit mentioned previously. Preliminary expenditure reports reveal that total appropriations for 2018 were not exceeded summarized as follows: Supplies appropriations under budget by \$520,000, Services appropriations under budget by \$1.06 million, Salaries appropriations were over budget by \$217,000 and benefit appropriations were over budget by \$49,000.

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 are accessible only 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 issued in December 2018 was accompanied by a water rate increase effective for December 2018 to cover repayment of the additional obligations.

I report compliance.

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

MWU is currently not funding its unrestricted reserve and likely will not do so until it completes the repayment of its loan from the City in year 2019. Management is in the process of developing detailed cash reserve policies to address short-falls in unrestricted cash reserves. Preliminary unrestricted cash balances are \$3 million, or about 2 months of operating expenses.

I report non-compliance.

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

Finance staff is currently working on the 2019 rate case and anticipates submittal for early to mid-May 2019.

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.