

## Internal Monitoring Report

Policy # EL-2D Financial Condition and Activities

Date: January 28, 2014

Frequency: Three times a year

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.*

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The 2014 Capital Budget of \$38,356,000 and the 2014 Operating Budget of \$35,047,025 were approved by the Common Council on November 5, 2013.

On April 30, 2013, the Common Council amended the Utility's 2013 Capital Budget adding \$200,000 to the 'Water Mains Replacement' budget, which was fully reimbursed by a City Tax Incremental District in October 2013. On July 16, 2013, the Common Council amended the Utility's 2013 Capital Budget adding \$1,007,000 to the 'Booster Station 106 Rebuild' budget, to

be funded by a \$500,000 transfer from the Well 8 FE & MN Mitigation budget, a \$200,000 transfer from the Well 7 FE & MN Filtration budget, a \$100,000 transfer from the Well 15 VOC Mitigation budget, and \$207,000 from Utility revenue bonds.

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 third quarter update on 2013 actual expenditures and income is attached herewith.

I report compliance.

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

As of September 30, 2013, capital expenditures totaled \$14,377,466 compared to the amended budget of \$28,217,000 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 September 30, 2013, is attached herewith.

I report compliance.

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

A revenue bond issue of approximately \$24.3 million was completed on December 18, 2013. The bond issue will fund the balance of the Utility's 2013 capital budget and part of the 2014 capital budget. The previous bond issue was on December 19, 2012. The debt repayment schedule for the 2013 revenue bond issue is attached herewith.

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 last rate increase of 9% became fully effective on January 1, 2012. The Utility plans to file a formal rate increase application with the Public Service Commission of Wisconsin in 2014.

I report compliance.

**Attachments:**

- A. 2013 Actual Operating Expenditures and Income Update as of September 30, 2013
- B. 2013 Capital Expenditures compared to Budget Update as of September 30, 2013
- C. Fund Balance Report as of September 30, 2013
- D. 2013 Revenue Bond Debt Repayment Schedule

# MADISON WATER UTILITY

## Comparative Income Statement

	Nine Months Ended September 30,	
	2013	2012
Operating Revenue	\$21,937,509	\$22,789,886
Operating Expenses:		
Source of Supply	31,083	37,384
Pumping	2,560,549	2,603,016
Water Treatment	401,836	390,699
Transmission and Distribution	2,199,504	2,363,315
Customer Accounts	277,468	282,348
Administrative and General	2,687,195	2,459,075
Total Operation & Maintenance Expense	\$8,157,635	\$8,135,837
Depreciation	3,808,100	3,607,157
Payment in lieu of Taxes (PILOT)	4,026,182	3,763,095
Total Operating Expense	\$15,991,917	\$15,506,089
Operating Income	\$5,945,592	\$7,283,797
Interest Income	142,568	149,084
Other Income (Expense)	24,006	10,081
Interest and Amortization Expense	(3,186,146)	(3,243,758)
Net Income	\$2,926,020	\$4,199,204

**MADISON WATER UTILITY  
2013 CAPITAL BUDGET EXPENDITURES  
THROUGH SEPTEMBER 30, 2013**

	AMENDED CAPITAL BUDGET											EXPENDITURES		
		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	TO DATE	REMAINING		
1 METER PROGRAM	0	0	0	0	0	0	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	608,156	942,017	876,421	918,952	4,957,837	2,742,163		
3 WATER MAINS - NEW	840,000	2,715	48,898	5,728	41,441	129,051	26,646	10,906	40,401	184,603	490,389	349,611		
4 SCADA SYSTEM	72,000	0	0	0	0	0	0	32,940	0	0	32,940	39,060		
5 ZONE 4 FIRE FLOW SUPPLY AUGMENTATION	1,289,000	885	6,809	40,513	1,612	5,180	1,016	162	1,619	5,167	62,963	1,226,037		
6 ARBOR HILLS SUPPLEMENTAL FIRE FLOW SUPPLY	0	2,136	82,476	0	22,928	175	22	0	68	204	108,009	-108,009		
7 EAST SIDE - WELL 15 VOC MITIGATION	1,961,000	5,911	178,240	15,886	5,756	1,358,617	9,939	349,779	230,386	38,292	2,192,806	-231,806		
8 EAST SIDE - WELL 8 FE & MN MITIGATION	41,000	0	0	0	0	0	0	0	0	0	0	41,000		
9 EAST SIDE - WELL 7 FE & MN FILTRATION	6,140,000	24,756	9,720	24,090	17,376	1,270	168,133	15,816	197,827	28,406	487,394	5,652,606		
10 EAST SIDE - REPLACEMENT WELL	0	0	0	0	0	0	0	0	0	0	0	0		
11 PRESSURE ZONE 9 STORAGE	0	0	0	0	0	0	0	0	0	0	0	0		
12 PRESSURE ZONES 7 & 8 SUPPLEMENTAL SUPPLY	130,000	0	0	0	0	0	0	0	0	0	0	130,000		
13 PUMP STATION 220 - RAYMOND ROAD	0	0	0	0	0	0	0	0	0	0	0	0		
14 LAKEVIEW RESERVOIR - RECONSTRUCTION	291,000	0	0	0	0	0	0	0	2,702	2,629	5,331	285,669		
15 BOOSTER PUMP STATION 114	0	0	0	0	0	0	0	0	0	0	0	0		
16 NORTHEAST SIDE SUPPLEMENTAL SUPPLY	0	0	0	0	0	0	0	0	0	0	0	0		
17 SECURITY UPGRADES	100,000	10,859	6,726	2,899	20,548	2,161	1,487	10,538	22,853	31,178	109,249	-9,249		
18 SYSTEM WIDE MISCELLANEOUS PROJECTS	957,000	25,854	27,360	7,763	17,269	5,353	22,361	71,422	24,882	24,742	227,006	729,994		
19 PATERSON STREET BUILDING REMODEL	508,000	0	0	0	116	0	0	0	0	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	688,754	262,664	171,183	283,367	5,323,305	-1,323,305		
21 BOOSTER STATION 106 - REBUILD	2,705,000	4,312	15,632	28,446	22,228	63,551	21,608	4,041	6,655	9,309	175,782	2,529,218		
22 ZONE 11 - BLACKHAWK ELEVATED STORAGE	0	0	0	0	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	1,176	43,157	4,974	34,626	204,339	832,661		
24 BOOSTER PUMP STATION 129 RECONSTRUCTION	0	0	0	0	0	0	0	0	0	0	0	0		
25 IRON & MANGANESE FILTER @ WELL 19	0	0	0	0	0	0	0	0	0	0	0	0		
26 IRON & MANGANESE FILTER @ WELL 30	0	0	0	0	0	0	0	0	0	0	0	0		
27 NEAR WEST SIDE WATER SUPPLY PROJECT	0	0	0	0	0	0	0	0	0	0	0	0		
28 WELL 29 FILTER CAPACITY EXPANSION	446,000	0	0	0	0	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	0	0	0	0		
30 BOOSTER PUMP STATION 109	0	0	0	0	0	0	0	0	0	0	0	0		
31 ZONE 10 FAR WEST ELEVATED RESERVOIR	0	0	0	0	0	0	0	0	0	0	0	0		
	28,217,000	1,102,551	1,524,514	1,168,359	1,391,115	2,756,741	1,549,298	1,743,442	1,579,971	1,561,475	14,377,466	13,839,534		

## Fund Balance Report

	<u>Sept 30, 2013</u>	<u>Dec. 31, 2012</u>
<b>Reserves required by Bond Resolution</b>		
Operation and Maintenance Fund		
* Reserve Account (Minimum \$150,000)	\$150,000	\$150,000
Special Redemption Fund		
* Principal and Interest Account	\$4,799,761	\$5,925,680
* Reserve Account (Minimum \$9,846,138)	\$9,763,394	\$9,853,127
Depreciation Fund	\$750,000	\$750,000
<b>Construction Fund</b>	(\$288,779)	\$14,011,600
<b>Assessment Revolving Fund</b>	\$0	\$0
<b>Unrestricted Funds</b>		
PILOT Fund	\$4,176,000	\$0
Cash Flow Fund	\$518,533	\$2,597,671
Unrestricted Reserve Fund	\$0	\$0
Checking Account	\$874,586	\$72,252
<b>Debt to City of Madison</b>		
Short Term Construction Fund Loan	\$0.00	\$0.00
Loan from City	\$4,781,250	\$5,355,000
Loan from City to payoff unfunded WRS Pension Lbl	\$1,291,229	\$1,291,229
Advance from City for Burke Utility District #1	\$428,481	\$428,481
<b>Debt to Revenue Bond Holders</b>	<b>\$117,535,000</b>	<b>\$121,510,000</b>

**\$24,335,000**

**City of Madison, Wisconsin  
Water Utility Revenue Bonds, Series 2013**

**Debt Service Schedule**

Date	Principal	Coupon	Interest	Total P+I
07/01/2014	-	-	557,046.25	557,046.25
01/01/2015	845,000.00	3.000%	519,525.00	1,364,525.00
07/01/2015	-	-	506,850.00	506,850.00
01/01/2016	910,000.00	3.000%	506,850.00	1,416,850.00
07/01/2016	-	-	493,200.00	493,200.00
01/01/2017	935,000.00	5.000%	493,200.00	1,428,200.00
07/01/2017	-	-	469,825.00	469,825.00
01/01/2018	965,000.00	5.000%	469,825.00	1,434,825.00
07/01/2018	-	-	445,700.00	445,700.00
01/01/2019	995,000.00	5.000%	445,700.00	1,440,700.00
07/01/2019	-	-	420,825.00	420,825.00
01/01/2020	1,020,000.00	5.000%	420,825.00	1,440,825.00
07/01/2020	-	-	395,325.00	395,325.00
01/01/2021	1,055,000.00	5.000%	395,325.00	1,450,325.00
07/01/2021	-	-	368,950.00	368,950.00
01/01/2022	1,085,000.00	5.000%	368,950.00	1,453,950.00
07/01/2022	-	-	341,825.00	341,825.00
01/01/2023	1,115,000.00	5.000%	341,825.00	1,456,825.00
07/01/2023	-	-	313,950.00	313,950.00
01/01/2024	1,150,000.00	5.000%	313,950.00	1,463,950.00
07/01/2024	-	-	285,200.00	285,200.00
01/01/2025	1,190,000.00	4.000%	285,200.00	1,475,200.00
07/01/2025	-	-	261,400.00	261,400.00
01/01/2026	1,240,000.00	4.000%	261,400.00	1,501,400.00
07/01/2026	-	-	236,600.00	236,600.00
01/01/2027	1,290,000.00	4.000%	236,600.00	1,526,600.00
07/01/2027	-	-	210,800.00	210,800.00
01/01/2028	1,340,000.00	4.000%	210,800.00	1,550,800.00
07/01/2028	-	-	184,000.00	184,000.00
01/01/2029	1,390,000.00	4.000%	184,000.00	1,574,000.00
07/01/2029	-	-	156,200.00	156,200.00
01/01/2030	1,440,000.00	4.000%	156,200.00	1,596,200.00
07/01/2030	-	-	127,400.00	127,400.00
01/01/2031	1,500,000.00	4.000%	127,400.00	1,627,400.00
07/01/2031	-	-	97,400.00	97,400.00
01/01/2032	1,560,000.00	4.000%	97,400.00	1,657,400.00
07/01/2032	-	-	66,200.00	66,200.00
01/01/2033	1,620,000.00	4.000%	66,200.00	1,686,200.00
07/01/2033	-	-	33,800.00	33,800.00
01/01/2034	1,690,000.00	4.000%	33,800.00	1,723,800.00
<b>Total</b>	<b>\$24,335,000.00</b>	<b>-</b>	<b>\$11,907,471.25</b>	<b>\$36,242,471.25</b>

**SIGNIFICANT DATES**

Dated Date.....	12/18/2013
Delivery Date.....	12/18/2013
First Coupon Date.....	7/01/2014

**Yield Statistics**

Bond Year Dollars.....	\$284,453.76
Average Life.....	11.689 Years
Average Coupon.....	4.1860832%
Net Interest Cost (NIC).....	3.6515248%
True Interest Cost (TIC).....	3.5223648%
Bond Yield for Arbitrage Purposes.....	3.4238254%
All Inclusive Cost (AIC).....	3.5636174%

**IRS Form 8038**

Net Interest Cost.....	3.4578001%
Weighted Average Maturity.....	11.392 Years

