

Internal Monitoring Report

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

Date: September 23, 2016

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 Utility's 2017 Capital Budget Request of \$25,484,500 was reviewed by the City's Board of Estimates on September 12, 2016. The 2017 Operating Budget Request of \$43,958,864 was submitted to the City Finance department on July 20, 2016. The Board of Estimates is scheduled to review operating budget requests on October 10, 11 and 12, 2016.

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.

I report compliance.

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

The 2017 Operating Budget is a balanced budget as submitted. We continue to work on 2016 operating expenditures and income reports.

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 23, 2016, capital expenditures totaled \$14,213,892 compared to the budget of \$29,675,000 for the 2016 fiscal year.

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. We continue to work on the Utility's fund balance report.

I report compliance.

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

The last bond issue was on December 17, 2015. The Utility is in discussion with Springsted, its financial advisor, about a possible refunding bond issue and revenue bond sale before the end of the year.

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 has requested and received an application to increase rates from the Public Service Commission of Wisconsin on August 26, 2016. We hope to file the application by the end of the year.

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.