

Internal Monitoring Report

Policy: EL-2D Financial Condition and Activities

Frequency: Three times a year

Date: June 23, 2020

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 in compliance with the board's Financial Planning/Budget Policy (EL-2C). The 2021 capital budget is complete and has been submitted to City Finance.

The utility prepared its 2019 financial statements in April and we are awaiting the annual audit report from the external auditor.

The PSC public hearing for the utility's 2019 water rate application was held on May 15th. We are expecting a final rate order any day now.

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 is currently being developed. Expenses will continue to be tightly controlled so that cash reserves may continue to increase. A first quarter 2020 budget report is attached.

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 2019 and does not anticipate any exceedances 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.

I report compliance.

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

MWU completed the 2019 fiscal year with just over \$5M 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 2019 rate application was submitted to the PSCW on July 1, 2019. As stated above we are awaiting a final rate order.

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.

I report compliance.

Attachments:

Fund Balance Report
Budget to Actual Report



FUND BALANCE REPORT

	May 31, 2020	Dec. 31, 2019
Reserves Required by Bond Ordinance:		
• Principal and Interest Account	\$5,525,000	\$10,364,736
• Reserve Account (Minimum \$16,663,055)	\$17,318,450	\$17,229,539
Depreciation Fund (¹)	\$750,000	\$750,000
Construction Fund	\$18,322,663	\$19,258,872
Assessment Revolving Fund	\$634,259	\$634,259
Unrestricted Funds		
• PILOT Fund	\$3,375,000	\$0
• Unrestricted Cash	\$5,521,837	\$4,394,624
• Operations and Maintenance Reserve Account (Minimum \$150,000)	\$150,000	\$150,000
Debt to City of Madison		
• Short Term Loan from City of Madison	Paid Off as of 12/31/2019	Paid off as of 12/31/2019

(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.

Forecast Data Summary - Quarter 1 2020

	<u>Actual Q1</u>	<u>Budget Q1</u>	<u>Variance</u>	<u>2019 Actual</u>
Metered Retail Sales	10,143,681	10,762,250	618,569	42,356,015
Wholesale Sales	61,342	91,750	30,408	280,675
Public Fire	34,997	3,750	(31,247)	139,369
Other Revenue	<u>108,311</u>	<u>289,020</u>	<u>180,709</u>	<u>1,168,830</u>
Total Operating Revenue	10,348,332	11,146,770	798,438	43,944,889
Supply	(11,677)	(2,666)	9,011	(59,804)
Pumping	(829,622)	(518,545)	311,077	(3,745,525)
Treatment	(141,851)	(165,558)	(23,707)	(726,021)
Distribution	(1,272,283)	(2,470,920)	(1,198,637)	(6,532,683)
Customer Accounts	(513,894)	(520,658)	(6,763)	(791,165)
Admin General	<u>(1,191,480)</u>	<u>(655,976)</u>	<u>535,505</u>	<u>(4,847,028)</u>
Total Expenses	(3,960,808)	(4,334,321)	(373,514)	(16,702,226)
Taxes	(113,891)	(150,000)	(36,109)	(583,014)
Depreciation	<u>(2,025,000)</u>	<u>(2,025,000)</u>	<u>-</u>	<u>(8,101,881)</u>
	<u>(2,138,891)</u>	<u>(2,175,000)</u>	<u>(36,109)</u>	<u>(8,684,895)</u>
Operating Income	4,248,634	4,637,449	388,815	18,557,768
Interest / Amort Expense	(2,234,500)	(2,234,500)	-	(7,712,703)
Non-Op Revenues - Interest Inc.	106,519	92,500	(14,019)	1,011,538
Non-Op Revenues - Merch&Job	1,065	-	(1,065)	(31,599)
Non-Op Revenues - Other	(332)	35,055	35,387	542,443
Non-Op Expenses	(5,696)	(19,820)	(14,125)	(180,750)
PILOT	(1,875,000)	(1,875,000)	-	(7,191,839)
CIAC	<u>750,000</u>	<u>750,000</u>	<u>-</u>	<u>3,600,060</u>
Total Non-Operating	<u>(3,257,943)</u>	<u>(3,251,765)</u>	<u>6,178</u>	<u>(9,962,850)</u>
Net Income	<u>990,690</u>	<u>1,385,683</u>	<u>394,993</u>	<u>8,594,918</u>