

## Internal Monitoring Report

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

**Date:** August 26, 2014

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.
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 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 2015 Operating Budget Request of \$38,550,606 was submitted to the City's Finance Dept. on August 18, 2014, and is attached for review and approval by the board. It is a balanced budget.

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 external report of auditor's unqualified opinion on the Utility's financial statements for the years ended December 31, 2013 and 2012 was received by the board at its July 22, 2014 meeting.

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 2015 Operating Budget is a balanced budget as submitted. The first quarter update on 2014 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 March 31, 2014, capital expenditures totaled \$2,130,933 compared to the budget of \$38,356,000 for the 2014 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 Treasurer's office. The Utility's Fund Balance report as of March 31, 2014, 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, 2013, are attached herewith. The repayment schedule for the Utility's loan from the City as of December 31, 2013, also is attached.

The Utility expects to issue approximately \$24.3 million in revenue bonds in December 2014. The bond proceeds will fund the balance of the Utility's 2014 capital budget and part of the 2015 capital budget. The previous bond issue was on December 18, 2013.

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 in year 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 rate increase application with the Public Service Commission of Wisconsin in September 2014. The last rate increase of 9% became fully effective on January 1, 2012.

I report compliance.

8. *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 'items of general interest' portion of the board's meeting agenda.

I report compliance.

**Attachments:**

- A. Capital Expenditures compared to Budget Update as of March 31, 2014
- B. Fund Balance Report as of March 31, 2014
- C. Revenue Bond Debt Repayment Schedules as of December 31, 2013
- D. Schedule of WRS Loan Repayment to the City of Madison as of December 31, 2013
- E. Schedule of Loan Repayment to the City of Madison as of December 31, 2013
  
- F. Actual Operating Expenditures and Income Update as of March 31, 2014 (to be distributed at the meeting)

**MADISON WATER UTILITY  
2014 CAPITAL BUDGET EXPENDITURES  
THROUGH MARCH 31, 2014**

	ADOPTED CAPITAL BUDGET	EXPENDITURES				
		JAN	FEB	MAR	TO DATE	REMAINING
1 WATER MAINS - REPLACE / REHAB / IMPROVEMENTS	11,718,000	157,042	107,035	161,157	425,234	11,292,766
2 WATER MAINS - NEW	1,366,000	223,567	9,026	23,338	255,931	1,110,069
3 ZONE 4 FIRE FLOW SUPPLY AUGMENTATION	415,000	256,649	1,789	4,126	262,564	152,436
4 ARBOR HILLS SUPPLEMENTAL FIRE FLOW SUPPLY	642,000	136	1,901	0	2,037	639,963
5 EAST SIDE - WELL 7 FE & MN FILTRATION	5,300,000	48,318	119,207	304	167,829	5,132,171
6 EAST SIDE - REPLACEMENT WELL (WELL 3)	480,000	0	0	0	0	480,000
7 PRESSURE ZONES 7 & 8 SUPPLEMENTAL SUPPLY	397,000	0	0	0	0	397,000
8 LAKEVIEW RESERVOIR RECONSTRUCTION	2,974,000	18,675	285	1,708	20,668	2,953,332
9 BOOSTER PUMP STATION 114	0	0	0	0	0	0
10 NORTHEAST SIDE SUPPLEMENTAL SUPPLY	0	0	0	0	0	0
11 SYSTEM WIDE MISCELLANEOUS PROJECTS	2,737,000	82,886	177,474	120,569	380,929	2,356,071
12 PATERSON STREET BUILDING REMODEL/UPGRADE	6,847,000	10,347	4,912	9,430	24,689	6,822,311
13 BOOSTER STATION 106 RECONSTRUCTION	1,698,000	258,181	194,952	6,764	459,897	1,238,103
14 ZONE 11 - BLACKHAWK ELEVATED RESERVOIR	0	0	0	0	0	0
15 MISCELLANEOUS PUMP STATION / PRV / FACILITY PROJECTS	2,944,000	86,265	13,504	31,386	131,155	2,812,845
16 BOOSTER PUMP STATION 129 RECONSTRUCTION	0	0	0	0	0	0
17 IRON & MANGANESE FILTER @ WELL 19	344,000	0	0	0	0	344,000
18 IRON & MANGANESE FILTER @ WELL 30	0	0	0	0	0	0
19 NEAR WEST SIDE WATER SUPPLY PROJECT	0	0	0	0	0	0
20 WELL 29 FILTER CAPACITY EXPANSION	446,000	0	0	0	0	446,000
21 WELL 12 CONVERSION TO A TWO-ZONE WELL	48,000	0	0	0	0	48,000
22 BOOSTER PUMP STATION 109	0	0	0	0	0	0
23 ZONE 10 FAR WEST ELEVATED RESERVOIR	0	0	0	0	0	0
24 BOOSTER PUMP STATION / PRV 124 CONSTRUCTION	0	0	0	0	0	0
	38,356,000	1,142,066	630,085	358,782	2,130,933	36,225,067

## Fund Balance Report

	<u>Mar. 31, 2014</u>	<u>Dec. 31, 2013</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	\$2,830,369	\$7,243,803
* Reserve Account (Minimum \$11,767,538)	\$11,745,601	\$11,703,873
Depreciation Fund	\$750,000	\$750,000
 <b>Construction Fund</b>	 \$17,475,457	 \$19,606,390
 <b>Assessment Revolving Fund</b>	 \$120,181	 \$0
 <b>Unrestricted Funds</b>		
PILOT Fund	\$1,509,000	\$0
Cash Flow Fund	\$1,701,006	\$2,264,144
Unrestricted Reserve Fund	\$0	\$0
Checking Account	\$722,579	\$610,986
 <b>Debt to City of Madison</b>		
Loan from City	\$4,398,750	\$4,590,000
Loan from City to payoff unfunded WRS Pension Lbl	\$1,228,872	\$1,228,872
Advance from City for Burke Utility District #1	\$432,008	\$432,008
 <b>Debt to Revenue Bond Holders</b>	 \$136,935,000	 \$141,870,000

**MADISON WATER UTILITY**  
REVENUE BOND DEBT REPAYMENT SCHEDULES  
As of December 31, 2013

Year	2007A MRB's			2007B MRB's			2009A Refunding			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
2014	965,000	833,700	1,798,700	340,000	67,200	407,200	920,000	1,449,506	2,369,506	
2015	1,005,000	794,300	1,799,300	360,000	53,200	413,200	930,000	1,417,106	2,347,106	
2016	1,045,000	753,300	1,798,300	370,000	38,600	408,600	1,215,000	1,374,206	2,589,206	
2017	1,085,000	710,700	1,795,700	385,000	23,500	408,500	1,625,000	1,317,406	2,942,406	
2018	1,130,000	666,400	1,796,400	395,000	7,900	402,900	1,675,000	1,251,406	2,926,406	
2019	1,175,000	619,566	1,794,566	-	-	-	2,055,000	1,174,238	3,229,238	
2020	1,230,000	569,963	1,799,963	-	-	-	2,040,000	1,079,570	3,119,570	
2021	1,280,000	517,394	1,797,394	-	-	-	2,110,000	975,820	3,085,820	
2022	1,340,000	461,719	1,801,719	-	-	-	2,510,000	860,320	3,370,320	
2023	1,395,000	402,728	1,797,728	-	-	-	2,995,000	723,695	3,678,695	
2024	1,460,000	339,362	1,799,362	-	-	-	2,900,000	577,320	3,477,320	
2025	1,525,000	271,247	1,796,247	-	-	-	2,900,000	446,820	3,346,820	
2026	1,595,000	199,097	1,794,097	-	-	-	2,970,000	329,420	3,299,420	
2027	1,670,000	122,550	1,792,550	-	-	-	2,085,000	228,320	2,313,320	
2028	1,745,000	41,444	1,786,444	-	-	-	2,175,000	141,780	2,316,780	
2029	-	-	-	-	-	-	2,280,000	48,450	2,328,450	
2030	-	-	-	-	-	-	-	-	-	
Totals	\$ 19,645,000	\$ 7,303,470	\$ 26,948,470	\$ 1,850,000	\$ 190,400	\$ 2,040,400	\$ 33,345,000	\$ 13,395,963	\$ 46,740,963	
Year	2009B Refunding			2009C Bonds			2010 BAB's			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Federal Credit (1)	Total
2014	310,000	17,425	327,425	265,000	426,063	691,063	565,000	480,041	(168,014)	877,027
2015	320,000	6,000	326,000	280,000	416,488	696,488	570,000	471,383	(164,984)	876,399
2016	-	-	-	345,000	403,988	748,988	575,000	460,788	(161,276)	874,512
2017	-	-	-	340,000	390,288	730,288	585,000	448,018	(156,806)	876,212
2018	-	-	-	355,000	376,388	731,388	595,000	433,114	(151,599)	876,524
2019	-	-	-	365,000	361,532	726,532	605,000	415,399	(145,399)	875,009
2020	-	-	-	390,000	344,026	734,026	620,000	394,718	(138,151)	876,567
2021	-	-	-	415,000	323,901	738,901	635,000	371,961	(130,186)	875,009
2022	-	-	-	300,000	306,026	606,026	650,000	347,218	(121,526)	875,692
2023	-	-	-	-	298,526	298,526	670,000	320,478	(112,167)	874,589
2024	-	-	-	-	298,526	298,526	685,000	291,676	(102,087)	874,589
2025	-	-	-	-	298,526	298,526	705,000	260,739	(91,259)	874,480
2026	-	-	-	-	298,526	298,526	725,000	227,481	(79,618)	872,863
2027	-	-	-	515,000	288,226	803,226	750,000	190,575	(66,701)	873,874
2028	-	-	-	530,000	266,995	796,995	775,000	150,544	(52,690)	872,854
2029	-	-	-	2,615,000	200,495	2,815,495	800,000	109,200	(38,220)	870,980
2030	-	-	-	3,410,000	72,463	3,482,463	825,000	66,544	(23,290)	868,254
2031	-	-	-	-	-	-	855,000	22,444	(7,855)	869,589
Totals	\$ 630,000	\$ 23,425	\$ 653,425	\$ 10,125,000	\$ 5,370,983	\$ 15,495,983	\$ 12,190,000	\$ 5,462,321	\$ (1,911,810)	\$ 15,740,511

(1) - The 2010 bonds are Build America Bonds. The amount disclosed is based on the originally approved 35% credit. During the federal fiscal year 2013 interest subsidies were reduced by 8.7% and during federal fiscal year 2014, the subsidy payments have been reduced by 7.2%. This amount may continue to change based on sequestration.

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES  
As of December 31, 2013

Year	2011 Revenue Bonds			2012 Revenue Bonds			2013 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2014	750,000	620,506	1,370,506	820,000	650,600	1,470,600	-	557,046	557,046
2015	765,000	597,782	1,362,782	860,000	633,800	1,493,800	845,000	1,026,375	1,871,375
2016	780,000	574,606	1,354,606	880,000	616,400	1,496,400	910,000	1,000,050	1,910,050
2017	795,000	547,006	1,342,006	895,000	598,650	1,493,650	935,000	963,025	1,898,025
2018	815,000	514,806	1,329,806	915,000	580,550	1,495,550	965,000	915,525	1,880,525
2019	840,000	485,906	1,325,906	935,000	552,700	1,487,700	995,000	866,525	1,861,525
2020	865,000	460,331	1,325,331	950,000	515,000	1,465,000	1,020,000	816,150	1,836,150
2021	890,000	429,556	1,319,556	970,000	476,600	1,446,600	1,055,000	764,275	1,819,275
2022	920,000	397,956	1,317,956	990,000	437,400	1,427,400	1,085,000	710,775	1,795,775
2023	950,000	369,906	1,319,906	1,015,000	397,300	1,412,300	1,115,000	655,775	1,770,775
2024	985,000	339,650	1,324,650	1,040,000	356,200	1,396,200	1,150,000	599,150	1,749,150
2025	1,020,000	308,344	1,328,344	1,065,000	314,100	1,379,100	1,190,000	546,600	1,736,600
2026	1,055,000	276,560	1,331,560	1,095,000	276,375	1,371,375	1,240,000	498,000	1,738,000
2027	1,090,000	242,363	1,332,363	1,125,000	243,075	1,368,075	1,290,000	447,400	1,737,400
2028	1,135,000	205,497	1,340,497	1,160,000	208,800	1,368,800	1,340,000	394,800	1,734,800
2029	1,175,000	165,781	1,340,781	1,195,000	173,475	1,368,475	1,390,000	340,200	1,730,200
2030	1,225,000	123,016	1,348,016	1,235,000	137,025	1,372,025	1,440,000	283,600	1,723,600
2031	1,275,000	76,906	1,351,906	1,275,000	99,375	1,374,375	1,500,000	224,800	1,724,800
2032	1,325,000	26,500	1,351,500	1,315,000	60,525	1,375,525	1,560,000	163,600	1,723,600
2033	-	-	-	1,360,000	20,400	1,380,400	1,620,000	100,000	1,720,000
2034	-	-	-	-	-	-	1,690,000	33,800	1,723,800
Totals	\$ 18,655,000	\$ 6,762,978	\$ 25,417,978	\$ 21,095,000	\$ 7,348,350	\$ 28,443,350	\$ 24,335,000	\$ 11,907,471	\$ 36,242,471

Year	TOTAL		
	Principal	Interest	Federal Credit
2014	4,935,000	5,102,087	(168,014)
2015	5,935,000	5,416,434	(164,984)
2016	6,120,000	5,221,938	(161,276)
2017	6,645,000	4,998,593	(156,806)
2018	6,845,000	4,746,089	(151,590)
2019	6,970,000	4,475,866	(145,390)
2020	7,115,000	4,179,758	(138,151)
2021	7,355,000	3,859,507	(130,186)
2022	7,795,000	3,521,414	(121,526)
2023	8,100,000	3,168,408	(112,167)
2024	8,220,000	2,801,884	(102,087)
2025	8,405,000	2,446,376	(91,259)
2026	8,680,000	2,105,459	(79,618)
2027	8,525,000	1,762,509	(66,701)
2028	8,860,000	1,409,840	(52,690)
2029	9,455,000	1,037,601	(38,220)
2030	8,135,000	682,648	(23,290)
2031	4,905,000	423,525	(7,855)
2032	2,980,000	250,625	-
2033	2,980,000	120,400	-
2034	1,690,000	33,800	-
Totals	\$ 141,870,000	\$ 57,764,761	\$ (1,911,810)

**2010-C WRS Refunding Debt Schedule (Water Only)**

Classification	(All)
F/S Date	(All)
Paid by	City

				Data	
Agency2	Agency	Issued	Payment Month	Sum of Principal	Sum of Interest
Water	Debt Service Advance	10/3/2010	4/1/2011	-	18,540.05
			10/1/2011	55,106.35	20,600.06
			4/1/2012	-	20,448.52
			10/1/2012	57,716.65	20,448.52
			4/1/2013	-	20,203.22
			10/1/2013	62,357.19	20,203.22
			4/1/2014	-	19,891.44
			10/1/2014	68,157.86	19,891.44
			4/1/2015	-	19,448.41
			10/1/2015	74,248.56	19,448.41
			4/1/2016	-	18,798.73
			10/1/2016	81,499.39	18,798.73
			4/1/2017	-	17,881.87
			10/1/2017	89,040.26	17,881.87
			4/1/2018	-	16,768.86
			10/1/2018	97,451.23	16,768.86
			4/1/2019	-	15,307.09
			10/1/2019	107,022.34	15,307.09
			4/1/2020	-	13,567.98
			10/1/2020	117,463.54	13,567.98
4/1/2021	-	11,512.37			
10/1/2021	129,064.88	11,512.37			
4/1/2022	-	9,156.94			
10/1/2022	141,536.31	9,156.94			
4/1/2023	-	6,467.75			
10/1/2023	154,587.82	6,467.75			
4/1/2024	-	3,375.99			
10/1/2024	168,799.46	3,375.99			
<b>Grand Total</b>				<b>1,404,051.83</b>	<b>424,798.43</b>



**MADISON WATER UTILITY**

**City Loan to Water Utility Repayment Schedule**

	Payments	Remaining Balance
12/31/2010 Balance Due to City on Loan		8,245,000
12/31/2011 Repayments due to City	2,125,000	6,120,000
12/31/2012 Repayments due to City	765,000	5,355,000
12/31/2013 Repayments due to City	765,000	4,590,000
12/31/2014 Repayments due to City	765,000	3,825,000
12/31/2015 Repayments due to City	765,000	3,060,000
12/31/2016 Repayments due to City	765,000	2,295,000
12/31/2017 Repayments due to City	765,000	1,530,000
12/31/2018 Repayments due to City	765,000	765,000
12/31/2019 Repayments due to City	765,000	0

Interest payable on unpaid balance calculated  
at pool earnings rate plus .25%