

## Internal Monitoring Report

**Policy #** EL-2D Financial Condition and Activities  
**Frequency:** Three times a year

**Date:** October 22, 2013

I certify that the following information is true.

Signed  \_\_\_\_\_, General Manager

### 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.

### 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 to meet identified capital and operational requirements, and that are budgeted and reported on accordingly.

### Data directly addressing the General Manager's interpretation:

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

The external report of auditor's unqualified opinion on the Utility's financial statements for the years ended December 31, 2012 and 2011, was presented to the board by a representative of Baker Tilly Virchow Krause, LLP at its August 27, 2013 meeting.

The 2014 Capital Budget of \$38,356,000 was reviewed by the City's Board of Estimates on September 23, 2013. The 2014 Operating Budget of \$35,047,025 was approved by the board at its September 24, 2013 meeting and reviewed by the Board of Estimates on October 7, 2013.

The Utility 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.

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. *Present a balanced annual operating budget and quarterly updates on actual expenditures and income.*

The 2014 Operating Budget is a balanced budget as submitted. The 2nd quarter update on 2013 actual expenditures and income will be presented at the board meeting on November 26, 2013.

I report compliance.

3. *Total appropriations for the fiscal year shall not be exceeded, unless directed to do so by the board.*

As of May 31, 2013, capital expenditures totaled \$7,943,280 compared to the budget of \$28,010,000 for the 2013 fiscal year. A report of capital expenditures compared to budget by individual project is attached herewith.

I report compliance.

4. *Dedicated reserves shall not be used for purposes other than those for which they are designated, unless directed to do so by the board.*

The Utility's restricted reserves are accessible only through the City of Madison Treasurer's office. The Utility's Fund Balance report as of May 31, 2013, is attached herewith.

I report compliance.

5. *Debt shall not be undertaken without a payoff schedule and identification of revenue stream.*

The Utility's debt repayment schedules for all debt undertaken and outstanding as of December 31, 2012, were presented to the board at its August 27, 2013 meeting. Included was the repayment schedule for the Utility's loan from the City of Madison.

A Revenue Bond sale of approximately \$24.3 million is scheduled for December 3, 2013. The bond issue will fund the balance of the Utility's 2013 capital budget and part of the 2014 capital budget. The last bond issue was on December 19, 2012.

I report compliance.

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

The Utility is currently not funding its unrestricted reserve and likely will not do so until it completes the repayment of its loan from the City of Madison by December 31, 2019.

I report non-compliance.

7. *Inform the board of where the Utility stands with any current rate case in progress.*

The Utility plans to file a formal 22% rate increase application with the Public Service Commission of Wisconsin by the end of 2013. The last rate increase of 9% became fully effective on January 1, 2012.

I report compliance.

**Attachments:**

- A. Capital Expenditures compared to Budget Update as of May 31, 2013
- B. Fund Balance Report as of May 31, 2013

**MADISON WATER UTILITY  
2013 CAPITAL BUDGET EXPENDITURES  
THROUGH MAY 31, 2013**

	CAPITAL BUDGET	JAN	FEB	MAR	APR	MAY	EXPENDITURES TO DATE	REMAINING
1 METER PROGRAM	0	0	0	0	0	0	0	0
2 WATER MAINS - REPLACEMENTS	7,700,000	229,246	154,640	248,383	510,423	469,599	1,612,291	6,087,709
3 WATER MAINS - NEW	840,000	2,715	48,898	5,728	41,441	129,051	227,833	612,167
4 SCADA SYSTEM	72,000	0	0	0	0	0	0	72,000
5 ZONE 4 FIRE FLOW SUPPLY AUGMENTATION	1,289,000	885	6,809	40,513	1,612	5,180	54,999	1,234,001
6 ARBOR HILLS SUPPLEMENTAL FIRE FLOW SUPPLY	0	2,136	82,476	0	22,928	175	107,715	-107,715
7 EAST SIDE - WELL 15 VOC MITIGATION	2,061,000	5,911	178,240	15,886	5,756	1,358,617	1,564,410	496,590
8 EAST SIDE - WELL 8 FE & MN MITIGATION	541,000	0	0	0	0	0	0	541,000
9 EAST SIDE - WELL 7 FE & MN FILTRATION	6,340,000	24,756	9,720	24,090	17,376	1,270	77,212	6,262,788
10 EAST SIDE - REPLACEMENT WELL	0	0	0	0	0	0	0	0
11 PRESSURE ZONE 9 STORAGE	0	0	0	0	0	0	0	0
12 PRESSURE ZONES 7 & 8 SUPPLEMENTAL SUPPLY	130,000	0	0	0	0	0	0	130,000
13 PUMP STATION 220 - RAYMOND ROAD	0	0	0	0	0	0	0	0
14 LAKEVIEW RESERVOIR - RECONSTRUCTION	291,000	0	0	0	0	0	0	291,000
15 BOOSTER PUMP STATION 114	0	0	0	0	0	0	0	0
16 NORTHEAST SIDE SUPPLEMENTAL SUPPLY	0	0	0	0	0	0	0	0
17 SECURITY UPGRADES	100,000	10,859	6,726	2,899	20,548	2,161	43,193	56,807
18 SYSTEM WIDE MISCELLANEOUS PROJECTS	957,000	25,854	27,360	7,763	17,269	5,353	83,599	873,401
19 PATERSON STREET BUILDING REMODEL	508,000	0	0	0	116	0	116	507,884
20 ADVANCED METERING INFRASTRUCTURE (PROJECT H <sub>2</sub> O)	4,000,000	780,780	987,538	735,413	701,059	712,547	3,917,337	82,663
21 BOOSTER STATION 106 - REBUILD	1,698,000	4,312	15,632	28,446	22,228	63,551	134,169	1,563,831
22 ZONE 11 - BLACKHAWK ELEVATED STORAGE	0	0	0	0	0	0	0	0
23 MISCELLANEOUS PUMP STATION / PRV / FACILITY PROJECTS	1,037,000	15,097	6,475	59,238	30,359	9,237	120,406	916,594
24 BOOSTER PUMP STATION 129 RECONSTRUCTION	0	0	0	0	0	0	0	0
25 IRON & MANGANESE FILTER @ WELL 19	0	0	0	0	0	0	0	0
26 IRON & MANGANESE FILTER @ WELL 30	0	0	0	0	0	0	0	0
27 NEAR WEST SIDE WATER SUPPLY PROJECT	0	0	0	0	0	0	0	0
28 WELL 29 FILTER CAPACITY EXPANSION	446,000	0	0	0	0	0	0	446,000
29 WELL 12 CONVERSION TO A TWO ZONE WELL	0	0	0	0	0	0	0	0
30 BOOSTER PUMP STATION 109	0	0	0	0	0	0	0	0
31 ZONE 10 FAR WEST ELEVATED RESERVOIR	0	0	0	0	0	0	0	0
	28,010,000	1,102,551	1,524,514	1,168,359	1,391,115	2,756,741	7,943,280	20,066,720

## Fund Balance Report

	<u>May 31, 2013</u>	<u>Dec. 31, 2012</u>
<b>Reserves required by Bond Ordinance</b>		
Operation and Maintenance Fund		
* Reserve Account (Minimum \$150,000)	\$150,000	\$150,000
Special Redemption Fund		
* Principal and Interest Account	\$3,917,216	\$5,925,680
* Reserve Account (Minimum \$9,846,138)	\$9,848,163	\$9,853,127
Depreciation Fund <sup>(1)</sup>	\$750,000	\$750,000
<b>Construction Fund</b>	<b>\$6,068,320</b>	<b>\$14,011,600</b>
<b>Assessment Revolving Fund</b>	<b>\$77,088</b>	<b>\$0</b>
<b>Unrestricted Funds</b>		
PILOT Fund	\$2,320,000	\$0
Cash Flow Fund	\$2,268,248	\$2,597,671
Unrestricted Reserve Fund	\$0	\$0
Checking Account	\$622,986	\$72,252
<b>Debt to City of Madison</b>		
Short Term Construction Fund Loan	\$0.00	\$0.00
Short Term Loan from City	\$5,036,250	\$5,355,000

(1) Transfer of funds to Construction Fund approved as needed.  
Reporting special fund balances as specified in 1978 Waterworks Bond Ordinance