The background is a light blue gradient with several realistic water droplets of various sizes scattered across it. The droplets have highlights and shadows, giving them a three-dimensional appearance.

MADISON WATER UTILITY FINANCIAL PLAN SUMMARY

PRESENTATION TO THE MADISON WATER UTILITY BOARD

SEPTEMBER 28, 2021

OBJECTIVES FOR THE FINANCIAL PLAN AND WATER RATES

- INCREASED FUNDING TO MAKE NEEDED INVESTMENTS IN INFRASTRUCTURE
 - **EXPENSE DEPRECIATION** TO CASH FUND WATER MAIN REPLACEMENTS
 - **CASH ADDER** TO IMPROVE DEBT COVERAGE AND PROVIDE FUNDING FOR OTHER CAPITAL PROJECTS
- MAKING DRINKING WATER ACCESSIBLE AND AFFORDABLE TO ALL CUSTOMERS
 - **RATE DESIGN**
 - **CUSTOMER ASSISTANCE PROGRAM** TO REDUCE UTILITY BILLS TO AN AFFORDABLE LEVEL FOR LOW-INCOME CUSTOMERS

COSTS THAT CAN BE INCLUDED IN RATES

Conventional Rate Setting

Operation and maintenance expenses

PILOT and other taxes

Amounts that can be used for debt service and capital:

Normal depreciation expense (incl. 1.3% per year for water mains)

Return on net investment rate base
(Value of assets – accum. depreciation) x 4.90%

'Cash Adder' – additional amount needed to provide debt coverage (Madison only)

'EXPENSE DEPRECIATION' APPROACH

- PSCW HAS ALLOWED UTILITIES TO DEPRECIATE THE ENTIRE COST OF WATER MAIN REPLACEMENTS IMMEDIATELY INSTEAD OF 1.3% PER YEAR
- THE AMOUNT THAT THE UTILITY IS ALLOWED AS 'EXPENSE DEPRECIATION' IS A DEDICATED FUNDING SOURCE FOR CASH FUNDING OF WATER MAIN REPLACEMENTS
- EXPENSE DEPRECIATION MAY BE USED FOR REPLACEMENT OF UP TO 1% OF WATER MAINS PER YEAR
- EXAMPLE:
 - NORMAL DEPRECIATION FOR \$1.0M OF WATER MAIN REPLACEMENTS - \$13,000 PER YEAR FOR 77 YEARS
 - EXPENSE DEPRECIATION FOR \$1.0M OF WATER MAIN REPLACEMENTS - \$1.0M IN ONE YEAR

COSTS THAT CAN BE INCLUDED IN RATES

'Expense Depreciation' Approach

Operation and maintenance expenses

PILOT and other taxes

Amounts that can be used for debt service and capital:

Normal depreciation expense (incl. 1.3% per year for water mains not funded with expense depreciation)

Expense depreciation for replacing up to 1% of water mains per year (funds must be spent on mains)

Return on net investment rate base

(Value of assets – accum. depreciation) x 4.90%

'Cash Adder' – additional amount needed to provide debt coverage (Madison only – amount will depend on whether Expense Depreciation counts towards debt coverage)

ALTERNATIVE SCENARIOS

- OPTION 1 - NO EXPENSE DEPRECIATION - \$7.4M CASH ADDER
- OPTION 2 - EXPENSE DEPRECIATION OF \$5.0 MILLION PER YEAR - \$2.6M CASH ADDER
- OPTION 3 - EXPENSE DEPRECIATION OF \$5.0 MILLION PER YEAR - \$7.3M CASH ADDER

PROJECTED AMOUNTS AVAILABLE FOR OPERATIONS, DEBT SERVICE, AND CAPITAL - 2022

	Option 1 No Expense Depreciation \$7.4M Cash Adder	Option 2 \$5.0M Expense Depreciation \$2.6M Cash Adder	Option 3 \$5.0M Expense Depreciation \$7.3M Cash Adder
Operation and Maintenance Expense	\$18.1M	\$18.1M	\$18.1M
Customer Assistance Program	\$650,000	\$650,000	\$650,000
Taxes	\$8.1M	\$8.1M	\$8.1M
Normal Depreciation Expense	\$6.3M	\$6.3M	\$6.3M
Expense Depreciation		\$5.0M	\$5.0M
Return on Investment	\$10.9M	\$10.8M	\$10.8M
Cash Adder	\$7.4M	\$2.6M	\$7.3M
Amount Available for Debt Service	\$18.3M	\$18.3M	\$18.3M
Amount Available for Capital	\$6.3M	\$6.4M	\$11.1M

PROJECTED AMOUNTS AVAILABLE FOR OPERATIONS, DEBT SERVICE, AND CAPITAL – 2022 - 2027

	Option 1 No Expense Depreciation \$7.4M Cash Adder	Option 2 \$5.0M Expense Depreciation \$2.6M Cash Adder	Option 3 \$5.0M Expense Depreciation \$7.3M Cash Adder
Operation and Maintenance Expense	\$114.8M	\$114.8M	\$114.8M
Customer Assistance Program	\$3.4M	\$3.4M	\$3.4M
Taxes	\$52.6M	\$52.6M	\$52.6M
Debt Service	\$123.7M	\$123.7M	\$123.7M
Funds to Replace Mains, Services, & Hydrants	\$36.5M	\$36.5M	\$36.5M
Funds for Other Capital Improvements / Unplanned Expenses	\$5.0M	\$5.0M	\$30.0M

PROJECTED FUNDING FOR PROJECTS – 2022 - 2027

	Option 1 No Expense Depreciation \$7.4M Cash Adder	Option 2 \$5.0M Expense Depreciation \$2.6M Cash Adder	Option 3 \$5.0M Expense Depreciation \$7.3M Cash Adder
Mains, Services & Hydrants			
Water Main Projects	\$34.0	\$34.0	\$34.0
Hydrants & Cut-In Valves	\$2.5	\$2.5	\$2.5
Total	\$36.5	\$36.5	\$36.5
Other Capital Improvements			
General Facility Improvements	\$5.0	\$5.0	\$14.0
UW #19 Filter	- 0 -	- 0 -	\$7.7
UW #8 Reconstruct	- 0 -	- 0 -	\$4.2
UW #12 Conversion	- 0 -	- 0 -	\$4.1
Total	\$5.0	\$5.0	\$30.0

**Funds for
Replacement of
Mains, Services,
and Hydrants**
11%

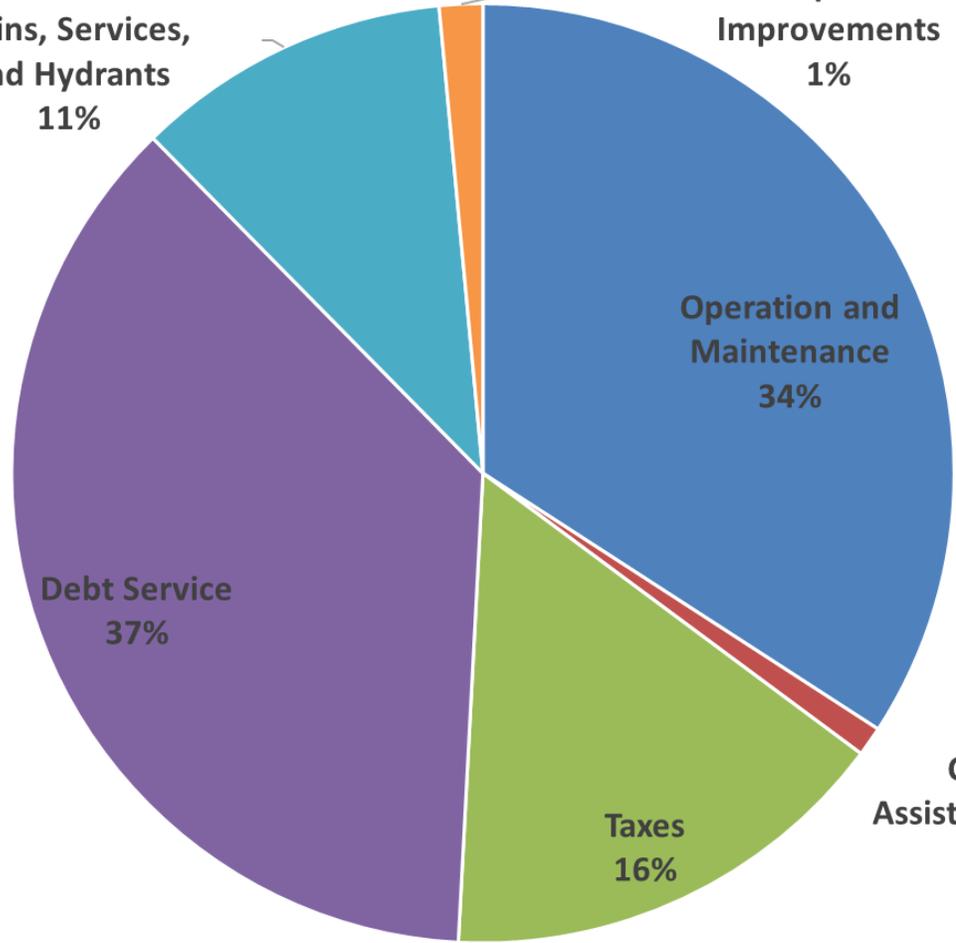
**Other Funds for
Capital
Improvements**
1%

**Operation and
Maintenance**
34%

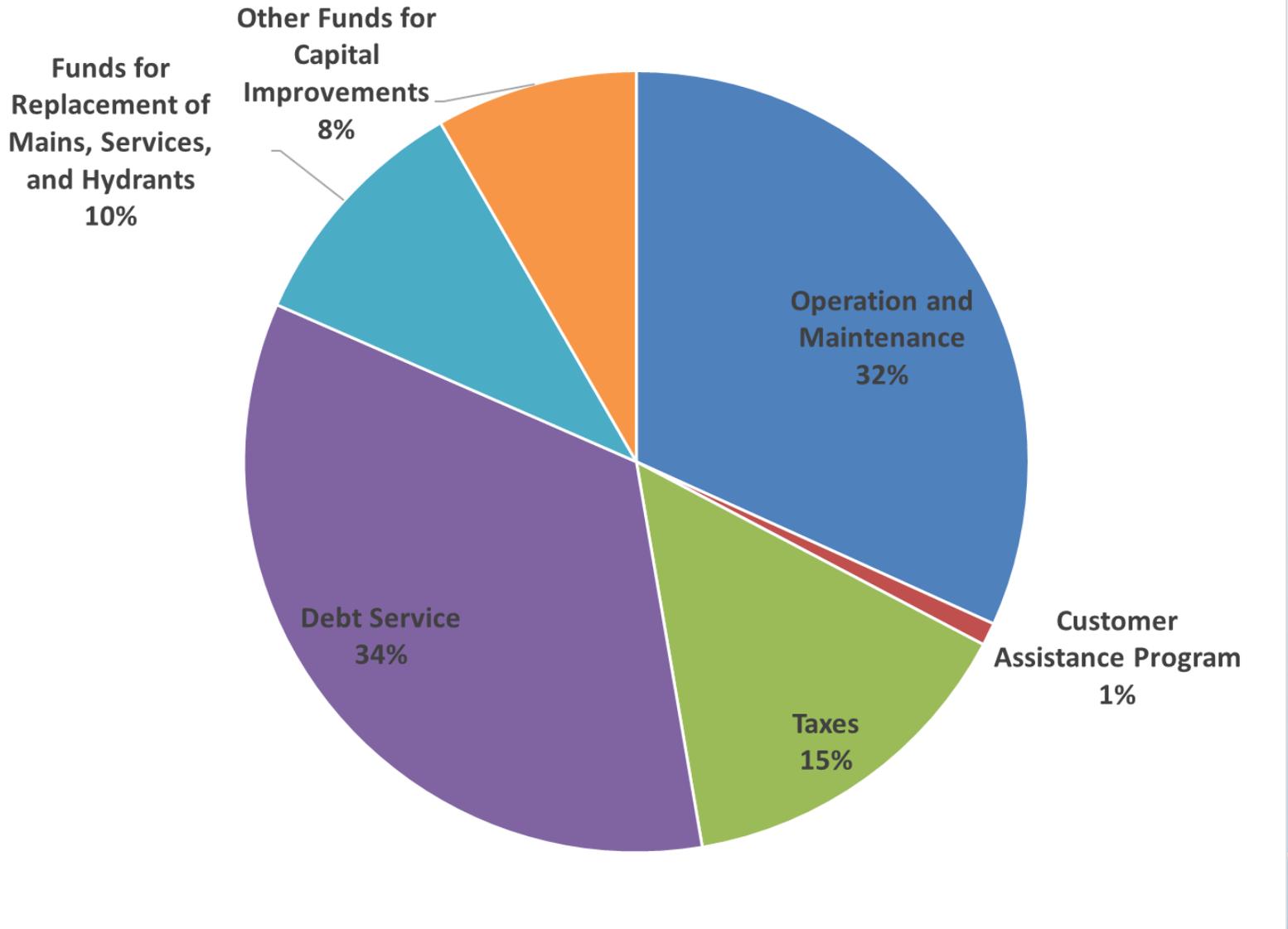
Debt Service
37%

Taxes
16%

**Customer
Assistance Program**
1%



PERCENTAGE OF PROJECTED EXPENDITURES, 2022-2027 OPTIONS 1 AND 2



PERCENTAGE OF PROJECTED EXPENDITURES, 2022-2027 OPTION 3

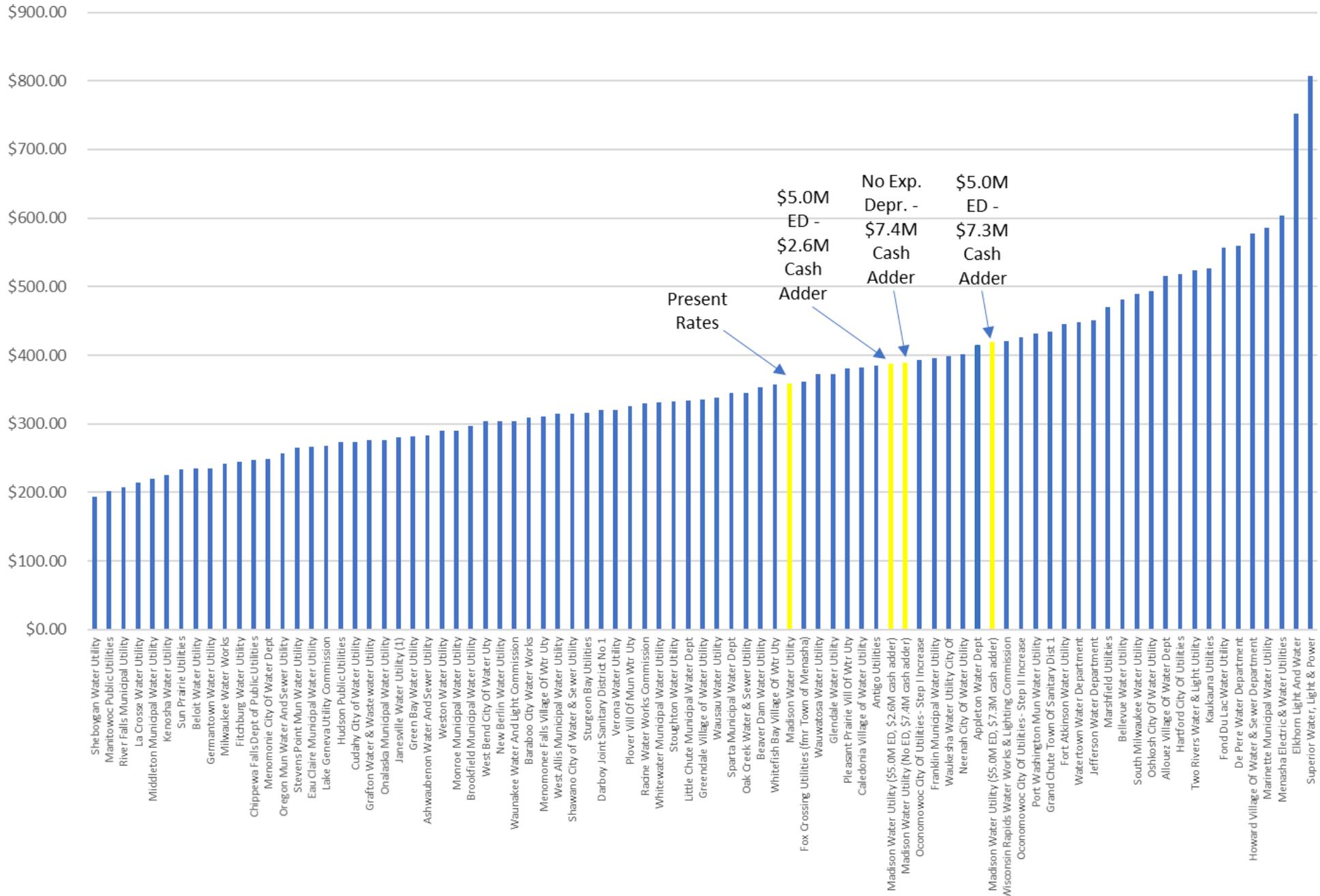
PROPOSED CUSTOMER ASSISTANCE PROGRAM

Area Median Income (AMI) Criteria	“Extremely Low-Income” (≤ 30% AMI)	“Very Low-Income” (> 30% AMI but ≤ 50% AMI)	Total
Eligible Annual Income Threshold (for 3-person household)	≤ \$27,900	≤ \$46,400	
Estimated # of Households Benefited	2,530	3,010	5,540
Monthly Bill Offset Amount	\$12	\$8	
Annual Bill Offset Amount	\$144	\$96	
Estimated Annual Utility Program Cost	\$364,320	\$288,960	\$653,280

ESTIMATED RATES AND AVERAGE MONTHLY RESIDENTIAL WATER BILLS

	Current Rates	Option 1 No Expense Depreciation \$7.4M Cash Adder	Option 2 \$5.0M Expense Depreciation \$2.6M Cash Adder	Option 3 \$5.0M Expense Depreciation \$7.3M Cash Adder
General Service Charge	\$13.80	\$14.75	\$13.49	\$14.54
Volumetric Rate – First 3,000 gal.	\$11.19	\$12.30	\$11.52	\$12.45
Volumetric Rate – Next 1,000 gal.	\$4.93	\$5.43	\$5.13	\$5.55
Infrastructure Renewal Charge		\$0.00	\$2.19	\$2.40
Average Monthly Bill	\$29.92	\$32.48	\$32.33	\$34.94
Change in Monthly Bill		\$2.56	\$2.41	\$5.02
Net Change in Bill with \$12 Offset		(\$9.44)	(\$9.59)	(\$6.98)
Net Change in Bill with \$8 Offset		(\$5.44)	(\$5.59)	(\$2.98)

Statewide Class AB Utilities - Annual Residential Water Bill with Public Fire Protection

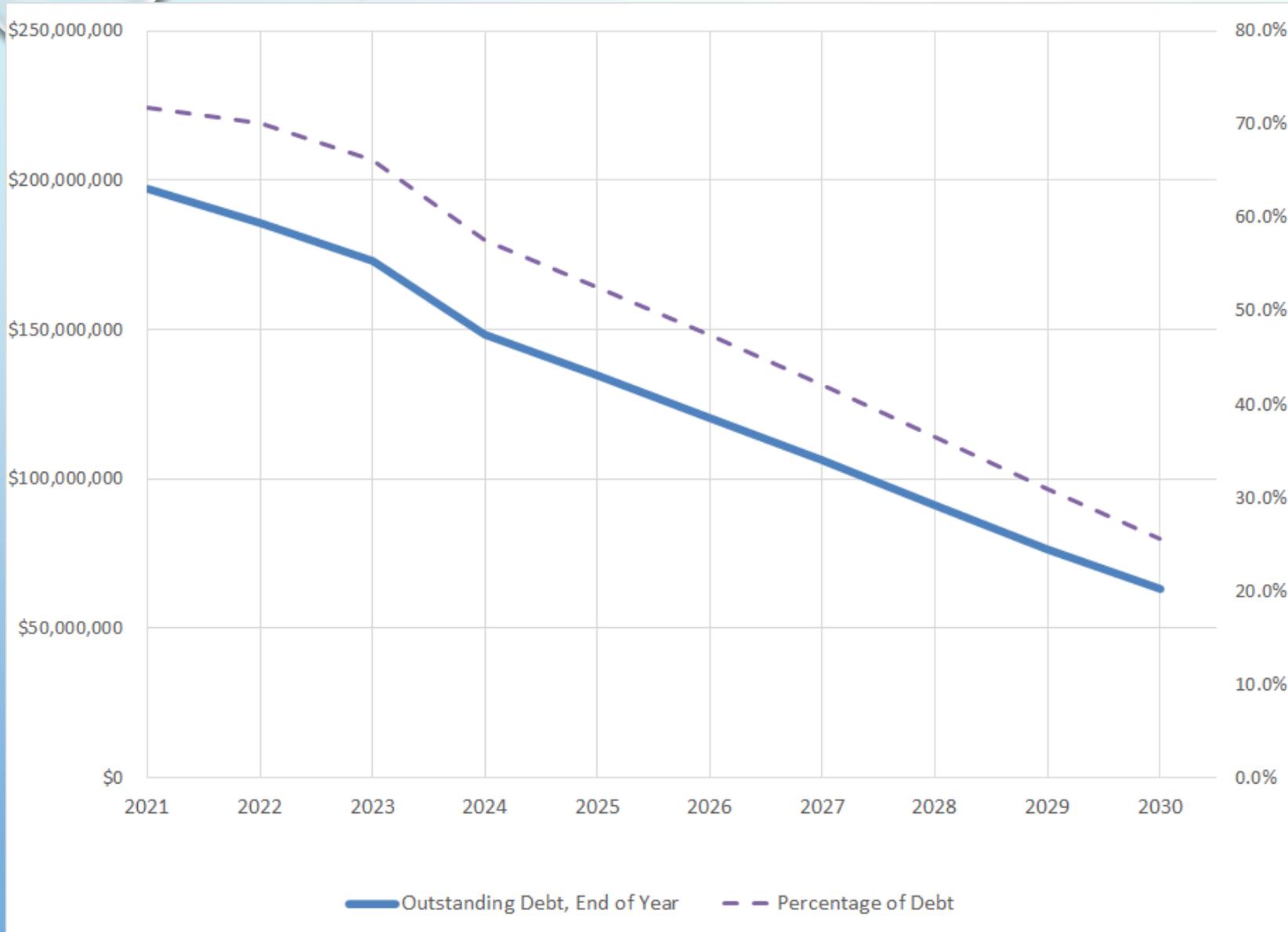


ANNUALIZED RATE IMPACTS FOR OTHER CUSTOMER CLASSES

	Option 1 No Expense Depreciation \$7.4M Cash Adder	Option 2 \$5.0M Expense Depreciation \$2.6M Cash Adder	Option 3 \$5.0M Expense Depreciation \$7.3M Cash Adder
Duplex	2.4%	0.2%	3.7%
Multi-Family	2.9%	1.2%	5.6%
Commercial	8.2%	8.0%	12.1%
Industrial	2.1%	2.9%	6.9%
Public Authority	5.2%	5.3%	9.1%

RATE CHANGES FOR OTHER CUSTOMER CLASSES

	Current Volumetric Rates	Option 1 No Expense Depreciation \$7.4M Cash Adder	Option 2 \$5.0M Expense Depreciation \$2.6M Cash Adder	Option 3 \$5.0M Expense Depreciation \$7.3M Cash Adder
Duplex	\$3.56	\$3.78	\$3.58	\$3.90
Multi-Family	\$3.56	\$3.82	\$3.67	\$4.08
Commercial	\$4.33	\$5.28	\$5.25	\$5.77
Industrial	\$4.84	\$5.10	\$5.20	\$5.72
Public Authority	\$4.89	\$5.55	\$5.57	\$6.09



OUTSTANDING DEBT AND PERCENTAGE DEBT - RECOMMENDED PLAN

CASH FLOW AND UNRESTRICTED RESERVES – RECOMMENDED PLAN

