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**Madison
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Date: November 20, 2018
To: Water Utility Board
From: Tom Heikkinen, General Manager
Subject: MWU Financial Update

Rate Case

The PSC Final Decision was served on November 1st. Our first billing cycle to have the new rates will be for any water consumed after November 6th. MWU will have approximately two months of revenue in 2018 at the new rates, equating to \$1.8M.

Order points 4 and 5 relate to disallowed construction costs for the Paterson St. Operations Center and Unit Well No. 31. This does not impact our customers or the revenues of the Water Utility, since the allowed rate of return of 8.00% provides sufficient funds for debt service. There is a small impact on the PILOT payment. The maximum allowable PILOT payment will be approximately \$115,000 less than if all costs were allowed in the rate base. The PILOT payment is budgeted at \$7.5M for 2019.

For further details and staff's view on this matter, see the document titled MWU_ReplyBriefConstructionAuthorization.pdf attached to the November 27, 2018 WUB meeting agenda.

Of interest please note the following statement on page 30 of the Order:

Rates have risen because of a 26.9 percent increase in gross plant investment and a 6.4 percent increase in operating expenses since MWU's last rate case in 2015. The typical bills calculated using the authorized rates are slightly below average when compared with those of similar water utilities in the state.

We requested and received a new rate application, and will begin to estimate expenses based on a 2019 test year to determine the feasibility of filing for new rates to be effective in 2020. We are projecting rate increase needs of 3% annually from 2020 through 2023 to fund infrastructure replacement and to keep up with inflation.

Debt Issuance Plans

A bond sale is scheduled for December 4th. All of the information associated with this sale is contained in the Preliminary Official Statement, attached to the meeting agenda.

A ratings call with Moody's was held on November 19th. Moody's will issue a draft report on November 30th. I am cautiously optimistic that our AA2 rating will be affirmed, albeit with the negative outlook assigned in October. Building up cash reserves and moderating debt load will improve the outlook in the future. Moody's Rating Scale and Definitions is attached to the meeting agenda for your information.

A list of projects to be funded by the revenue bond proceeds is attached to the meeting agenda.

Financial projections

Please see the attached Income Statement Summary from our financial planning model for details regarding projected cash balances and rate needs for the next 10 years.

Water Utility Chief Financial Officer

As of the date of this writing, the job has been offered to a highly qualified candidate and I am awaiting the candidate's final decision on acceptance.