



Date: October 17, 2018
To: Water Utility Board
From: Tom Heikkinen, General Manager
Subject: MWU Financial Update

Rate Case

The Commission issued its decision at its Open Meeting on October 11th. The revenue increase of \$10.3M was approved. PSC staff have indicated that the Final Decision will be served by October 26th. The effective date is the following day, meaning that MWU will have two months of revenue in 2018 at the new rates, approximately \$1.8M.

We will begin work on the next rate case immediately following the conclusion of the current one. We are projecting revenue increase needs of 3% annually from 2020 through 2024 to fund infrastructure replacement and to keep up with inflation.

Debt Issuance Plans

A bond sale is scheduled for December 4th. The issuance will have two parts. The first part is \$30M of non-taxable revenue bonds to fund budgeted capital projects through 2019. The second part is a \$9M 10 year taxable note to provide operating cash for 2017 and 2018. This is a change from previous plans. It is the decision of the City Finance Director to do it this way rather than an advance from the General Fund. Since the previous advance of 10 years ago will be paid off next year, this also means that the Utility will not owe any money to the City general fund at the end of 2019.

Moody's affirmed all current bond ratings for the City of Madison (Aaa on the General Obligation debt and AA2 on the Water and Sewer debt.) The outlook was changed from stable to negative because of the Water Utility's narrow liquidity. Building up cash reserves and moderating debt load will improve the outlook in the future.

The current rate increase provides more than enough coverage to afford the additional debt.

Financial projections

At this point we are projecting the following:

2018 year end unrestricted cash balance	\$3.7M
2018 year end debt coverage	1.10x
2019 year end unrestricted cash balance	\$1.0M
2019 year end debt coverage	1.56x

Water Utility staff will be presenting a financial update to the Finance Committee at their November 26th meeting. Water Utility Board members are invited to attend.

Water Utility Chief Financial Officer

HR has screened the applicants down to 10 qualified candidates. First round interviews are scheduled for the first week of November. Up to three finalists will be advanced to the final round.