

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 16, 2018

NEW ISSUE
NOT BANK QUALIFIED – THE BONDS

Moody's Ratings: Requested

In the opinion of Foley & Lardner LLP, Bond Counsel, under existing law and assuming continued compliance with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds is excluded from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on all taxpayers; however, interest on the Bonds is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations for taxable years beginning on or before December 31, 2017. See "TAX MATTERS - THE BONDS" herein for a more detailed discussion of some of the federal income tax consequences of owning the Bonds. The interest on the Notes is includible in gross income for federal income tax purposes. See "TAX MATTERS - THE NOTES" herein. Interest on the Obligations is not exempt from current State of Wisconsin income or franchise taxes.

City of Madison, Wisconsin

\$30,765,000*

**Water Utility Revenue Bonds, Series 2018A
(the "Bonds")**

\$9,605,000*

**Taxable Water Utility Revenue Notes,
Series 2018B (the "Notes")**

Dated Date: Date of Delivery

**Interest Due: Each January 1 and July 1,
commencing July 1, 2019**

The Notes and the Bonds (collectively, the "Obligations") will mature and bear interest as shown on the inside front cover of this Official Statement.

Bids for the Obligations may contain a maturity schedule providing for a combination of serial bonds and term bonds. All term bonds shall be subject to mandatory sinking fund redemption, at a price of par plus accrued interest to the date of redemption, scheduled to conform to the applicable maturity schedule set forth on the inside front cover.

The Obligations are being issued pursuant to Section 66.0621 of the Wisconsin Statutes. The Obligations will be special obligations of the City of Madison, Wisconsin (the "City") payable solely from net revenues of the City's waterworks system (the "System") operated by the City's water utility (the "Utility") and shall not constitute a debt for which the full faith and credit or taxing powers of the City will be pledged. The proceeds of the Bonds will be used to finance (i) various capital projects identified in the City's 2017, 2018, and 2019 Water Utility Projected Annual Capital Spending Plans; (ii) a deposit to the Reserve Account of the Special Redemption Fund; and (iii) costs of issuance of the Bonds. The proceeds of the Notes will be used to finance (i) certain operating costs relating to the System; (ii) a deposit to the Reserve Account of the Special Redemption Fund; and (iii) costs of issuance of the Notes.

A separate bid must be submitted for each series of the Obligations in the minimum bid amounts of (i) \$31,182,856 for the Bonds and (ii) \$9,547,370 for the Notes, plus accrued interest, if any. Bids shall specify rates in multiples of 1/100 or 1/8 of 1%. The **Bonds** shall bear interest at a rate or rates not exceeding 4.00% per annum, to be fixed by the bids therefor. The initial price to the public for each maturity of each series of the Obligations as stated on the bid must be 98.0% or greater. Following receipt of bids, a good faith deposit for each series of the Obligations will be required to be delivered to the City by the lowest bidder as described in each "Official Terms of Offering" herein. Award of each series of the Obligations will be made on the basis of true interest cost (TIC).

The Obligations will be issued as fully registered obligations without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the Obligations. Individual purchases may be made in book entry form only, in the principal amount of \$5,000 and multiples thereof. Investors will not receive physical certificates representing their interest in the Obligations purchased. (See "Book Entry System" herein.) U.S. Bank National Association, located in Milwaukee, Wisconsin, will act as authentication agent, paying agent, and registrar (the "Fiscal Agent") for the Obligations. The anticipated settlement date for the Obligations is on or about December 20, 2018.

This cover page contains certain information for quick reference only. It is not a summary of the Obligations. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

BID OPENING: Tuesday, December 4, 2018 at 10:30 A.M., Central Time

**CONSIDERATION OF AWARD: Common Council meeting commencing at 6:30 P.M., Central Time on
Tuesday, December 4, 2018**



Further information may be obtained from SPRINGSTED Incorporated, Municipal Advisor to the City, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101-2887 (651) 223-3000.

* Preliminary; subject to change.

The information contained in this Preliminary Official Statement is deemed by the City to be final as of the date hereof; however, the pricing and underwriting information is subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

City of Madison, Wisconsin

\$30,765,000* Water Utility Revenue Bonds, Series 2018A

The Bonds will mature January 1 in the years and amounts* as follows:

2020	\$1,020,000	2024	\$1,235,000	2028	\$1,445,000	2032	\$1,655,000	2036	\$1,895,000
2021	\$1,095,000	2025	\$1,285,000	2029	\$1,500,000	2033	\$1,710,000	2037	\$1,965,000
2022	\$1,140,000	2026	\$1,335,000	2030	\$1,550,000	2034	\$1,770,000	2038	\$2,040,000
2023	\$1,185,000	2027	\$1,390,000	2031	\$1,600,000	2035	\$1,830,000	2039	\$2,120,000

The Bonds maturing on and after January 1, 2028 are subject to redemption at the option of the City on January 1, 2027 and on any date thereafter at a price of par plus accrued interest.

\$9,605,000* Taxable Water Utility Revenue Notes, Series 2018B

The Notes will mature January 1 in the years and amounts* as follows:

2020	\$925,000	2022	\$ 995,000	2024	\$1,060,000	2026	\$1,135,000	2028	\$1,225,000
2021	\$960,000	2023	\$1,025,000	2025	\$1,100,000	2027	\$1,180,000		

The Notes will not be subject to optional redemption in advance of their respective stated maturity dates.

* Preliminary; subject to change.

CITY OF MADISON, WISCONSIN

COMMON COUNCIL

Samba Baldeh, Council President
Sheri Carter, Council Vice President
Barbara Harrington-McKinney
Ledell Zellers
Amanda Hall
Michael Verveer
Shiva Bidar-Sielaff
Marsha Rummel
Steve King
Zach Wood

Paul Skidmore
Maurice Cheeks
Arvina Martin
Larry Palm
Allen Arntsen
David Ahrens
Mike Tierney
Rebecca Kemble
Keith Furman
Matt Phair

MAYOR

Paul R. Soglin

SENIOR APPOINTED STAFF

David Schmiedicke, Finance Director
Kwasi Obeng, Council Chief of Staff
Michelle Drea (acting), City Assessor
Michael May, City Attorney
Maribeth Witzel-Behl, City Clerk
David Gawenda, City Treasurer
Norman Davis, Civil Rights Director
Tresa Fuchs-Martinez, Employee Assistance
Program Administrator
Steven Davis, Fire Chief
Harper Donahue, IV, Human Resources Director
Sarah Edgerton (acting), Information
Technology Director
Gregory Mickells, Library Director
Gregg McManners, Monona Terrace Director
Michael Koval, Police Chief
Janel Heinrich, Public Health Director
Robert Phillips, City Engineer
Mahanth Joishy, Fleet Service Superintendent

Eric Knepp, Park Superintendent
Charles Romines, Street Superintendent
Yang Tao (acting), Traffic Engineer and Parking
Manager
Charles Kamp, Metro Transit General Manager
Thomas Heikkinen, Water Utility
General Manager
Natalie Erdman, Planning and Development
Director
James O'Keefe, Community Development
Division Director
Matthew Mikolajewski, Economic Development
Division Director
Tom Conrad (acting), CDA Executive Director
George Hank, Building Inspection Division
Director
Heather Stouder, Planning Division Director
Thomas Lynch, Transportation Director

MUNICIPAL ADVISOR

Springsted Incorporated
Saint Paul, Minnesota and Milwaukee, Wisconsin

BOND COUNSEL

Foley & Lardner LLP
Milwaukee, Wisconsin

FISCAL AGENT

U.S. Bank National Association
Milwaukee, Wisconsin

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), this document, as it may be supplemented or corrected by the City from time to time, may be treated as a Preliminary Official Statement with respect to the Obligations described herein that is deemed final except for information permitted to be omitted under the Rule as of the date hereof (or of any such supplement or correction) by the City.

By awarding the Obligations to any underwriter or underwriting syndicate submitting a bid therefor, the City agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior managing underwriter of the syndicate to which the respective Obligations are awarded copies of the Final Official Statement in the amount specified in each Official Terms of Offering.

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations with respect to the Obligations, other than as contained in the Preliminary Official Statement or the Final Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City.

Certain information contained in the Preliminary Official Statement or the Final Official Statement may have been obtained from sources other than records of the City and, while believed to be reliable, is not guaranteed as to completeness or accuracy. THE INFORMATION AND EXPRESSIONS OF OPINION IN THE PRELIMINARY OFFICIAL STATEMENT AND THE FINAL OFFICIAL STATEMENT ARE SUBJECT TO CHANGE, AND NEITHER THE DELIVERY OF THE PRELIMINARY OFFICIAL STATEMENT OR THE FINAL OFFICIAL STATEMENT NOR ANY SALE MADE UNDER EITHER SUCH DOCUMENT SHALL CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY SINCE THE RESPECTIVE DATE THEREOF.

References herein to laws, rules, regulations, resolutions, agreements, reports and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices to the Preliminary Official Statement or the Final Official Statement, they will be furnished upon request.

Any CUSIP numbers for the Obligations included in the Final Official Statement are provided for convenience of the owners and prospective investors. The CUSIP numbers for the Obligations are assigned by an organization unaffiliated with the City. The City is not responsible for the selection of the CUSIP numbers and makes no representation as to the accuracy thereof as printed on the Obligations or as set forth in the Final Official Statement. No assurance can be given by the City that the CUSIP numbers for the Obligations will remain the same after the delivery of the Final Official Statement or after the date of issuance and delivery of the Obligations.

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* *Preliminary; subject to change.*

OFFICIAL TERMS OF OFFERING

\$30,765,000*

CITY OF MADISON, WISCONSIN WATER UTILITY REVENUE BONDS, SERIES 2018A

(BOOK ENTRY ONLY)

Bids for the above-referenced obligations (the “Bonds”) will be received on Tuesday, December 4, 2018, (the “Sale Date”) until 10:30 A.M., Central Time at the offices of Springsted Incorporated (“Springsted”), 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101, after which time bids will be opened and tabulated. The award of the Bonds will be by resolution (the “Award Resolution”) of the Common Council of the City of Madison, Wisconsin (the “City”) at its meeting to be held at 6:30 P.M., Central Time, on the Sale Date.

SUBMISSION OF BIDS

Neither the City nor Springsted will assume any liability for the inability of a bidder to reach Springsted prior to the time specified above on the Sale Date. All bidders are advised that each bid shall be deemed to constitute a contract between the bidder and the City to purchase the Bonds regardless of the manner by which the bid is submitted.

(a) **Sealed bidding.** Bids may be submitted in a sealed envelope or by fax (651) 223-3046 to Springsted. Signed bids, without final price or coupons, may be submitted to Springsted prior to the time of sale on the Sale Date. The bidder shall be responsible for submitting to Springsted the final bid price and coupons, by telephone (651) 223-3000 or fax (651) 223-3046 for inclusion in the submitted bid.

OR

(b) **Electronic bidding.** Notice is hereby given that electronic bids will be received via PARITY®. For purposes of the electronic bidding process, the time as maintained by PARITY® shall constitute the official time with respect to all bids submitted to PARITY®. *Each bidder shall be solely responsible for making necessary arrangements to access PARITY® for purposes of submitting its electronic bid in a timely manner and in compliance with the requirements of the Official Terms of Offering.* Neither the City, its agents nor PARITY® shall have any duty or obligation to undertake registration to bid for any prospective bidder or to provide or ensure electronic access to any qualified prospective bidder, and neither the City, its agents nor PARITY® shall be responsible for a bidder’s failure to register to bid or for any failure in the proper operation of, or have any liability for any delays or interruptions of or any damages caused by the services of PARITY®. The City is using the services of PARITY® solely as a communication mechanism to conduct the electronic bidding for the Bonds, and PARITY® is not an agent of the City.

If any provisions of this Official Terms of Offering conflict with information provided by PARITY®, these Official Terms of Offering shall control. Further information about PARITY®, including any fee charged, may be obtained from:

PARITY®, 1359 Broadway, 2nd Floor, New York, New York 10018
Customer Support: (212) 849-5000

* Preliminary; subject to change.

DETAILS OF THE BONDS

The Bonds will be dated as of their date of delivery, and will bear interest payable on January 1 and July 1 of each year, commencing July 1, 2019. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Bonds will mature January 1 in the years and amounts* as follows:

2020	\$1,020,000	2024	\$1,235,000	2028	\$1,445,000	2032	\$1,655,000	2036	\$1,895,000
2021	\$1,095,000	2025	\$1,285,000	2029	\$1,500,000	2033	\$1,710,000	2037	\$1,965,000
2022	\$1,140,000	2026	\$1,335,000	2030	\$1,550,000	2034	\$1,770,000	2038	\$2,040,000
2023	\$1,185,000	2027	\$1,390,000	2031	\$1,600,000	2035	\$1,830,000	2039	\$2,120,000

* *The City reserves the right, after bids are opened and prior to award, to increase or reduce the principal amount of the Bonds or the amount of any maturity in multiples of \$5,000. In the event the amount of any maturity is modified, the aggregate purchase price will be adjusted to result in the same gross spread per \$1,000 of Bonds as that of the original bid. Gross spread is the differential between the price paid to the City for the Bonds and the prices at which the Bonds are initially offered to the investing public.*

Bids for the Bonds may contain a maturity schedule providing for a combination of serial bonds and term bonds. All term bonds shall be subject to partial mandatory sinking fund redemptions at a price of par plus accrued interest to the date of redemption. The redemption dates shall be scheduled to conform to the maturity schedule set forth above. In order to designate term bonds, the bid must specify "Years of Term Maturities" in the spaces provided on the bid form.

BOOK ENTRY SYSTEM

The Bonds will be issued by means of a book entry system with no physical distribution of Bonds made to the public. The Bonds will be issued in fully registered form and one Bond, representing the aggregate principal amount of the Bonds maturing in each year, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Bonds. Individual purchases of the Bonds may be made in the principal amount of \$5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the registrar to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The winning bidder, as a condition of delivery of the Bonds, will be required to deposit the Bonds with DTC or its FAST agent (as hereinafter defined).

FISCAL AGENT/REGISTRAR

U.S. Bank National Association, Milwaukee, Wisconsin will act as authentication agent, paying agent, and registrar for the Bonds (the "Fiscal Agent"), and shall be subject to applicable regulations of the Securities and Exchange Commission. The City will pay for the services of the Fiscal Agent. The Fiscal Agent is a FAST agent for DTC.

OPTIONAL REDEMPTION

The City may elect to redeem, on January 1, 2027, and on any date thereafter, Bonds due on or after January 1, 2028. Redemption may be in whole or in part and if in part from maturities selected by the City. If less than all Bonds of a maturity are called for redemption, then the City will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine the amount of each participant's interest in such maturity to be redeemed and each participant will then select the beneficial ownership interests in such maturity to be redeemed. All redemptions shall be at a price of par plus accrued interest.

SECURITY AND PURPOSE

The Bonds will be special obligations of the City payable solely from net revenues of the City's waterworks system (the "System") operated by the City's water utility (the "Utility") and shall not constitute a debt for which the full faith and credit or taxing powers of the City will be pledged. The proceeds of the Bonds will be used to finance (i) various capital projects identified in the City's 2017, 2018, and 2019 Water Utility Projected Annual Capital Spending Plans; (ii) a deposit to the Reserve Account of the Special Redemption Fund; and (iii) costs of issuance of the Bonds.

TAX STATUS

In the opinion of Foley & Lardner LLP, bond counsel, under existing law, interest on the Bonds will be excluded from gross income for federal income tax purposes. Interest on the Bonds will not be exempt from current State of Wisconsin income or franchise taxes.

NOT QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will not designate the Bonds as "qualified tax-exempt obligations" for the purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

BIDDING PARAMETERS

Bids shall be for not less than \$31,182,856 plus accrued interest, if any, on the total principal amount of the Bonds. No bid can be withdrawn or amended after the time set for receiving bids on the Sale Date unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made. Rates shall be in multiples of 1/100 or 1/8 of 1%. The Bonds shall bear interest at a rate or rates not exceeding 4.00% per annum, to be fixed by the bids therefor. The initial price to the public for each maturity as stated on the bid must be 98.0% or greater. Bonds of the same maturity shall bear a single rate from the date of the Bonds to the date of maturity. No conditional bids will be accepted.

ESTABLISHMENT OF ISSUE PRICE

The winning bidder shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City on the Closing Date (as hereinafter defined) an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications, and compliance with the representations and covenants below, and identifying all underwriters for purposes of the issue price rules.

The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "**competitive sale requirements**") because:

- (1) the City shall disseminate these Official Terms of Offering to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City expects to receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the lowest true interest cost, as set forth in this Official Terms of Offering.

Any bid submitted pursuant to these Official Terms of Offering shall be considered a firm offer for the purchase of the Bonds, as specified in the bid.

In the event that the competitive sale requirements are not satisfied, the City shall so advise the winning bidder. In that event, the winning bidder shall be required to elect at the time of the acceptance of the bid whether to comply with its obligations to assist the City in establishing the “issue price” of the Bonds on the basis of the “general rule” or on the basis of the “hold-the-offering price” rule, as further described below. If the winning bidder makes no express election, it shall be treated as having elected to apply the “general rule”.

Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied. Bidders should prepare their bids on the assumption that all of the maturities of the Bonds will be subject to either the “general rule” or the “hold-the-offering price” rule, as applicable, to establish the issue price of the Bonds.

For purposes of the agreements and representations of the underwriters, the “**10 percent test**” is met when the first 10% of a maturity is first sold to the public at a single price. The winning bidder shall advise the City if any maturity of the Bonds satisfies the 10% test as of the date and time of the award of the Bonds. The winning bidder shall also promptly advise the City, at or before the time of award of the Bonds, which maturities of the Bonds shall be subject to the “general rule” and which shall be subject to the “hold-the-offering-price rule”.

If the winning bidder elects to comply on the basis of the “**general rule**”, the City intends treat the first price at which 10% of a maturity of the Bonds is sold to the public as the issue price of that maturity, applied on a maturity-by-maturity basis. The City, however, may in its sole discretion choose to apply one or more different interpretations of the issue price rule for purposes of its federal income tax compliance (for example, by averaging the prices at which the first 10% is sold). Until the 10% test has been satisfied as to each maturity of the Bonds, the winning bidder agrees to promptly report to the City and to its financial advisor the prices at which the unsold Bonds of that maturity have been sold to the public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold. If such election is made, the City will not require bidders to comply with the “hold-the-offering-price rule”.

If the winning bidder elects to comply on the basis of the “**hold-the-offering-price rule**”, the City may determine to treat (i) the first price at which 10% of a maturity of the Bonds is sold to the public as the issue price of that maturity and/or (ii) the initial offering price to the public as of the Sale Date of any maturity of the Bonds as the issue price of that maturity, in each case applied on a maturity-by-maturity basis.

By electing the hold-the-offering-price rule, the winning bidder (i) agrees to confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the “**initial offering price**”), or at the corresponding yield or yields, set forth in the bid submitted by the winning bidder, and (ii) agrees, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the Sale Date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the Sale Date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the City and its financial advisor when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the Sale Date.

The City acknowledges that, in making the representations set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires and representations relating to actual sales,

(ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires and representations relating to actual sales, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires, and representations relating to actual sales.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of these Official Terms of Offering. Further, for purposes of this section of these Official Terms of Offering:

- (i) “**public**” means any person (including any individual, trust, estate, partnership, association or corporation) other than an underwriter or a related party,
- (ii) “**underwriter**” means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public).
- (iii) a person is a “**related party**” to an underwriter if the underwriter and the person are subject, directly or indirectly, to (A) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations for tax purposes (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships for tax purposes (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership for tax purposes (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) “**maturity**” means each maturity of substantially identical Bonds. For this purpose, Bonds are not treated as substantially identical if they have different credit or payment terms. For example, Bonds having the same nominal maturity are not treated as having the same “maturity” for this purpose if they have different interest rates.

GOOD FAITH DEPOSIT

To have its bid considered for award, the winning bidder is required to submit a good faith deposit to the City in the amount of \$307,650 (the "Deposit") no later than 1:30 P.M., Central Time on the Sale Date. The Deposit may be delivered in the form of either (i) a certified or cashier's check payable to the City; or (ii) a wire transfer. The winning bidder shall be solely responsible for the timely delivery of its Deposit whether by check or wire transfer. Neither the City nor Springsted have any liability for delays in the receipt of the Deposit. If the Deposit is not received by the specified time on the Sale Date then, the City may, at its sole discretion, reject the bid of the winning bidder, direct the second lowest bidder to submit a Deposit, and thereafter award the sale to such bidder provided such bidder has agreed to the award.

Certified or Cashier's Check. A Deposit made by certified or cashier's check will be considered timely delivered to the City if it is made payable to the City and delivered to Springsted Incorporated, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101 for receipt by the above specified time on the Sale Date.

Wire Transfer. A Deposit made by wire will be considered timely delivered to the City upon receipt of a federal wire reference number by the above specified time on the Sale Date. Wire transfer instructions will be available from Springsted following the receipt and tabulation of bids. The winning bidder must send an e-mail including the following information: (i) the federal reference number and time released; (ii) the amount of the wire transfer; and (iii) reference to the Bonds.

After an award has been made, the Deposit received from the winning bidder will be retained by the City and no interest will accrue to the winning bidder. The amount of the Deposit will be deducted on the Closing Date from the purchase price. In the event the winning bidder fails to comply with the accepted bid, the Deposit will be retained by the City.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a true interest cost (TIC) basis calculated on the bid prior to any adjustment made by the City. The City's computation of the interest rate of each bid, in accordance with customary practice, will be controlling.

The City will reserve the right to: (i) waive non-substantive informalities of any bid or of matters relating to the receipt of bids and award of the Bonds, (ii) reject all bids without cause, and (iii) reject any bid that the City determines to have failed to comply with the terms herein.

BOND INSURANCE AT PURCHASER'S OPTION

The City has **not** applied for or pre-approved a commitment for any policy of municipal bond insurance with respect to the Bonds. If the Bonds qualify for municipal bond insurance and a bidder desires to purchase a policy, such indication, the maturities to be insured, and the name of the desired insurer must be set forth on the bidder's official bid form. Such bidder must provide to bond counsel any language required to be included in the Award Resolution by the insurer not later than 2 P.M. Central Time on the Sale Date. The City specifically reserves the right to reject any bid specifying municipal bond insurance, even though such bid may result in the lowest TIC to the City. All costs associated with the issuance and administration of such policy and associated ratings and expenses (other than any independent rating requested by the City) shall be paid by the winning bidder. Failure of the municipal bond insurer to issue the policy after the award of the Bonds shall not constitute cause for failure or refusal by the winning bidder to pay for and accept delivery of the Bonds.

CUSIP NUMBERS

If the Bonds qualify for the assignment of CUSIP numbers such numbers will be printed on the Bonds; however, neither the failure to print such numbers on any Bond nor any error with respect thereto will constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds. Springsted

will apply for CUSIP numbers pursuant to Rule G-34 implemented by the Municipal Securities Rulemaking Board. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the winning bidder.

CLOSING DATE

On or about December 20, 2018 (the "Closing Date"), the Bonds will settle through DTC in New York, New York. The Bonds will be delivered to DTC or the Fiscal Agent in its capacity as a Fast Automated Securities Transfer Program ("FAST") closing agent of DTC without cost to the winning bidder. Delivery will be subject to receipt by the winning bidder of an approving legal opinion of Foley & Lardner LLP, and of customary closing papers, including a no-litigation certificate. On the Closing Date, payment for the Bonds shall be made in federal, or equivalent, funds that shall be received at the offices of the City or its designee not later than 12:00 Noon, Central Time. Unless compliance with the terms of payment for the Bonds has been made impossible by action of the City, or its agents, the winning bidder shall be liable to the City for any loss suffered by the City by reason of the winning bidder's non-compliance with said terms for payment.

CONTINUING DISCLOSURE

The City will enter into a Continuing Disclosure Agreement with respect to the Bonds on the Closing Date whereby the City will agree to provide to the Municipal Securities Rulemaking Board audited annual financial statements of the Utility, updated information of the Utility set forth in the section(s) of the Official Statement that describes water rates, billing practices, five-year balance sheets and comparative income statements, and debt service and coverage ratios, as well as notices of certain listed events as specified in and required by SEC Rule 15c2-12(b)(5).

OFFICIAL STATEMENT

The City has authorized the preparation of a Preliminary Official Statement containing pertinent information relative to the Bonds, and said Preliminary Official Statement will be deemed final for purposes of Rule 15c2-12 of the Securities and Exchange Commission, except for information permitted to be omitted under paragraph (b)(1) of that Rule. For copies of the Preliminary Official Statement and the official bid form or for any additional information prior to the time of the sale on the Sale Date, any prospective bidder is referred to the municipal advisor to the City, Springsted Incorporated, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101, telephone (651) 223-3000.

A Final Official Statement (as that term is defined in Rule 15c2-12) will be prepared specifying the maturity dates, principal amounts, and interest rates of the Bonds, together with any other information required by law. The City agrees that, no more than seven business days after the Sale Date, it shall provide without cost to the winning bidder up to 10 paper copies and an electronic version of the Final Official Statement. The City designates the winning bidder as its agent for purposes of distributing copies of the Final Official Statement to each participating underwriter. The winning bidder agrees that (i) it shall accept the award of the Bonds by the City; and (ii) it shall enter into a contractual relationship with all participating underwriters of the Bonds for purposes of assuring the receipt by each such participating underwriter of the Final Official Statement.

BY ORDER OF THE COMMON COUNCIL

/s/ Maribeth Witzel-Behl
City Clerk

OFFICIAL TERMS OF OFFERING

\$9,605,000*

CITY OF MADISON, WISCONSIN

TAXABLE WATER UTILITY REVENUE NOTES, SERIES 2018B

(BOOK ENTRY ONLY)

Bids for the above-referenced obligations (the “Notes”) will be received on Tuesday, December 4, 2018, (the “Sale Date”) until 10:30 A.M., Central Time at the offices of Springsted Incorporated (“Springsted”), 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101, after which time bids will be opened and tabulated. The award of the Notes will be by resolution (the “Award Resolution”) of the Common Council of the City of Madison, Wisconsin (the “City”) at its meeting to be held at 6:30 P.M., Central Time, on the Sale Date.

SUBMISSION OF BIDS

Neither the City nor Springsted will assume any liability for the inability of a bidder to reach Springsted prior to the time specified above on the Sale Date. All bidders are advised that each bid shall be deemed to constitute a contract between the bidder and the City to purchase the Notes regardless of the manner by which the bid is submitted.

(a) **Sealed bidding.** Bids may be submitted in a sealed envelope or by fax (651) 223-3046 to Springsted. Signed bids, without final price or coupons, may be submitted to Springsted prior to the time of sale on the Sale Date. The bidder shall be responsible for submitting to Springsted the final bid price and coupons, by telephone (651) 223-3000 or fax (651) 223-3046 for inclusion in the submitted bid.

OR

(b) **Electronic bidding.** Notice is hereby given that electronic bids will be received via PARITY®. For purposes of the electronic bidding process, the time as maintained by PARITY® shall constitute the official time with respect to all bids submitted to PARITY®. *Each bidder shall be solely responsible for making necessary arrangements to access PARITY® for purposes of submitting its electronic bid in a timely manner and in compliance with the requirements of the Official Terms of Offering.* Neither the City, its agents nor PARITY® shall have any duty or obligation to undertake registration to bid for any prospective bidder or to provide or ensure electronic access to any qualified prospective bidder, and neither the City, its agents nor PARITY® shall be responsible for a bidder’s failure to register to bid or for any failure in the proper operation of, or have any liability for any delays or interruptions of or any damages caused by the services of PARITY®. The City is using the services of PARITY® solely as a communication mechanism to conduct the electronic bidding for the Notes, and PARITY® is not an agent of the City.

If any provisions of this Official Terms of Offering conflict with information provided by PARITY®, these Official Terms of Offering shall control. Further information about PARITY®, including any fee charged, may be obtained from:

PARITY®, 1359 Broadway, 2nd Floor, New York, New York 10018
Customer Support: (212) 849-5000

* Preliminary; subject to change.

DETAILS OF THE NOTES

The Notes will be dated as of their date of delivery, and will bear interest payable on January 1 and July 1 of each year, commencing July 1, 2019. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Notes will mature January 1 in the years and amounts* as follows:

2020	\$925,000	2022	\$ 995,000	2024	\$1,060,000	2026	\$1,135,000	2028	\$1,225,000
2021	\$960,000	2023	\$1,025,000	2025	\$1,100,000	2027	\$1,180,000		

* *The City reserves the right, after bids are opened and prior to award, to increase or reduce the principal amount of the Notes or the amount of any maturity in multiples of \$5,000. In the event the amount of any maturity is modified, the aggregate purchase price will be adjusted to result in the same gross spread per \$1,000 of Notes as that of the original bid. Gross spread is the differential between the price paid to the City for the Notes and the prices at which the Notes are initially offered to the investing public.*

Bids for the Notes may contain a maturity schedule providing for a combination of serial bonds and term bonds. All term bonds shall be subject to partial mandatory sinking fund redemptions at a price of par plus accrued interest to the date of redemption. The redemption dates shall be scheduled to conform to the maturity schedule set forth above. In order to designate term bonds, the bid must specify “Years of Term Maturities” in the spaces provided on the bid form.

BOOK ENTRY SYSTEM

The Notes will be issued by means of a book entry system with no physical distribution of Notes made to the public. The Notes will be issued in fully registered form and one Note, representing the aggregate principal amount of the Notes maturing in each year, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Notes. Individual purchases of the Notes may be made in the principal amount of \$5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the registrar to DTC or its nominee as registered owner of the Notes. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The winning bidder, as a condition of delivery of the Notes, will be required to deposit the Notes with DTC or its FAST agent (as hereinafter defined).

FISCAL AGENT/REGISTRAR

U.S. Bank National Association, Milwaukee, Wisconsin will act as authentication agent, paying agent, and registrar for the Notes (the “Fiscal Agent”), and shall be subject to applicable regulations of the Securities and Exchange Commission. The City will pay for the services of the Fiscal Agent. The Fiscal Agent is a FAST agent for DTC.

OPTIONAL REDEMPTION

The Notes will not be subject to optional redemption in advance of their respective stated maturity dates.

SECURITY AND PURPOSE

The Notes will be special obligations of the City payable solely from net revenues of the City’s waterworks system (the “System”) operated by the City’s water utility (the “Utility”) and shall not constitute a debt for which the full faith and credit or taxing powers of the City will be pledged. The proceeds of the Notes will be used to finance (i) certain operating costs relating to the System; (ii) a deposit to the Reserve Account of the Special Redemption Fund; and (iii) costs of issuance of the Notes.

TAXABILITY OF INTEREST

The interest to be paid on the Notes is includable in gross income of the recipient for United States income tax and State of Wisconsin income and franchise tax purposes.

BIDDING PARAMETERS

Bids shall be for not less than \$9,547,370 plus accrued interest, if any, on the total principal amount of the Notes. No bid can be withdrawn or amended after the time set for receiving bids on the Sale Date unless the meeting of the City scheduled for award of the Notes is adjourned, recessed, or continued to another date without award of the Notes having been made. Rates shall be in multiples of 1/100 or 1/8 of 1%. The initial price to the public for each maturity as stated on the bid must be 98.0% or greater. Notes of the same maturity shall bear a single rate from the date of the Notes to the date of maturity. No conditional bids will be accepted.

GOOD FAITH DEPOSIT

To have its bid considered for award, the winning bidder is required to submit a good faith deposit to the City in the amount of \$96,050 (the "Deposit") no later than 1:30 P.M., Central Time on the Sale Date. The Deposit may be delivered in the form of either (i) a certified or cashier's check payable to the City; or (ii) a wire transfer. The winning bidder shall be solely responsible for the timely delivery of its Deposit whether by check or wire transfer. Neither the City nor Springsted have any liability for delays in the receipt of the Deposit. If the Deposit is not received by the specified time on the Sale Date then, the City may, at its sole discretion, reject the bid of the winning bidder, direct the second lowest bidder to submit a Deposit, and thereafter award the sale to such bidder provided such bidder has agreed to the award.

Certified or Cashier's Check. A Deposit made by certified or cashier's check will be considered timely delivered to the City if it is made payable to the City and delivered to Springsted Incorporated, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101 for receipt by the above specified time on the Sale Date.

Wire Transfer. A Deposit made by wire will be considered timely delivered to the City upon receipt of a federal wire reference number by the above specified time on the Sale Date. Wire transfer instructions will be available from Springsted following the receipt and tabulation of bids. The winning bidder must send an e-mail including the following information: (i) the federal reference number and time released; (ii) the amount of the wire transfer; and (iii) reference to the Notes.

After an award has been made, the Deposit received from the winning bidder will be retained by the City and no interest will accrue to the winning bidder. The amount of the Deposit will be deducted on the Closing Date (as hereinafter defined) from the purchase price. In the event the winning bidder fails to comply with the accepted bid, the Deposit will be retained by the City.

AWARD

The Notes will be awarded to the bidder offering the lowest interest rate to be determined on a true interest cost (TIC) basis calculated on the bid prior to any adjustment made by the City. The City's computation of the interest rate of each bid, in accordance with customary practice, will be controlling.

The City will reserve the right to: (i) waive non-substantive informalities of any bid or of matters relating to the receipt of bids and award of the Notes, (ii) reject all bids without cause, and (iii) reject any bid that the City determines to have failed to comply with the terms herein.

BOND INSURANCE AT PURCHASER'S OPTION

The City has **not** applied for or pre-approved a commitment for any policy of municipal bond insurance with respect to the Notes. If the Notes qualify for municipal bond insurance and a bidder desires to purchase a policy, such indication, the maturities to be insured, and the name of the desired insurer must be set forth on the bidder's official bid form. Such bidder must provide to bond counsel any language required to be included in the Award Resolution by the insurer not later than 2 P.M. Central Time on the Sale Date. The City specifically reserves the right to reject any bid specifying municipal bond insurance, even though such bid may result in the lowest TIC to the City. All costs associated with the issuance and administration of such policy and associated ratings and expenses (other than any independent rating requested by the City) shall be paid by the winning bidder. Failure of the municipal bond insurer to issue the policy after the award of the Notes shall not constitute cause for failure or refusal by the winning bidder to pay for and accept delivery of the Notes.

CUSIP NUMBERS

If the Notes qualify for the assignment of CUSIP numbers such numbers will be printed on the Notes; however, neither the failure to print such numbers on any Note nor any error with respect thereto will constitute cause for failure or refusal by the winning bidder to accept delivery of the Notes. Springsted will apply for CUSIP numbers pursuant to Rule G-34 implemented by the Municipal Securities Rulemaking Board. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the winning bidder.

CLOSING DATE

On or about December 20, 2018 (the "Closing Date"), the Notes will settle through DTC in New York, New York. The Notes will be delivered to DTC or the Fiscal Agent in its capacity as a Fast Automated Securities Transfer Program ("FAST") closing agent of DTC without cost to the winning bidder. Delivery will be subject to receipt by the winning bidder of an approving legal opinion of Foley & Lardner LLP, and of customary closing papers, including a no-litigation certificate. On the Closing Date, payment for the Notes shall be made in federal, or equivalent, funds that shall be received at the offices of the City or its designee not later than 12:00 Noon, Central Time. Unless compliance with the terms of payment for the Notes has been made impossible by action of the City, or its agents, the winning bidder shall be liable to the City for any loss suffered by the City by reason of the winning bidder's non-compliance with said terms for payment.

CONTINUING DISCLOSURE

The City will enter into a Continuing Disclosure Agreement with respect to the Notes on the Closing Date whereby the City will agree to provide to the Municipal Securities Rulemaking Board audited annual financial statements of the Utility, updated information of the Utility set forth in the section(s) of the Official Statement that describes water rates, billing practices, five-year balance sheets and comparative income statements, and debt service and coverage ratios, as well as notices of certain listed events as specified in and required by SEC Rule 15c2-12(b)(5).

OFFICIAL STATEMENT

The City has authorized the preparation of a Preliminary Official Statement containing pertinent information relative to the Notes, and said Preliminary Official Statement will be deemed final for purposes of Rule 15c2-12 of the Securities and Exchange Commission, except for information permitted to be omitted under paragraph (b)(1) of that Rule. For copies of the Preliminary Official Statement and the official bid form or for any additional information prior to the time of the sale on the Sale Date, any prospective bidder is referred to the Municipal Advisor to the City, Springsted Incorporated, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101, telephone (651) 223-3000.

A Final Official Statement (as that term is defined in Rule 15c2-12) will be prepared specifying the maturity dates, principal amounts, and interest rates of the Notes, together with any other information required by law. The City agrees that, no more than seven business days after the Sale Date, it shall provide without cost to the winning bidder up to 10 paper copies and an electronic version of the Final Official Statement. The City designates the winning bidder as its agent for purposes of distributing copies of the Final Official Statement to each participating underwriter. The winning bidder agrees that (i) it shall accept the award of the Notes by the City; and (ii) it shall enter into a contractual relationship with all participating underwriters of the Notes for purposes of assuring the receipt by each such participating underwriter of the Final Official Statement.

BY ORDER OF THE COMMON COUNCIL

/s/ Maribeth Witzel-Behl
City Clerk

OFFICIAL STATEMENT

CITY OF MADISON, WISCONSIN

\$30,765,000*

WATER UTILITY REVENUE BONDS, SERIES 2018A

\$9,605,000*

TAXABLE WATER UTILITY REVENUE NOTES, SERIES 2018B

(BOOK ENTRY ONLY)

INTRODUCTORY STATEMENT

This Official Statement contains certain information relating to the City of Madison, Wisconsin (the “City”) and the issuance of its \$30,765,000* Water Utility Revenue Bonds, Series 2018A (the “Bonds”) and \$9,605,000* Taxable Water Utility Revenue Notes, Series 2018B (the “Notes” and, together with the Bonds, the “Obligations”). The Obligations are being issued pursuant to Section 66.0621 of the Wisconsin Statutes and separate resolutions to be adopted by the Common Council of the City on December 4, 2018 (the “Bond Resolution” and the “Note Resolution,” collectively, the “Resolutions”). Selected sections of the Resolutions are included in Appendix IV of this Official Statement. Complete copies of the Resolutions are available by contacting the Madison Water Utility (the “Utility”).

Capitalized terms used in this Official Statement and not otherwise defined herein shall have the meanings set forth in Appendix IV hereto.

The Obligations are special obligations of the City payable solely from the Special Redemption Fund from Net Revenues pledged thereto to be derived from the System operated by the Utility and shall not constitute a debt for which the full faith and credit or taxing powers of the City will be pledged. The Obligations are being issued on a parity with the Outstanding Bonds.

Inquiries regarding the City may be directed to Mr. David Schmiedicke, Finance Director, City of Madison, Room 406, City-County Building, 210 Martin Luther King, Jr. Boulevard, Madison, Wisconsin 53703-3345, by telephoning (608) 267-8710, or e-mailing dschmiedicke@cityofmadison.com. Inquiries regarding the Utility may be directed to Mr. Robin Piper, Chief Administrative Officer, Madison Water Utility, 119 East Olin Avenue, Madison, Wisconsin 53713, telephone: (608) 266-4668, email: rpiper@madisonwater.org. Inquiries may also be made to Springsted Incorporated, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101-2887, by telephoning (651) 223-3000, or e-mailing bond_services@springsted.com.

CONCURRENT FINANCING

By means of a separate Official Statement dated November 16, 2018, the City is offering for sale its \$12,500,000* Sewer System Revenue Bonds, Series 2018-E (the “Sewer Bonds”) on December 4, 2018. The Sewer Bonds are being issued to finance improvements to the City’s sewer system.

The Sewer Bonds will be special obligations of the City payable solely from net revenues of the City’s sewer system and shall not be payable from Net Revenues of the System nor constitute a debt for which the full faith and credit or taxing powers of the City will be pledged. Settlement of the Sewer Bonds is expected to occur on the same date as the settlement of the Obligations.

* Preliminary; subject to change.

CONTINUING DISCLOSURE

To assist the underwriter in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the “Rule”), the City will enter into a separate Continuing Disclosure Agreements (each a “Disclosure Agreement”) for the benefit of the owners (including beneficial owners) of the Obligations to be executed and delivered by the City on the date the Obligations are delivered. Each Disclosure Agreement obligates the City to provide certain annual financial information and operating data relating to the Utility annually to the MSRB and to provide to the Municipal Securities Rulemaking Board (“MSRB”) notice of the occurrence of certain events relating to the Utility with respect to the Obligations which are listed in the Rule and set forth in the Disclosure Agreement. The Disclosure Agreements provide that the annual financial information of the Utility will be filed by the City not later than 12 months following the close of the City’s fiscal year. The City’s fiscal year ends on December 31. The details and terms of the Disclosure Agreements are set forth in the forms thereof attached hereto as Appendix II. A failure by the City to comply with a Disclosure Agreement will not constitute an event of default on the related Obligations (although owners of the related Obligations will have the right to compel performance of the obligations under the applicable Disclosure Agreement). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the related Obligations in the secondary market. Consequently, such a failure may adversely affect the liquidity of the related Obligations and their market price.

The City believes it has complied for the past five years in accordance with the terms of its previous continuing disclosure undertakings entered into pursuant to the Rule, except to the extent the following is deemed to be material. In reviewing its past disclosure practices, the City notes the following:

- The City’s Water Utility Revenue Bonds, Series 2007 (CUSIP 558614) (the “Series 2007 Bonds”) were originally insured by MBIA Insurance Corp. (MBIA), and subsequently became part of the insured portfolio of National Public Finance Guarantee (“NPF”), an MBIA Public Finance Subsidiary. The Series 2007 Bonds have been advance refunded and defeased by the City. Material event notices and failure to timely file notices regarding certain insurance rating changes for the Series 2007 Bonds were not filed within the past five years; however, the information was publicly available through other sources.

Continuing disclosure information, as well as the City’s budgets and audited financial statements, may also be found on the City’s web page at the following: <http://www.cityofmadison.com/finance/>. Additional information, such as rating reports, may be added as they become available.

THE OBLIGATIONS

General Description

The Obligations are dated as of their date of delivery and will mature annually on January 1 as set forth on the inside front cover of this Official Statement. The Obligations are issued in book entry form. Interest on the Obligations is payable on January 1 and July 1 of each year, commencing July 1, 2019. Interest will be payable to the owner (initially Cede & Co.) registered on the books of the Fiscal Agent as of the fifteenth day of the calendar month next preceding such interest payment date. Interest will be computed on the basis of a 360-day year of twelve 30-day months. Principal of and interest on the Obligations will be paid as described in the section herein entitled “Book Entry System.” U.S. Bank National Association, located in Milwaukee, Wisconsin, will serve as Fiscal Agent for the Obligations, and the City will pay for the services of the Fiscal Agent.

Redemption Provisions

Notice of redemption shall be sent by first-class mail or in the manner required by The Depository Trust Company (“DTC”) to the registered owner(s) of the Bonds, not less than 30, and not more than 60 days before the proposed redemption date. All Bonds or portions thereof called for redemption will cease to bear interest on the specified redemption date. A notice of optional redemption of the Bonds may be revoked by sending a notice by first-class mail not less than 15 days before the proposed redemption date.

Optional Redemption

The Bonds maturing on and after January 1, 2028 are subject to redemption at the option of the City on January 1, 2027 and on any date thereafter. Redemption may be in whole or in part and if in part from maturities selected by the City. If less than all the Bonds of a maturity are called for redemption, the City will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine the amount of each participant’s interest in such maturity to be redeemed and each participant will then select the beneficial ownership interests in such maturity to be redeemed. All redemptions shall be at a price of par plus accrued interest.

The Notes will not be subject to optional redemption in advance of their respective stated maturity dates.

Book Entry System

DTC, New York, New York, will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of each series of the Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC’s records. The ownership interest of each actual purchaser of each Obligation (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant

through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of the Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Obligations within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Obligations unless authorized by a Direct Participant in accordance with DTC's Money Market Instrument (MMI) procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Obligations will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or its agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or its agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Obligations at any time by giving reasonable notice to City or agent. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

RISK FACTORS

The following is a discussion of certain risks that could affect payments to be made by the City with respect to the Obligations. Such discussion is not, and is not intended to be, exhaustive and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Obligations should analyze carefully all the information contained in this Official Statement, including the Appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described herein.

General

The Obligations will be special obligations of the City payable solely from net revenues of the System and from amounts in the Debt Service Reserve Fund and certain other accounts created under the Resolutions. No representation or assurance can be given that the System will realize revenues in amounts sufficient to pay the principal of and interest on the Obligations. The realization of future revenues is dependent upon, among other things, the capabilities of the management of the System and future changes in economic and other conditions that are unpredictable and cannot be determined at this time. The risk factors discussed below should be considered in evaluating the ability of the City to make such payments.

The Obligations do not and shall not in any event constitute an indebtedness of the City or the State, and neither the faith and credit nor the taxing power of the City or the State is pledged to the payment of the principal of or interest on the Obligations, within the meaning of any constitutional or statutory limitation.

System Revenues

If user rates are inadequate to cover expenses, then an unusual number of delinquencies could occur, or a major breakdown or other disaster could cause the System to be inoperable, and a shortfall of revenues could result in a delay of debt payments.

Larger Users

If larger users increase or decrease their usage of the water service currently provided, then the revenues of the System will be affected proportionately.

Absence of Credit Enhancement

No form of credit enhancement will be or has been obtained in connection with the Obligations. No form of revenues other than the revenues derived by the City from the operation of the System will be available for the payment of the debt service on the Obligations. In the event revenues are not derived from the System or other sources for any reason, the ability of the City to pay debt service on the Obligations could be adversely affected.

Ratings; Interest Rates

In the future, the City's credit rating for this type of obligation may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Obligations for resale prior to maturity.

Continuing Disclosure

A failure by the City to comply with the Disclosure Agreements for continuing disclosure (see "CONTINUING DISCLOSURE" herein) will not constitute an event of default on the related Obligations. Any such failure must be reported in accordance with the Disclosure Agreements and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the related Obligations in the secondary market. Such a failure may adversely affect the liquidity of the related Obligations and their market price.

Book-Entry-Only System

The timely credit of payments for principal of and interest on the Obligations to the accounts of the Beneficial Owners of the Obligations may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the City to DTC only, there may be a delay or failure by DTC, Direct Participants or Indirect Participants to notify the Beneficial Owners of the Obligations. See "THE OBLIGATIONS – Book Entry System" herein.

Depository Risk

Wisconsin Statutes direct the City to immediately deposit upon receipt thereof the funds of the City in a public depository designated by the governing body. A public depository means a federal or state credit union, federal or state savings and loan association, state bank, savings and trust company, mutual savings bank or national bank in Wisconsin or the local government pooled investment fund operated by the State of Wisconsin Investment Board. It is not uncommon for the City to have deposits exceeding limits of federal and state insurance programs. Failure of a depository could result in loss of public funds or a delay in obtaining them. Such a loss or delay could interrupt a timely payment of City debt.

Economy

A combination of economic, climactic, political or civil disruptions or terrorist actions could affect the local economy and result in reduced revenues and/or tax collections and/or increased demands upon the City.

Secondary Markets and Prices

Neither the City nor the underwriter(s) will be obligated to repurchase any of the Obligations, and no representation is made concerning the existence of any secondary market for the Obligations. No assurance can be given that any secondary market will develop following the completion of the offering of the Obligations and no assurance can be given that the initial offering prices for the Obligations will continue for any period of time.

Forward-Looking Statements

This Official Statement contains certain statements that are “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Official Statement, including without limitation statements that use terminology such as “project,” “estimate,” “plan,” “budget,” “expect,” “intend,” “anticipate,” “believe,” “may,” “will,” “continue” and similar expressions, are forward-looking statements. These forward-looking statements include, among other things, the discussions related to the City’s operations, future operations, revenues, capital resources and expenditures for capital projects. Although the City believes that the assumptions upon which the forward-looking statements contained in this Official Statement are reasonable, any of the assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions also could be incorrect. The realization of future revenues of the City is dependent upon, among other things, the matters described in the foregoing paragraphs and future changes in economic and other conditions that are unpredictable and cannot be determined at this time. Therefore, investors should be aware that there are likely to be differences between forward looking statements and actual results. Those differences could be material and those differences could negatively impact the availability of Revenues of the System to pay debt service on the Obligations. Neither the City nor the underwriters make any representation as to the accuracy of any projections contained herein or as to the assumptions on which any projections are based.

Tax Exemption - The Bonds

If the federal government taxes all or a portion of the interest on municipal bonds or notes, directly or indirectly, or if there is a change in federal tax policy, then the value of the Bonds may fall for purposes of resale. Noncompliance by the City with the covenants in the Bond Resolution relating to certain continuing requirements of the Internal Revenue Code of 1986, as amended (the “Code”) may result in inclusion of interest to be paid on the Bonds in gross income of the recipient for United States income tax purposes, retroactively to the date of issuance.

Determination of Taxability - The Bonds

Failure by the City to comply with certain requirements imposed by applicable provisions of the Code may result in a determination by the Internal Revenue Service that interest on the Bonds is includable in gross income for federal income tax purposes retroactively to the date of issuance. An initial determination of taxability with respect to the Bonds by the Internal Revenue Service could adversely affect the marketability and market price of the Bonds. A final determination of taxability would adversely affect the marketability and market price of the Bonds. No provision has been made for the mandatory redemption or acceleration of the Bonds or for an increase in the interest rate on the Bonds in the event that interest on the Bonds is finally determined to be includable in gross income for federal income tax purposes. See “TAX STATUS – THE BONDS” herein.

Additional Debt of the City

Upon the satisfaction of certain conditions set forth in the Resolutions, the City may issue additional Parity Bonds. See Appendix IV for excerpts of the Resolutions describing the conditions under which additional bonds may be issued on a parity with the Obligations and Outstanding Bonds.

Summary

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Obligations. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should become thoroughly familiar with this entire Official Statement and the Appendices hereto.

THE BONDS

Purpose

The Bonds will be special obligations of the City payable solely from the Special Redemption Fund from Net Revenues of the System operated by the Utility pledged thereto under the Bond Resolution and shall not constitute a debt for which the full faith and credit or taxing powers of the City will be pledged. The proceeds of the Bonds will be used to finance (i) various capital projects identified in the City's 2017, 2018, and 2019 Water Utility Projected Annual Capital Spending Plans; (ii) a deposit to the Reserve Account of the Special Redemption Fund; and (iii) costs of issuance of the Bonds.

Sources and Uses of Funds

The application of the Bond proceeds is estimated to be as follows:

Sources of Funds:	
Principal Amount	\$30,765,000
Reoffering Premium	<u>602,446</u>
Total Sources of Funds	<u>\$31,367,446</u>
Uses of Funds:	
Deposit to 2018A Construction Fund	\$30,000,000
Deposit to Reserve Account	1,100,185
Underwriter's Discount	184,590
Costs of Issuance	79,875
Contingency	<u>2,796</u>
Total Uses of Funds	<u>\$31,367,446</u>

THE NOTES

Purpose

The Notes will be special obligations of the City payable solely from the Special Redemption Fund from Net Revenues of the System operated by the Utility pledged thereto under the Note Resolution and shall not constitute a debt for which the full faith and credit or taxing powers of the City will be pledged. The proceeds of the Notes will be used to finance (i) certain operating costs relating to the System; (ii) a deposit to the Reserve Account of the Special Redemption Fund; and (iii) costs of issuance of the Notes.

Sources and Uses of Funds

The application of the Note proceeds is estimated to be as follows:

Sources of Funds:	
Principal Amount	<u>\$9,605,000</u>
Total Sources of Funds	<u>\$9,605,000</u>
Uses of Funds:	
Deposit to 2018B Project Fund	\$9,000,000
Deposit to Reserve Account	500,589
Allowance for Discount Bidding	57,630
Costs of Issuance	45,738
Contingency	<u>1,043</u>
Total Uses of Funds	<u>\$9,605,000</u>

SECURITY

The Resolutions authorize the sale and issuance of the Obligations. Under the Resolutions the City agrees and covenants with owners of the Obligations to maintain certain standards of operation designed to protect the investment of the owners of the Obligations. The City covenants to charge and collect such lawfully established rates and charges for the services rendered by the System so that Gross Revenues will be sufficient to make payments into the Funds and Accounts and provide for Net Revenues at least equal to 1.25 times the highest combined annual principal and interest requirements on the Obligations and Parity Bonds then outstanding. The Utility's most recent rate increase of 30.6% went into effect on November 1, 2018. The Utility's 2017 adjusted Net Revenues, which would, in the written opinion of the Independent Consultant employed by the City for that purpose, have resulted had the above water rate increase been in effect for the 2017 Fiscal Year, are approximately 1.42 times the projected highest combined annual principal and interest requirements on the Obligations and the Outstanding Bonds, as shown on page 17 of this Official Statement.

The Resolutions require the City to maintain a Reserve Account within the Special Redemption Fund, which shall be used solely for the purpose of paying the principal and interest on the Obligations and Parity Bonds at any time when amounts in the Interest and Principal Account and the Earnings Account are insufficient to make such payments. The Minimum Reserve Amount is projected to be approximately \$17,656,168 upon the issuance of the Obligations. The Reserve Account is currently funded in the amount of \$16,055,394. Therefore, contributions to the Reserve Account are estimated to be (i) \$1,100,185 from proceeds of the Bonds and (ii) \$500,589 from proceeds of the Notes.

In addition, under the Resolutions the City agrees and covenants to pay to the Utility the reasonable cost and value of any services rendered to the City by the Utility out of current revenues of the City collected or in the process of being collected, but not from Gross Revenues and, if necessary, out of the taxes levied by the City to meet its necessary current expenses.

The sections of the Resolutions describing the covenants applicable to the Obligations and Parity Bonds are included as Appendix IV.

FUNDS AND ACCOUNTS

See Appendix IV for excerpts of the Resolutions describing the funds and accounts and flow of funds for the Obligations and Parity Bonds.

Additional Bonds

See Appendix IV for excerpts of the Resolutions describing the conditions under which additional bonds may be issued on a parity with the Obligations and Parity Bonds.

THE WATER UTILITY

The Utility, governed by an eight-member Water Utility Board appointed by the Mayor, commenced operations in 1882. The Utility currently serves approximately 68,000 customers directly, and additionally serves the adjacent Villages of Shorewood Hills and Maple Bluff, and Fitchburg Utility District No. 1 through master meters.

The present members of the Water Utility Board are:

<u>Member^(a)</u>	<u>Office Held</u>	<u>Date First Appointed</u>	<u>Expiration of Term</u>
Lauren G. Cnare ^(b)	President	May 19, 2015	September 30, 2021
Eugene L. McLinn ^(b)	Vice President	July 19, 2016	September 30, 2020
Patrick E. Delmore ^(b)	Secretary	July 2, 2013	September 30, 2022
Mike Dailey ^(c)	Member	September 4, 2018	September 30, 2019
David Ahrens ^(c)	Alder Member	April 21, 2015	April 16, 2019
Arvina Martin ^(c)	Alder Member	April 18, 2017	April 16, 2019
Doug Voegeli ^(d)	Ex Officio	July 12, 2011	Non-Expiring

(a) *There is currently one at-large member vacancy on the Water Utility Board.*

(b) *Five-year term.*

(c) *Two-year term.*

(d) *Non-voting member from Public Health Madison and Dane County.*

Appointed staff of the Utility include the following:

Mr. Thomas O. Heikkinen has served as the General Manager of the Utility since 2008. Prior to joining the Utility, Mr. Heikkinen gained extensive executive experience as the Chief of Plant Operations for the Washington Suburban Sanitary Commission, the nation's eighth-largest water and wastewater utility.

Mr. Alan L. Larson, P.E., M.C.E., is the Principal Engineer of the Utility. Mr. Larson has over 30 years of experience including 17 years with the Utility and 11 years as Senior Project Manager with HDR, Inc.

Mr. Robin Piper is the Utility's Chief Administrative Officer and has worked for the Utility since 1986. His responsibilities include overseeing the Finance and Customer Service sections of the Utility.

The Utility employs a total of 123 permanent employees. Approximately 100 employees are represented by AFSCME Local 6000 Employees Association.

The Utility operates a system of unit wells, which offers several advantages in providing service and minimizing risk. Each unit well serves a defined service area and is complete in terms of supply, treatment, storage and control. Service outages due to electrical power failures or localized storms are thus isolated and, at the same time, interconnections between service areas can be used to provide backup service to adjacent areas. The Utility, in an agreement with Madison Gas and Electric Company, has arranged for stand-by generators for key unit wells. This will allow water for fire protection and consumption in case of rolling blackouts or a natural disaster.

The source of supply consists of 23 deep wells (average diameter 21.9 inches, average depth approximately 750 feet, deepest well 1,117 feet) drilled into Dresbach Sandstone Formations of the Cambrian Age. The wells vary in capacity from 1,580,000 gallons per day (GPD) to 3,456,000 GPD and have a maximum combined capacity of 72,720,000 GPD. A total of 33 reservoirs and standpipes have storage capacity of 43,269,000 gallons. The distribution system consists of 895 miles of 3/4 inch to 24 inch copper, plastic and cast iron mains. Fire protection is provided through 9,009 hydrants. The System is fully metered and all water is fluoridated and chlorinated.

In 2017, the average monthly pumpage was 785 million gallons and the peak monthly pumpage (June) was 888 million gallons. During 2016, the average monthly pumpage was 821 million gallons and the peak monthly pumpage (July) was 939 million gallons.

In the early 1980s, the Utility recognized that infrastructure replacement should be a priority in long range planning. To this end, policies were established to actively replace infrastructure, including water meters, water mains and services (laterals). The Utility's ongoing water main replacement program has resulted in \$92,393,000 in replacements over the past 20 years.

In 2013, the Utility completed implementation of its Advanced Metering Infrastructure, *Project H₂O*, retrofitting all existing water meters with a device that allows the collection of meter readings via a fixed network system. This allows customers to closely monitor and control water use, thereby conserving water and reducing system demands. The Utility is able to request water conservation rates from the Public Service Commission of Wisconsin, monitor the system for leaks, evaluate and optimize system operation, and improve customer service. In addition, the Utility converted its semiannual metered accounts to monthly billing effective September 2014.

Lead Service Connections

The City has no lead service lines.

Pumping Capacity

Total gallons pumped for the past five years are as follows:

<u>Year</u>	<u>Million Gallons</u>
2017	9,418.6
2016	9,848.1
2015	9,968.7
2014	10,099.8
2013	10,057.5

The Utility, similar to most water utilities in the country, has seen a decrease in water consumption as customers (residential, multi-family, commercial, industrial, and public authority) have implemented water conservation measures including, for example, low-flow fixtures. The University of Wisconsin-Madison, the Utility's largest customer, has been actively implementing water conservation measures for several years.

Water Rates

Pursuant to Wisconsin Statutes, the Utility operates under the jurisdiction of the Public Service Commission of Wisconsin, which must approve all Utility rate increases. On September 29, 2017, the Utility filed a Water Rate Increase Application, and received approval on November 1, 2018. The rate increase of 30.6%, which became effective on November 1, 2018, equated to approximately \$10,372,457 of additional operating revenues.

Selected Monthly Metered Charges:

<u>Fixed service charges</u>	Effective November 1, 2018
	<u>Monthly Charges</u>
	<u>General</u>
	<u>Service</u>
5/8 inch	\$11.74
3/4 inch	16.23
1 inch	22.60
1 ¼ inch	31.33
1 ½ inch	39.88
2 inches	61.71
3 inches	103.55
4 inches	160.40
6 inches	292.31
8 inches	449.24
10 inches	656.20
12 inches	863.16

Effective in the November 1, 2018 rate order, Public Fire Protection fixed service charge was eliminated and is now incorporated into the General Service fixed rate.

Volume charges

Effective November 1, 2018

Residential Class Customers:

First 3,000 gallons used monthly - \$3.41 per 1,000 gallons
Next 3,000 gallons used monthly - \$4.55 per 1,000 gallons
Next 3,000 gallons used monthly - \$5.46 per 1,000 gallons
Next 5,000 gallons used monthly - \$7.85 per 1,000 gallons
Over 14,000 gallons used monthly - \$9.40 per 1,000 gallons

Multifamily Residential Class Customers:

All water used monthly - \$3.40 per 1,000 gallons

Duplex Class Customers:

All water used monthly - \$3.40 per 1,000 gallons

Commercial Class Customers:

All water used monthly - \$4.15 per 1,000 gallons

Industrial Class Customers:

All water used monthly - \$3.91 per 1,000 gallons

Public Authority Class Customers:

All water used monthly - \$4.67 per 1,000 gallons

Based on the rates effective November 1, 2018, the average monthly residential charge in 2019 is projected to be \$26.52.

Billing Practices

Bills for water service are rendered monthly and become due and payable upon issuance following the period for which service is rendered. A late payment charge of one percent per month is added to bills not paid within 20 days of issuance. This late payment charge is applied to the total unpaid balance for Utility service, including unpaid late payment charges. A Utility customer may be given a written notice that the bill is overdue no sooner than 20 days after the bill is issued. Unless payment or satisfactory arrangement for payment is made within the next 10 days, service may be disconnected pursuant to Chapter 185, PSC Wisconsin Adm. Code. Any water bills delinquent at the time real estate property tax bills are rendered are included on the tax bill and can become a lien on the property.

Customers by Category

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Residential	57,116	57,376	57,750	58,151	58,531
Multi-family	4,125	4,150	4,152	4,190	4,236
Commercial	4,795	4,821	4,874	4,897	4,939
Industrial	48	48	47	47	47
Public Authority	483	473	470	481	495
Wholesale	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>3</u>
Total	66,571	66,872	67,297	67,770	68,251

NOTE: An additional 2,241 customers were on private fire protection service at the end of 2017.

15 Largest Retail Customers by Consumption^(a)

	<u>2016</u>	<u>2017</u>
University of Wisconsin - Madison	936,925	907,697
Kraft Foods - Oscar Mayer ^(b)	285,460	78,086
Government (Federal, State, County & School District)	246,296	250,980
Village of Shorewood Hills	186,469	251,427
City of Madison	121,229	109,167
Covance Laboratories	105,558	104,919
Madison Gas & Electric Co. – West Campus Cogeneration Facility	103,739	54,937
Aramark Uniform Services	51,614	47,131
St. Mary's Medical Center	47,915	48,334
Meriter Hospital	47,193	42,259
Macy's/Federated Dept. Stores	46,278	40,322
Airgas Merchant Gases	44,646	43,889
Danisco USA Inc.	44,242	
Village of Maple Bluff	41,519	48,966
Madison Metro Sewerage District ^(c)	32,506	43,066
Dupont Nutrition & Health	<u> </u>	<u>39,918</u>
Totals	2,341,589 ^(d)	2,111,098 ^(e)

(a) In thousands of gallons.

(b) On November 4, 2015, the Kraft Heinz Company announced this factory would be closed in a staged process over the following 12 to 24 months. Production ceased and the water meters were pulled out in July 2017.

(c) Formerly Nine Springs Sewerage Plant.

(d) Represents 28% of total billed in 2016.

(e) Represents 26% of total billed in 2017.

Wholesale Customers^(a)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Village of Shorewood Hills	67,239	90,623	65,672	135,857
Village of Maple Bluff	35,429	47,473	41,517	48,966
Waunona Sanitary District No. 2 ^(b)	71,681	36,986	36,738	20,401
Fitchburg Utility District No. 1	<u>2,364</u>	<u>2,234</u>	<u>2,349</u>	<u>2,874</u>
Totals	176,713	177,316	146,276	208,098

(a) In thousands of gallons.

(b) Pursuant to Public Service Commission of Wisconsin docket number 5-WM-104, the Utility took over Waunona Sanitary District No.2 on August 15, 2017. Its customers are now retail customers of the Utility.

Water Utility Budget Summary by Major Object of Expenditure

	2017 Adopted Budget	2018 Executive Budget
Permanent Salaries	\$ 8,406,553	\$ 8,334,519
Hourly Employee Pay	225,232	300,000
Overtime Pay	335,000	350,000
Fringe Benefits	3,063,132	3,064,013
Purchased Services	7,701,380	5,692,500
Supplies	2,517,000	2,053,000
Inter-Departmental Charges	803,870	605,424
Debt/Other Financing Uses	21,767,934	23,879,690
Capital Assets	775,000	859,000
Inter-Departmental Billing	<u>(2,819,796)</u>	<u>(2,763,146)</u>
Total Expenditures	\$42,775,305	\$42,375,000
Total Revenue	\$42,775,305	\$42,375,000
Net Budget	-0-	-0-

Utility Financial Statements

The tables on the following pages set forth the Utility's Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2013 through 2017, as taken from the Utility's Financial Statements. The tables should be read in conjunction with the Utility's 2017 Financial Statements. The table on page 19 sets forth the actual and projected debt service of the Utility and calculates Adjusted Net Revenue coverage of debt service. The independent auditor for the Utility was not asked to perform any additional review in connection with this Official Statement.

MADISON WATER UTILITY
STATEMENTS OF NET POSITION
as of December 31

ASSETS	2014				
	2013	Restated	2015	2016	2017
CURRENT ASSETS					
Cash and investments	\$ 2,874,856	\$ 5,694,499	\$ 3,926,490	\$ 1,898,987	\$ 20,920
Restricted cash and investments	7,243,803	8,690,764	8,759,929	9,542,889	9,781,679
Customer accounts receivable	7,201,361	5,623,299	6,548,157	5,947,548	6,394,352
Prepays	-	-	-	-	4,056
Materials and supplies	713,450	653,200	640,734	718,568	778,893
Accrued revenue	5,455,229	-	-	-	-
Current portion of special assessments	103,054	120,191	88,730	85,883	158,075
Other current assets	256,659	238,273	363,637	438,687	624,741
Total Current Assets	<u>23,848,412</u>	<u>21,020,226</u>	<u>20,327,677</u>	<u>18,632,562</u>	<u>17,762,716</u>
NONCURRENT ASSETS					
Restricted Assets					
Cash and Investments	32,210,263	13,577,045	32,788,073	36,683,104	17,050,217
Net Pension Asset	-	-	1,359,015	-	-
Special assessments receivable	2,334,105	2,814,270	2,289,806	2,233,195	3,267,857
Preliminary survey and investigation	284,217	380,445	394,466	394,466	394,466
Property held for future use	663,602	568,796	2,312,305	4,009,072	4,009,072
Nonutility property (net of accumulated depreciation)	196,677	249,505	255,645	254,832	263,319
Capital Assets					
Plant in service	259,394,964	279,727,717	293,185,703	332,737,945	358,287,677
Accumulated depreciation	(61,570,769)	(66,977,963)	(70,925,150)	(75,673,321)	(82,346,902)
Construction work in progress	17,042,198	14,644,903	22,721,204	9,645,941	10,538,547
Total Noncurrent Assets	<u>250,555,257</u>	<u>244,984,718</u>	<u>284,381,067</u>	<u>310,285,234</u>	<u>311,464,253</u>
Total Assets	<u>274,403,669</u>	<u>266,004,944</u>	<u>304,708,744</u>	<u>328,917,796</u>	<u>329,226,969</u>
DEFERRED OUTFLOWS OF RESOURCES					
Unamortized loss on advance refunding	-	1,959,025	1,715,018	1,973,323	1,675,129
Deferred outflows related to pension	-	-	1,383,183	4,915,123	3,572,521
Total Deferred Outflows of Resources	<u>-</u>	<u>1,959,025</u>	<u>3,098,201</u>	<u>6,888,446</u>	<u>5,247,650</u>
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	2,650,517	2,126,666	518,076	1,034,472	834,553
Other current liabilities	338,853	421,343	561,300	893,649	914,325
Payable to other funds	2,892,689	2,569,383	4,102,234	3,214,909	3,302,211
Accrued interest	9,946	9,724	9,400	8,941	-
Current portion of implicit financing from city	-	-	-	-	3,079,684
Current portion of loan from municipality	765,000	765,000	765,000	765,000	765,000
Current portion of advance from municipality	68,158	74,249	81,500	89,040	97,451
Current portion of revenue bonds	4,935,000	5,935,000	6,120,000	6,660,000	6,890,000
Accrued Interest	2,346,324	2,755,764	2,721,572	2,976,857	2,846,660
Total Current Liabilities	<u>14,006,487</u>	<u>14,657,129</u>	<u>14,879,082</u>	<u>15,642,868</u>	<u>18,729,884</u>
NONCURRENT LIABILITIES					
Revenue bonds	136,935,000	131,000,000	166,490,000	180,840,000	171,785,000
Unamortized debt premium	5,582,311	5,033,952	7,056,207	10,186,093	9,015,887
Accrued compensated absences	1,640,793	1,680,163	1,864,158	1,757,251	1,808,215
Other postemployment benefit obligation	424,115	482,144	556,940	636,434	773,380
Noncurrent portion of implicit financing from city	-	-	-	-	3,079,684
Advance from municipality	1,592,722	1,522,067	1,443,957	1,358,504	1,265,783
Loan from municipality	3,825,000	3,060,000	2,295,000	1,530,000	765,000
Customer advances for construction	213,014	464,254	601,935	211,807	58,341
Net pension liability	-	-	-	880,490	438,906
Total Noncurrent Liabilities	<u>150,212,955</u>	<u>143,242,580</u>	<u>180,308,197</u>	<u>197,400,579</u>	<u>188,990,196</u>
Total Liabilities	<u>164,219,442</u>	<u>157,899,709</u>	<u>195,187,279</u>	<u>213,043,447</u>	<u>207,720,079</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pension	-	-	290	1,864,058	1,479,658
NET POSITION					
NET POSITION					
Net investment in capital assets	100,766,354	99,646,259	98,847,032	106,282,192	115,880,264
Restricted for:					
Debt service	5,073,972	6,350,516	6,109,966	7,064,739	7,668,536
Capital repairs and replacement	900,000	900,000	900,000	900,000	900,000
Pension	-	-	1,359,015	-	-
Unrestricted (deficit)	5,662,403	3,167,485	5,403,363	6,651,806	826,082
TOTAL NET POSITION	<u>\$ 112,402,729</u>	<u>\$ 110,064,260</u>	<u>\$ 112,619,376</u>	<u>\$ 120,898,737</u>	<u>\$ 125,274,882</u>

Source: Madison Water Utility Audited Financial Statements.

MADISON WATER UTILITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended December 31

	2013	2014 Restated	2015	2016	2017
OPERATING REVENUES					
Sales of water	\$ 27,716,370	\$ 28,658,183	\$ 28,381,185	\$ 34,588,398	\$ 33,838,096
Other	1,205,912	1,207,837	1,132,378	964,093	1,081,845
Total Operating Revenues	<u>28,922,282</u>	<u>29,866,020</u>	<u>29,513,563</u>	<u>35,552,491</u>	<u>34,919,941</u>
OPERATING EXPENSES					
Operation and maintenance	14,122,833	15,106,954	15,250,082	15,356,637	18,431,561
Depreciation	5,419,760	5,621,261	5,775,814	6,328,463	6,944,967
Total Operating Expenses	<u>19,542,593</u>	<u>20,728,215</u>	<u>21,025,896</u>	<u>21,685,100</u>	<u>25,376,528</u>
Operating Income	<u>9,379,689</u>	<u>9,137,805</u>	<u>8,487,667</u>	<u>13,867,391</u>	<u>9,543,413</u>
NONOPERATING REVENUES (EXPENSES)					
Merchandising and jobbing	7,157	(16,339)	(13,134)	(15,941)	199,433
Bond issuance costs	-	-	(274,497)	(222,252)	-
Investment income	42,199	466,713	231,063	357,059	511,259
Interest and amortization expense	(6,024,705)	(5,301,068)	(5,171,717)	(6,255,982)	(6,585,178)
Interest charged to construction	77,491	204,713	-	385,952	116,127
Gain on acquisition of territory/property disposed	(1,950,438)	-	-	-	-
Gain on transfer of operations	-	-	-	-	21,919
Other	190,841	194,743	174,654	128,204	398,613
Total Nonoperating Revenue (Expenses)	<u>(7,657,455)</u>	<u>(4,451,238)</u>	<u>(5,053,631)</u>	<u>(5,622,960)</u>	<u>(5,337,827)</u>
Income before Capital Contributions and Transfers	1,722,234	4,686,567	3,434,036	8,244,431	4,205,586
CAPITAL CONTRIBUTIONS	646,272	858,436	2,311,000	5,789,485	6,693,090
TRANSFERS	(43,400)	10,414	139,026	169,967	187,769
TRANSFERS - TAX EQUIVALENT	(5,581,435)	(5,587,851)	(6,049,329)	(6,415,680)	(6,923,928)
CAPITALIZED TAX EQUIVALENT	-	-	-	491,158	158,879
SPECIAL ITEM					
Net assets acquired from transfer of operations	-	-	-	-	54,749
CHANGE IN NET POSITION	(3,256,329)	(32,434)	(165,267)	8,279,361	4,376,145
NET POSITION - BEGINNING OF YEAR	<u>115,659,058</u>	<u>110,096,694</u>	<u>110,064,260</u>	<u>112,619,376</u>	<u>120,898,737</u>
Cumulative effect of a change in accounting principle	-	-	2,720,383	-	-
NET POSITION - END OF YEAR	<u>\$ 112,402,729</u>	<u>\$ 110,064,260</u>	<u>\$ 112,619,376</u>	<u>\$ 120,898,737</u>	<u>\$ 125,274,882</u>

Source: Madison Water Utility Audited Financial Statements.

Madison Water Utility

Projected Debt Service and Coverage

Original Principal	\$47,065,000	\$13,250,000	\$19,370,000	\$21,095,000	\$24,335,000	\$41,610,000	\$38,420,000	\$30,765,000(a)	\$9,605,000(a)	\$245,515,000(a)	Coverage to 2017 Adjusted Net Revenues(c)
DATE	Series 2009A Bonds	Series 2010 Bonds (Build America Bonds)(b)	Series 2011 Bonds	Series 2012 Bonds	Series 2013 Bonds	Series 2015 Bonds	Series 2016 Bonds	The Bonds(c)	The Notes(d)	Total Debt Service	
01/01/2019	\$ 4,007,193.76	\$ 1,030,230.00	\$ 1,338,506.25	\$ 1,506,400.00	\$ 1,886,400.00	\$ 3,028,203.75	\$ 3,493,750.00	\$ -	\$ -	\$ 16,290,683.76	1.70
01/01/2020	3,914,343.76	1,025,567.50	1,338,306.25	1,484,000.00	1,861,650.00	2,983,203.75	3,499,350.00	2,205,334.69	1,270,192.31	19,581,948.26	1.42
01/01/2021	3,887,843.76	1,018,867.50	1,337,356.25	1,466,000.00	1,845,650.00	2,946,453.75	3,496,750.00	2,204,390.00	1,267,207.50	19,470,518.76	1.43
01/01/2022	4,046,593.76	1,010,055.00	1,331,756.25	1,447,200.00	1,822,900.00	2,917,453.75	3,501,150.00	2,205,590.00	1,271,007.50	19,553,706.26	1.42
01/01/2023	4,051,093.76	1,004,380.00	1,334,156.25	1,432,600.00	1,798,650.00	2,880,703.75	3,496,150.00	2,204,990.00	1,268,172.50	19,470,896.26	1.43
01/01/2024	3,848,343.76	991,575.00	1,340,656.25	1,417,000.00	1,777,900.00	2,861,453.75	3,506,150.00	2,207,590.00	1,267,810.00	19,218,478.76	1.44
01/01/2025	3,703,343.76	981,777.50	1,343,643.75	1,400,400.00	1,760,400.00	2,843,703.75	3,500,150.00	2,208,190.00	1,270,710.00	19,012,318.76	1.46
01/01/2026	3,657,343.76	969,700.00	1,348,043.75	1,387,800.00	1,762,800.00	2,822,203.75	3,503,650.00	2,206,790.00	1,266,660.00	18,924,991.26	1.47
01/01/2027	3,168,543.76	960,262.50	1,350,075.00	1,384,950.00	1,763,200.00	2,847,053.75	3,505,900.00	2,208,390.00	1,270,800.00	18,459,175.01	1.50
01/01/2028	3,169,543.76	945,887.50	1,359,650.00	1,386,200.00	1,761,600.00	2,864,353.75	3,501,650.00	2,207,790.00	1,271,550.00	18,468,225.01	1.50
01/01/2029	5,247,962.50	930,200.00	1,361,343.75	1,386,400.00	1,758,000.00	2,867,508.75	1,795,900.00	2,204,990.00	-	17,552,305.00	1.58
01/01/2030	3,554,925.00	913,200.00	1,370,218.75	1,390,550.00	1,752,400.00	2,870,458.75	1,793,400.00	2,206,990.00	-	15,852,142.50	1.75
01/01/2031	-	899,887.50	1,375,812.50	1,393,500.00	1,754,800.00	2,874,003.75	1,796,000.00	2,205,840.00	-	12,299,843.75	2.26
01/01/2032	-	-	1,378,000.00	1,395,250.00	1,754,800.00	2,877,843.75	1,796,400.00	2,207,240.00	-	11,409,533.75	2.43
01/01/2033	-	-	-	1,400,800.00	1,752,400.00	2,880,968.75	1,794,600.00	2,205,970.00	-	10,034,738.75	2.77
01/01/2034	-	-	-	-	1,757,600.00	2,886,593.75	1,795,600.00	2,206,975.00	-	8,646,768.75	3.21
01/01/2035	-	-	-	-	-	2,894,562.50	1,794,200.00	2,205,025.00	-	6,893,787.50	4.03
01/01/2036	-	-	-	-	-	2,901,325.00	1,795,400.00	2,204,145.00	-	6,900,870.00	4.02
01/01/2037	-	-	-	-	-	-	1,794,000.00	2,204,030.00	-	3,998,030.00	6.95
01/01/2038	-	-	-	-	-	-	1,794,000.00	2,204,800.00	-	2,204,360.00	12.60
01/01/2039	-	-	-	-	-	-	-	2,204,800.00	-	-	-
Total	\$46,257,075.10	\$12,681,590.00	\$18,907,525.00	\$21,279,050.00	\$28,571,150.00	\$52,048,052.50	\$51,160,150.00	\$44,119,419.69	\$11,424,109.81	\$286,448,122.10	12.59

(a) Preliminary; subject to change.

(b) Debt service for the 2010 Bonds is gross of the federal credit.

(c) Includes the Bonds at an assumed average annual interest rate of 3.70%.

(d) Includes the Notes at an assumed average annual interest rate of 3.60%.

(e) Calculation of Adjusted 2017 Net Revenues as noted below.

Adjusted 2017 Net Revenues*	
Operating Revenues	\$34,919,941
Operating Expenses	(25,376,528)
Operating Income	9,543,413
Add: Depreciation	6,944,967
Add: Investment Income	511,259
Add: Additional Revenues from rate increase	10,768,644
Net Revenues	\$27,768,283

* The Utility implemented a rate increase effective November 1, 2018. Net Revenues for the 2017 Fiscal Year shown in this table is an amount which would, in the written opinion of the Independent Consultant employed by the City for that purpose, have resulted if the water rate increase described in the section "THE WATER UTILITY - Water Rates" had been in effect for the 2017 Fiscal Year.

FUTURE FINANCING

With the exception of the Sewer Bonds discussed in the “Concurrent Financing” section herein, the City does not anticipate issuing any additional long-term debt within the next 90 days.

LITIGATION

The City is not aware of any threatened or pending litigation affecting the validity of the Obligations or the City's ability to meet its financial obligations.

LEGALITY

Legal matters incident to the authorization, sale, and issuance of the Obligations are subject to the approval of Foley & Lardner LLP, Bond Counsel, whose approving opinions, substantially in the forms shown in Appendix II, will be delivered on the date the Obligations are issued.

TAX STATUS

The Bonds

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on all taxpayers; however, interest on the Bonds is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations for taxable years beginning on or before December 31, 2017. The City must comply with certain requirements of the Internal Revenue Code for interest on the Bonds to be, or continue to be, excluded from gross income for federal income tax purposes. The City has agreed to comply with those requirements to the extent it may lawfully do so. Its failure to do so may cause interest on the Bonds to be included in gross income for federal income tax purposes, perhaps even starting from the date the Bonds are issued. The proceedings authorizing the Bonds do not provide for an increase in interest rates or redemption of the Bonds in the event interest on the Bonds ceases to be excluded from gross income.

The opinion of Bond Counsel will be based on legal authorities that are current as of its date, will cover certain matters not directly addressed by those authorities, and will represent Bond Counsel's judgment regarding the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (the “IRS”) or the courts, and it is not a guaranty of result. As to questions of fact, Bond Counsel will rely upon certified proceedings and certifications of public officials and others without independently undertaking to verify them.

Bond Counsel will express no opinion about other federal tax matters regarding the Bonds. Other federal tax law provisions may adversely affect the value of an investment in the Bonds for particular owners of Bonds. Prospective investors should consult their own tax advisors about the tax consequences of owning a Bond.

Current and future legislative proposals, if enacted into law, may cause the interest on the Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent the owners of the Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals may also affect the marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any current or future federal legislative proposals.

The IRS has an active tax-exempt bond enforcement program. Under current IRS procedures, parties other than the City, including owners of the Bonds, would have little or no right to participate in an IRS examination of the Bonds. Moreover, because obtaining judicial review in connection with an IRS examination of tax-exempt obligations is difficult, obtaining independent review of IRS positions with which the City may disagree may not be practicable. Any action of the IRS, including selection of the Bonds for examination, the course or result of such an examination, or an examination of obligations presenting similar tax issues may affect the marketability of the Bonds and may cause the City to incur significant expense.

The Notes

Interest on the Notes will be includible in gross income for federal income tax purposes.

State of Wisconsin Income and Franchise Taxes

Interest on the Obligations is not exempt from current State of Wisconsin income or franchise taxes. Prospective investors should consult their own tax advisors about the state and local tax consequences of owning an Obligation.

NOT BANK-QUALIFIED TAX-EXEMPT OBLIGATIONS – THE BONDS

The City will not designate the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code, relating to the ability of certain financial institutions (within the meaning of Section 265(b)(5) of the Code) to deduct from income for federal income tax purposes 80% of the interest expense that is allocable to carrying and acquiring tax-exempt obligations.

RATINGS

Applications for ratings of the Obligations have been made to Moody’s Investors Service (“Moody’s”), 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York. If ratings are assigned, they will reflect only the opinion of Moody’s. Any explanation of the significance of the ratings may be obtained only from Moody’s.

There is no assurance that a rating, if assigned, will continue for any given period of time, or that such rating will not be revised, suspended or withdrawn, if, in the judgment of Moody’s, circumstances so warrant. A revision, suspension or withdrawal of a rating may have an adverse effect on the market price of the Obligations.

MUNICIPAL ADVISOR

The City has retained Springsted Incorporated, Public Sector Advisors (“Springsted”), of Saint Paul, Minnesota, and Milwaukee, Wisconsin as municipal advisor in connection with certain aspects of the issuance of the Obligations. In preparing this Official Statement, Springsted has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for this Official Statement, and Springsted has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. Springsted is not a public accounting firm and has not been engaged by the City to compile, review, examine or audit any information in this Official Statement in accordance with accounting standards. Springsted is an independent advisory firm, registered as a municipal advisor, and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

Springsted is under common ownership with Springsted Investment Advisors, Inc. (“SIA”), an investment adviser registered in the states where services are provided. SIA may provide investment advisory services to the City from time to time in connection with the investment of proceeds from the Obligations as well as advice with respect to portfolio management and investment policies for the City. SIA pays Springsted, as municipal advisor, a referral fee from the fees paid to SIA by the City.

CERTIFICATION

The City has authorized the distribution of the Preliminary Official Statement for use in connection with the initial sale of the Obligations and the preparation and distribution of the Final Official Statement following award of the Obligations. Each underwriter will be furnished with a certificate signed by the appropriate officers of the City confirming that, to the best of their knowledge, information and belief, the Official Statement with respect to the Obligations, on the date of adoption of the Resolutions, and on the date of delivery of the Obligations, was true and correct in all material respects and did not contain any untrue statement of material fact or omit to state a material fact necessary, in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

MISCELLANEOUS

Any statement made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are such and not as representations of fact, and no representation is made that any of the estimates will be realized.

Bond Counsel has not participated in the preparation of this Official Statement and will not pass on its accuracy or completeness of sufficiency. Bond Counsel has not examined or attempted to verify any of the financial or statistical statements or data contained in this Official Statement, and will express no opinion with respect thereto. The execution and delivery of this Official Statement by one or both Municipal Officers has been duly authorized by the City under the Resolutions.

In accordance with SEC Rule 15c2-12, this Official Statement is deemed final except for the omission of certain information described in the Rule.

December __, 2018

CITY OF MADISON, WISCONSIN

/s/ _____
Mayor

/s/ _____
City Clerk

GENERAL, ECONOMIC AND FINANCIAL INFORMATION RELATING TO THE CITY OF MADISON

General Information

The City of Madison is located approximately 150 miles northwest of Chicago, Illinois and 75 miles west of Milwaukee, Wisconsin. Madison is Wisconsin's second largest city with an estimated population of 255,214, and a land area of approximately 79.75 square miles. The City is the Wisconsin state capital and is home to the University of Wisconsin-Madison.

The Madison Standard Metropolitan Statistical Area (SMSA) ranks high in census categories describing educational attainment. According to Census Bureau information, the Madison SMSA ranked high among the 323 United States SMSAs in percent of residents 25 years and older having completed high school, and of residents having four years of college or more. Comparable figures for the City itself show over 95.2% having completed high school and about 56.3% completing at least four years of college.

Madison's population increased from 170,616 in 1980 to 255,214 as of July 1, 2017. Between 1997 and 2017, the median value of single-family homes rose 115% from \$132,800 to \$284,868*.

* From 2017 to 2018, the median value of single family homes increased 5.8%, from \$269,377 to \$284,868.

Mayor/Council Powers

The Common Council has the management and control of the City property, finances, highways, navigable waters, and the public service and has power to act for the government and the good order of the City, for its commercial benefit and for the health, safety, and welfare of the public. It may carry out its powers by license, regulation, suppression, borrowing of money, tax levy, appropriation, fine, confiscation and other necessary or convenient means.

The Mayor is the chief executive officer of the City. The Mayor has veto power as to all acts of the Common Council, except those as to which it is expressly or by necessary implication otherwise provided. A two-thirds vote of all the members of the Common Council shall then make an act effective, notwithstanding a veto by the Mayor.

The Mayor has the general supervisory responsibility of all City officers and heads of departments in the performance of their official duties. The Mayor is authorized under State Statutes and City Ordinances to appoint department heads, citizen officials and employees to various boards, committees and commissions, all subject to Common Council confirmation.

Principal Officials

The following is a list of the principal officials of the City of Madison:

Paul R. Soglin, Mayor

Common Council

Samba Baldeh, Council President
Sheri Carter, Council Vice President
Barbara Harrington-McKinney
Ledell Zellers
Amanda Hall
Michael Verveer
Shiva Bidar-Sielaff
Marsha Rummel
Steve King
Zach Wood

Paul Skidmore
Maurice Cheeks
Arvina Martin
Larry Palm
Allen Arntsen
David Ahrens
Mike Tierney
Rebecca Kemble
Keith Furman
Matt Phair

The Mayor is elected to a four-year term and the Common Council to two-year terms. The Common Council president serves a one-year term and is elected by the other members of the Common Council. Department officials are appointed by the Mayor with the Common Council approval after a competitive recruitment process. The Fire Chief and Police Chief are appointed by the City's Police and Fire Commission. Currently, each department head serves under a five-year renewable contract. Following are the senior appointed staff:

David Schmiedicke, Finance Director
Kwasi Obeng, Council Chief of Staff
Michelle Drea (acting), City Assessor
Michael May, City Attorney
Maribeth Witzel-Behl, City Clerk
David Gawenda, City Treasurer
Norman Davis, Civil Rights Director
Tresa Fuchs-Martinez, Employee Assistance Program Administrator
Steven Davis, Fire Chief
Harper Donahue, IV, Human Resources Director
Sarah Edgerton (acting), Information Technology Director
Gregory Mickells, Library Director
Gregg McManners, Monona Terrace Director
Michael Koval, Police Chief
Janel Heinrich, Public Health Director
Robert Phillips, City Engineer

Mahanth Joishy, Fleet Service Superintendent
Eric Knepp, Park Superintendent
Charles Romines, Street Superintendent
Yang Tao (acting), Traffic Engineer and Parking Manager
Charles Kamp, Metro Transit General Manager
Thomas Heikkinen, Water Utility General Manager
Natalie Erdman, Planning and Development Director
James O'Keefe, Community Development Division Director
Matthew Mikolajewski, Economic Development Division Director
Tom Conrad (acting), CDA Executive Director
George Hank, Building Inspection Division Director
Heather Stouder, Planning Division Director
Thomas Lynch, Transportation Director

Employee Relations

As of July 31, 2018, the City of Madison employs 2,741 permanent full-time and 117 part-time civil service employees. Five unions represent 1,289 employees or 45% of the permanent work force. The principal unions that represent employees of the City are: Association of Madison Fire Supervisors; International Association of Fire Fighters Local 311; Association of Madison Police Supervisors; Madison Professional Police Officers Association; and Teamsters Union Local 695.

Under 2011 Wisconsin Act 10 and Act 32, along with their related court decisions, the scope of representation by public sector unions, with the exception of those representing police and fire commissioned employees and transit employees was changed. In response, most former city unions became employee associations in 2015.

Services

The State of Wisconsin (the “State”) mandates that certain services be performed by municipalities. Those functions and/or activities that are mandated by State law or administrative rule include: (i) providing for elections, (ii) maintaining a fire department, (iii) maintaining a police department, (iv) providing for a public health joint venture, and (v) providing traffic control.

In addition, the City furnishes numerous services including a comprehensive parks and recreational program, a modern mass transit system, public parking lots and ramps, a solid waste management program, housing and community development activities, an equal opportunities commission, as well as numerous services to low-income and elderly citizens.

The following table illustrates the 2018 budgeted revenue sources of the General Fund (by percentage) that support the services and activities of the City.

<u>Revenue Source</u>	<u>Percent of Total Revenue</u>
Real Estate and Personal Property Tax	73.4%
Intergovernmental Revenues (includes payments in lieu of taxes)	15.0
Miscellaneous (includes applied fund balance)	3.6
Charges for Services	3.0
Licenses and Permits	2.3
Fines and Forfeitures	2.2
Interest on Investments	<u>0.5</u>
 Total	 <u>100.0%</u>

NOTE: Total budgeted 2018 General Fund Revenues (including Madison Public Library) were \$314,809,674.

City Facilities

The principal facilities utilized by the City are considered to be suitable and adequate for the present and future requirements, except as noted below. Major facilities are:

- Municipal Offices: The City and Dane County jointly own and operate a City-County Building, located in the central business district of the City. This facility, and the City-owned Madison Municipal Building located across the street, house most of the City’s central administrative staff operations. The City has been undertaking a major renovation of the Municipal Building during the past three years. City functions in that building will remain in the temporary leased space until the end of the year when renovation is complete. Lease costs for 2018 are estimated to be \$240,000.
- Fire Stations: The City has 13 fire stations, an administration office, a maintenance facility, and is currently finishing construction including community space for a new 14th station on the far southeast part of the city. Other building improvements at various stations include: interior windows, flooring, and overhead door replacements during fiscal year 2018.

- Police Stations: Historically, the Police Department has operated out of the City-County Building. The Police Department has decentralized police services by operating district stations serving specific geographic areas of the City. Construction is near complete on the new Midtown district station on Mineral Point Road, which is expected to open late fall of 2018. Capital expenditure costs for the new station totaled approximately \$11.1 million.
- Health: The administrative central offices for Public Health-Madison and Dane County and the Public Health Lab are located in the City-County Building. This space is currently being renovated with completion expected by the end of 2018, totaling approximately \$2.7 million when finished. Clinic facilities with staff offices are operated in leased space at the Village on Park on South Park Street, and at the Madison East Shopping Center on East Washington Avenue. The offices for Environmental Health and Animal Services are in leased space on International Lane.
- Library: Madison's library system comprises a centrally-located main facility and eight neighborhood branches. The central facility and four branches are City-owned, while the remaining four branches operate in leased space. A new maintenance support center was recently completed, to provide efficient logistical assistance to nine library facilities. In addition to the maintenance support center, funding for a new Pinney Branch Library on Cottage Grove Road, is funded in the 2018 Capital Improvement Plan.
- Parking Systems: The City provides over 5,000 public parking spaces through its five parking ramps, seven parking lots and more than 1,300 on-street metered parking spaces. The City is continuing its program of major renovations to the existing off-street parking facilities. The City is currently constructing the Judge Doyle parking garage to provide 562 below ground spaces that will replace the older Government East ramp, along with constructing a new Capitol East District parking structure at Livingston and Main Streets providing 600 spaces once fully constructed. In addition, Madison Gas & Electric has provided eight Electric Vehicle Charging Stations (EVCS) in four City parking facilities as part of a pilot program to study their use and reliability. Each of the four facilities contains one ADA compliant charging station with one available to the general public.
- Monona Terrace Community and Convention Center: The City is home to a 250,000 square-foot convention center, originally designed by Frank Lloyd Wright, which opened in 1997. A 550-space parking ramp connecting to the convention center is owned by the State of Wisconsin.
- Warner Park Community Recreation Center: Located in Warner Park on the City's northeast side, this multi-purpose, state-of-the-art public facility provides for recreational, educational, cultural and community programs and activities. The \$4.7 million project was developed by the City of Madison Department of Planning and Development, Community Development Block Grant Office, in partnership with the Northside Planning Council. Building funds were provided by the Department of Housing and Urban Development, the City, and contributions from community businesses and residents.

The Warner Park Community Recreation Center's Mission Statement provides that the center is a gathering place which provides innovative growth and enrichment opportunities for the Madison community and connects people of all ages, races and cultural backgrounds.

- Parks: In addition to Warner Park Community Recreation Center listed above, the City is responsible for the upkeep of the Goodman Pool, 12 beaches (9 of which have lifeguard services), over 274 parks, four golf courses, eight off-leash dog exercise areas, 25 conservation parks, a botanical center, cemetery, and boulevard maintenance encompassing over 6,000 acres, as well as the care and pruning of over 200,000 trees and shrubs. In addition to the Cypress Spray Park, the City opened two additional splash parks at Elver and Reindahl Parks in August 2014. In August 2015, the City opened a new storm shelter and developed recreational amenities for Highland Manor Park. The 6,400 square-foot structure provides a "safe room" for residents of the mobile home community and a gathering space for the entire area. On September 10, 2015, the Irwin A. and Robert D. Goodman Skatepark at Central Park was opened. The first public skatepark in the City, this skatepark was made possible through funding from the City, private donations, and federal, state and county grants.

Currently, the historic Garver Feed Mill, located at Olbrich Park, is under rehabilitation and adaptive reuse. Funding is identified to meet cold, equipment, and archival storage for the Olbrich Botanical Complex, estimated to provide 4,000 square feet.

- Streets and Sidewalks: The City budgets annually for the expansion and maintenance of this system, which currently includes over 790 miles of streets and 1,234 miles of sidewalks.
- Transit Utility: The City offers public transit services to its citizens, including service on both mainline and secondary routes, as well as school, commuter and special events service. The Transit Utility is also responsible for planning and coordinating all fixed route transit improvements and programs, as well as the repair and maintenance services required by the transit fleet.

Because the City operates the only publicly-owned bus system in Dane County, this service has been extended to other governmental entities at their request. When services are extended outside the City boundaries, the receiving entity pays its share of the operating costs.

Utility staff are currently evaluating options to renovate its main bus storage and maintenance facility and are identifying expansion space to meet service needs, including planning for bus rapid transit.

- Facility Management: The City Engineering Division's Facilities Management Section is responsible for development of a large portion of the City's physical plant. City Engineering staff perform architectural services and supervise construction projects, including building retrofits to meet energy and accessibility standards. This section also maintains data considering age and conditions for approximately 250 buildings city-wide, along with leading the Madison Municipal Building renovation and reconstruction efforts to provide additional functional workspace, improved energy efficiency, a high quality public environment, and to extend the useful life of the structure by more than 50 years.
- Facility Maintenance: The City Engineering Division's Facilities Maintenance Section provides maintenance services to several City agency facilities including fire and police stations, streets, facilities, the First Street Garage and the Engineering Services building.
- Fleet Equipment and Facilities: The Fleet Service Division is responsible for the purchase and preparation of fleet equipment used by City agencies, in-house repairs, and the purchase of outside repair and maintenance services.

A new facility located on the City's east side is currently under design. This facility will house the City's Central Garage, Fire Maintenance, and Radio Shop. The goal of the project is to improve the efficiency of fleet operations by delivering service at a single location, in contrast to the current approach which are spread across three facilities. Funding in 2019 is being considered totaling over \$30 million, with construction to be complete in 2020.

- Water: The Madison Water Utility serves the entire area of the City and additional wholesale customers beyond the municipal boundaries through its owned supply and distribution system, which draws from 22 active deep wells with a capacity of 68 million gallons per day.

Water Utility personnel are responsible for the maintenance of 840 miles of water mains and 30 reservoirs. The Utility is currently reconstructing the Lakeview reservoir, and recently remodeled the Paterson Operations Center Building downtown. Facility expansions are financed through new connection charges, water rates, and are not generally financed by general funds of the City. On August 15, 2017, the PSCW granted the dissolution of Waunona Sanitary District #2 (District) and the acquisition of its customers and assets by the Madison Water Utility (water utility). The Water Utility Board agreed to take over the operations and began providing water and sewer service to the acquired customers after the effective date of transition.

- Sanitary Sewer: The Madison Sanitary Sewer Utility serves the entire area of the City and maintains 788 miles of sanitary sewer mains and 30 sanitary sewerage lift stations to convey wastewater to the interceptors and wastewater treatment plant of the Madison Metropolitan Sewerage District.

Relationship to Other Political Units

Dane County

The City and Dane County (the “County”) have a policy of cooperation and non-duplication of service. Examples of this are as follows:

- The governance of the Monona Terrace Community and Convention Center is shared jointly between the City and the County with the State also having representation.
- The County contracts with the City for the manufacturing of road and street signs, radio repair and the use of radio towers.
- The City and the County operate a unified and jointly funded Department of Public Health. Shared, or “joint” costs are apportioned to the City and County tax levies based upon equalized value. In addition, some expenses are funded entirely by either the City or County.
- The City and County jointly own and operate the City-County Building.
- The City, the County and other governmental entities bordering on lakes Monona and Mendota cooperate in lake patrol and weed control.
- The Dane County library system purchases various services from the City library.
- Dane County’s Department of Public Safety Communications provides countywide 9-1-1 emergency call taking services. The Department also provides dispatching and centralized communications services for the Dane County Sheriff’s Department, Madison Police and Fire Departments, as well as 21 local law enforcement agencies, 26 local fire departments, and 21 local EMS agencies.
- The County Sheriff’s Department coordinates with the Madison Police Department.
- The County has a Capitol Area Regional Planning Commission which assists in coordinating planning activities of all local jurisdictions.
- The Madison Area Transportation Planning Board (TPB) (the Metropolitan Planning Organization for the Madison Area) carries out a cooperative, continuing and comprehensive planning process for making transportation investment decisions in the Metropolitan area, working with 34 contiguous villages, cities, and townships. The TPB prepares and maintains a long range multi-modal transportation plan and a five-year transportation improvement program to provide for transportation investments to meet metropolitan transportation needs.

Madison Metropolitan Sewerage District

The Madison Metropolitan Sewerage District (the “District”) was established to provide sewerage disposal and treatment services to a wide geographic area. The District owns and operates a major collection system and the processing/disposal facilities. Each local unit of government owns, operates and maintains the sewer mains and laterals within its geographic boundaries.

The District bills each local unit of government based on volume of sewerage processed. The City accounts for all of its sewer-related costs in a separate enterprise fund. Monthly billings are submitted along with the water bill and the revenue collected is sufficient to pay for the District’s sewer services plus the City’s Sewer Utility’s debt service and cost of local engineering and sewer maintenance.

Neighboring Municipalities

Since 1990, the City has entered into intergovernmental agreements with the Cities of Fitchburg, Middleton, Monona, Sun Prairie, and Verona; the Villages of DeForest, Maple Bluff, McFarland, Shorewood Hills, and Waunakee; the Towns of Blooming Grove, Burke, Madison, Middleton, Springfield, Verona, and Westport; and Dane County. These agreements are intended to minimize annexation legal battles, provide for orderly City growth, and to ensure that each municipal identity will be maintained. Such agreements also provide opportunities for cost-sharing on capital projects such as road construction, as well as cost savings arising from municipal service consolidation.

City Finances

The City Finance Department is responsible for overall accounting, finance and budget functions for agencies and proprietary operations of the City. The centralized accounting system is multi-dimensional and provides information necessary for budgetary control, resource allocation, and program costs.

Financial statements conform to the Generally Accepted Accounting Principles applicable to governmental units prepared in accordance with standards of the Governmental Accounting Standards Board and are included in the City's Comprehensive Annual Financial Report (CAFR). Interim financial statements are prepared monthly for enterprise funds, as well as quarterly budget to actual projections, and specialized financial reports are also prepared on an as-needed basis.

The City maintains a "financial trend monitoring system" that charts various balance sheet, revenue and cost items, as well as key financial ratios. Changes in trends are analyzed and, when appropriate, corrective action is taken. Results of the trends also play a role in the City's debt management program.

The City maintains a segregated debt service fund. Annual deposits are made to the fund in amounts sufficient to pay all current year interest and principal on all general obligation debts. In addition, any unused proceeds from borrowing are transferred to the fund. These amounts are used to offset future years' debt service costs.

Investment Policies

The City has a comprehensive written investment policy. All of the City's temporary idle cash is invested by the City Treasurer as the Investment Officer. Cash flow projections prepared by the City Finance Department assist the Treasurer in making investment decisions. Major features of its policy are as follows:

- Safety – safety of principal is the foremost objective of the City.
- Liquidity – the investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- Yield – the City's investment portfolio is designed to attain a market-average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraint and the cash flow characteristics of the portfolio.
- Local considerations – where possible, funds may be invested for the betterment of the local economy or that of local entities within the State. The City may accept a proposal from an eligible institution which provides for a reduced rate of interest provided that such institution documents the use of deposited funds for community development projects.
- Authorized financial institutions, depositories, and broker/dealers – the City maintains a list of financial institutions and depositories authorized to provide investment services, as well as of approved security broker/dealers selected for credit worthiness, experience, and other relevant factors.

- Delivery vs. payment – all trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
- Safekeeping – securities will be held by an independent third-party custodian selected by the City as evidenced by safekeeping receipts in the City’s name.
- Internal controls – the Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse.
- Investment types – as a unit of local government in the State, the City is restricted by Section 66.0603(1m) of the Wisconsin Statutes to the following investment options:
 - A. U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government.
 - B. U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value.
 - C. Certificates of deposit and other evidences of deposit in any credit union, bank, savings bank, trust company or savings and loan association which is authorized to transact business in Wisconsin if the time deposits mature in not more than 3 years.
 - D. Commercial paper rated in the highest tier by a nationally recognized rating agency. Investment-grade obligations of state and local governments and public authorities which mature or which may be tendered for purchase at the option of the holder within not more than seven years of the date on which it was acquired.
 - E. Investment-grade obligations of state and local governments and public authorities which mature or which may be tendered for purchase at the option of the holder within not more than seven years of the date on which it was acquired.
 - F. Any corporate security which matures or which may be tendered for purchase at the option of the holder within not more than seven years of the date on which it is acquired, if that security has a rating which is the highest or second highest rating category assigned by a nationally recognized rating agency.
 - G. Repurchase agreements whose underlying securities consist of U.S. Treasury obligations or U.S. government agency or instrumentality obligations.
 - H. Money market mutual funds regulated by the Securities and Exchange Commission and invested primarily in government or government agency money market instruments.
 - I. Local government investment pools administered by the State of Wisconsin or developed through joint powers statutes and other intergovernmental agreement legislation.
- Collateralization – all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit, should be fully collateralized.
- Repurchase agreements – repurchase agreements shall be consistent with the recommended practices on repurchase agreements of the Government Finance Officers Association.

- All investments of the City shall be diversified on the following basis:
 - A. The City shall limit investments to avoid over-concentration in securities from a specific issuer or business sector. In general, no limits are necessary for U.S. Treasury securities, no more than 25% should be invested in a single government agency Issuer, no more than 20% in a single money market fund (excluding the Wisconsin Local Government Investment Pool), no more than 10% in corporate bonds, no more than 10% in commercial paper, no more than 3% in a single Issuer of corporate bonds, and no more than 3% in a single issuer of commercial paper. In no case should combined corporate bond/commercial paper holdings in a particular business sector exceed 10%.
 - B. The City shall invest in securities with varying maturities.
 - C. The City shall continuously invest a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
- Maximum maturities – The City shall attempt to match its investments with anticipated cash flow requirements to the extent possible. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than ten years from the date of purchase. The City will invest in accordance with state and local statutes or ordinances. Reserve funds remaining after short-term fund requirements are met will be invested using a “laddered maturity” approach. The portfolio shall have a weighted average maturity of less than five years, with the exception of investments made to coincide as nearly as practicable with the expected use of funds. Any securities purchased will be liquid with an active secondary market that can be accessed if necessary to sell a security prior to its maturity.
- Reporting – The Investment Officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter, and which will determine whether investment activities during the reporting period have conformed to the investment policy. The report will include a listing of individual securities held at the end of the reporting period, realized and unrealized gains and losses resulting from appreciation or depreciation, average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks, a list of investments by maturity date, and the percentage of total portfolio that each type of investment represents.

As of July 31, 2018, the City had invested a total of \$554,622,834 for itself, the Water Utility, and the Madison Metropolitan School District. Of that total, \$48,951,942 (8.8%) was invested in securities having a maturity date of later than July 31, 2019.

Budget Process

The City of Madison utilizes the “Executive Budget” process, whereby the Mayor develops and submits a budget for the upcoming fiscal year. The Mayor develops priorities and guidelines for the next year and presents them to City agencies. Each agency is then required to submit a budget request to the Finance Director prior to August 15 for the ensuing calendar year. Operating budget requests are reviewed by the Finance Director and the Mayor. Capital budget requests are reviewed by the Mayor, Finance Director and appropriate staff. Based on the requests and changes made thereto, the Mayor makes final determination as to which programs, and their level of funding, are to be included in the Executive Budget and presents it to the Common Council.

The Council’s Finance Committee reviews the Executive Budget in detail, holding several public hearings and numerous meetings for deliberation. The Board may make changes to the Executive Budget. When completed, the budget, as amended by the Finance Committee, is submitted to the Common Council for final approval. The Council may make further amendments to the budget, and final adoption requires a simple majority vote.

Once the budget is adopted, subsequent amendments and additional appropriations require a three-fourths vote of the Common Council. A balanced budget (appropriations equal to the sum of estimated revenues, tax levy and applied fund balance) is required at all times.

Pension Costs

All employees holding qualified positions, as defined by the City’s retirement plan, are eligible for participation in the Wisconsin Retirement System (WRS). The City pays a portion of the program’s entire cost. Also included in payments to the WRS are amounts to fund disability pensions of police officers and firefighters as provided by Section 40.65 of the Wisconsin Statutes. The total cost of the retirement plan and disability pensions approximated the following for the past five years is:

2017	\$32,123,893
2016	28,889,626
2015	28,751,096
2014	28,949,656
2013	29,909,417

Effective with the adoption of the State of Wisconsin 2011-2013 budget (Wisconsin Act 32) and Wisconsin Act 10, all new employees hired after July 1, 2011, who are expected to work over 1,200 hours in a year, are eligible to participate in WRS. Current employees already in the WRS became eligible when expected to work over 600 hours in a year.

All eligible employees except commissioned Police and Fire staff must pay 50% of their respective total WRS contribution rates. Employee contributions for 2018 are 6.7% and will decrease to 6.55% in 2019. Commissioned Police and Fire staff pay these same employee contribution rates.

WRS utilizes the “Entry Age Normal with Frozen Initial Liability” actuarial method in establishing employer contribution rates. Under this method, the unfunded accrued actuarial liability is affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any added liabilities caused by changes in benefit provisions. All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. The City has no unfunded accrued pension liabilities as determined by the WRS.

GASB 68

Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and related GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment to GASB 68, revised existing standards for measuring and reporting pension liabilities for pension plans provided to City employees and require recognition of a liability equal to the City’s proportionate share of net pension liability, which is measured as the total pension liability less the amount of the pension plan’s fiduciary net position.

The City’s proportionate shares of the pension costs and the City’s net pension liability for WRS for the past three years are as follows:

	<u>Proportion of Net Pension Liability (Asset)</u>	<u>Proportionate Share of Net Pension Liability (Asset)</u>
2017	1.62005356%	\$13,353,109
2016	1.58205299	25,708,053
2015	1.57042163	(38,573,852)

For more information regarding the liability of the City with respect to its employees, as well as GASB 68 with respect to the City, please reference “Note V- Other Information, A. Employees’ Retirement System” and “Required Supplementary Information” of the City’s Comprehensive Annual Financial Report for fiscal year ended December 31, 2017.

Additional and detailed information about the State of Wisconsin’s net position is available in a separately-issued financial report, which may be obtained at <http://legis.wisconsin.gov/lab>, report number 17-16.

Sources: *The City and the City’s Comprehensive Annual Financial Reports.*

Other Post-Employment Benefits

The City contributes to other post-employment benefits (“OPEB”) to eligible retired City employees and their spouses that covers both active and retired members.

The City’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City’s annual OPEB costs for the fiscal year ended December 31, 2017.

Annual required contribution	\$ 7,833,432
Interest on net OPEB obligation	1,482,006
Adjustment to the ARC	<u>(2,021,836)</u>
Annual OPEB Cost	\$ 7,293,602
Contributions made	<u>(2,625,538)</u>
Increase in net OPEB obligation	\$ 4,668,064
Net OPEB Obligation as of December 31, 2016	<u>32,933,461</u>
Net OPEB Obligation as of December 31, 2017	\$37,601,525*

* Includes OPEB obligation for the Department of Public Health for Madison and Dane County (DPHMDC), which is a joint venture with Dane County, and the Community Development Authority (CDA), a component unit of the City.

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past five fiscal years are as follows:

<u>Fiscal Year Ended</u>	<u>OPEB Cost</u>	<u>% of Annual OPEB Costs Contributed</u>	<u>OPEB Obligation</u>
December 31, 2017	\$7,293,602	36%	\$37,601,525
December 31, 2016	7,440,559	53	32,933,461
December 31, 2015	6,808,834	43	29,413,249
December 31, 2014	6,713,573	46	25,548,850
December 31, 2013	6,728,009	46	21,922,357

Funded status of the City's OPEB as reported in the actuarial reports for the past five fiscal years is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>UAAL as a percentage of Annual Covered Payroll</u>
December 31, 2017	- *	\$62,674,237	\$62,674,237	32.9%
December 31, 2016	\$1,639,640	64,414,957	62,775,317	34.5
December 31, 2015	1,639,640	57,433,140	55,793,500	31.6
December 31, 2014	1,661,992	58,378,139	56,716,147	34.2
December 31, 2013	1,719,867	57,430,619	55,710,752	34.6

* *Plan assets are not currently administered by a fund trustee.*

For more information concerning the City's OPEB obligations, please reference "Note V – Other Information, D. Other Post Employment Benefits" and "Required Supplementary Information" of the City's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2017.

GASB 75

In June 2015, the Government Accounting Standards Board approved Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75), establishing new accounting and financial reporting requirements for government employer OPEB plans. GASB 75 will replace GASB 45 and will take effect for the City for the fiscal year ending December 31, 2018. The City anticipates some level of impact on its financial statements for the fiscal year ending December 31, 2018; however, the City's financial statements for the fiscal year ending December 31, 2018 are not yet available.

Sources: City's Comprehensive Annual Financial Reports.

ECONOMY

Statistics prepared by the State Department of Workforce Development for the Madison Metropolitan Statistical Area (MSA) break down employment by category for September 2018 as follows:

<u>Approximate Employment Category</u>	<u>Number Employed</u>
Finance	23,400
Goods Producing	54,900
Government	87,000
Information	16,800
Leisure and Hospitality	40,600
Manufacturing	35,700
Natural Resources and Mining and Construction	19,200
Other Services	20,500
Private Service Providing	268,100
Professional and Business Services	52,600
Service-Providing	355,100

Together, government, services and trade employ 76.9% of the workers in the Madison MSA. The principal private employers are Epic Systems (9,400 employees), SSM Health Care (6,602), and American Family Mutual Insurance Group (3,999 employees).

Employment/unemployment statistics are as follows:

	<u>Annual Average</u>				<u>September</u>
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Madison MSA					
Labor Force (000)	372.2	376.6	383.1	392.6	392.3
Employed (000)	357.4	363.9	373.1	382.1	384.6
Unemployed (000)	14.8	12.7	9.9	10.5	7.7
Percent Unemployed					
United States	6.2%	5.3%	4.8%	4.5%	3.6%
State of Wisconsin	5.5	4.6	3.5	3.4	2.6
Madison MSA	3.7	3.4	2.6	2.7	2.0

Source: Wisconsin Department of Workforce Development, <https://www.jobcenterofwisconsin.com/wisconsinomy/> and Bureau of Labor. 2018 data is preliminary. Data is not seasonally adjusted.

Major Employers in the Madison Area

<u>Employer</u>	<u>Number of Employees</u>
State of Wisconsin	40,507
University of Wisconsin – Madison	21,752
UW Hospital and Clinics	9,732
Epic Systems (Verona)	9,400
SSM Health Care	6,602
United States Government	5,422
UW Medical Foundation	4,256
American Family Mutual Insurance Group	3,999
Madison Metropolitan School District	3,592
City of Madison	3,009

Source: This does not purport to be a comprehensive list and is based on the City's 2017 CAFR (Table 16 page 181).

Population Data (City of Madison)

The population trend of the City since 1980 is shown below:

<u>Year</u>	<u>Census Population Count</u>	<u>Percent Increase (Decrease) from Previous Year Shown</u>
2018 (Est. July 2018)	255,214	9.4%
2010	233,209	12.1
2000	208,054	8.8
1990	191,262	12.1
1980	170,616	--

Sources: U.S. Census Bureau Quick Facts, <http://www.census.gov/>.

Population by Age Distribution (City of Madison)

	<u>1990*</u>	<u>2000</u>	<u>2010</u>	<u>2018</u>
Under 5	11,863	10,815	13,561	14,292
5-14	17,323	20,348	21,298	23,480
15-19	6,469	18,192	16,508	19,141
20-24	42,089	32,394	34,919	40,324
25-44	68,378	66,979	73,364	78,861
45-64	27,309	40,142	51,176	52,574
65 & Over	<u>17,831</u>	<u>19,184</u>	<u>22,383</u>	<u>26,542</u>
Total	<u>191,262</u>	<u>208,054</u>	<u>233,209</u>	<u>255,214</u>

* For the year 1990, age categories are: under 5, 5-13, 14-17, 18-24, 25-44, 45-64, and 65 and over.

Sources: U.S. Census Bureau, <http://www.census.gov/>, and Wisconsin State Department of Administration, <http://www.doa.state.wi.us/>.

Family Income Range (City of Madison)

	Number of Families			
	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2016*</u>
Under - \$9,999	5,105	2,493	1,627	1,950
\$10,000 - \$14,999	4,697	1,993	1,141	975
\$15,000 - \$24,999	11,158	5,144	3,163	2,573
\$25,000 - \$49,999	13,528	16,289	10,692	8,127
\$50,000 - \$74,999	1,825	8,902	11,495	9,152
\$75,000 & Over	<u>846</u>	<u>5,426</u>	<u>14,642</u>	<u>27,572</u>
Total	<u>37,159</u>	<u>40,247</u>	<u>42,760</u>	<u>50,349</u>
Median Family Income	\$22,856	\$40,799	\$59,840	\$81,936

* 2012-2016 American Community Survey 5-Year Estimates; most recent information available.

Source: U.S. Census Bureau, <http://www.census.gov/>.

Growth and Trends

As of July 31, 2018, the City encompassed 79.75 square miles.

The City of Madison's Comprehensive Plan is available for public review and comment at imaginemadison.civiccomment.org. The Plan is the result of Imagine Madison, a community engagement process that reached over 15,000 Madisonians. The Comprehensive Plan is the City's high-level plan for the future. It includes recommendations regarding land use, transportation, housing, economic development, parks and open space, cultural resources, and a variety of services. The primary function of the Plan is to guide growth and development in the City over the next 20 years. Several key recommendations of the Comprehensive Plan include transit improvements, more housing choices, creation of family-supporting jobs, and focusing future growth on infill and redevelopment priority areas. Additionally, the 2018 Capital Improvement Plan (CIP) includes plans for investing \$1.1 billion in 185 capital items over the next 6 years. The timing of major projects, such as construction of new facilities, causes the variability in budget amounts across the CIP. After peaking in 2019, the CIP holds steady at \$165-\$170 million for 2020 to 2022. The CIP continues to grow again in 2023, for major infrastructure and facilities projects.

Transportation projects make up the largest portion of the 2018 Capital Improvement Plan. This category includes Engineering Major Streets and Bicycle/Pedestrian projects, Metro Transit, and Traffic Engineering. The next largest share of the budget is facility projects, which includes the construction of new facilities and renovation of existing buildings.

City Tax Incremental Districts

As of January 1, 2018, the City had 13 active Tax Incremental Districts. The total 2018 equalized value of property in the active districts is \$1,687,617,000, or 5.87% of the City’s 2018 equalized value of \$28,727,407,800. Taxes generated from the incremental values have been sufficient to pay all costs associated with the districts, including applicable debt service.

The following table is a listing of the City's active districts and their total incremental value generated as of January 1, 2018.

<u>No. and Title</u>	<u>General Location</u>	<u>Incremental Value Generated</u>
25. West Wilson St. Corridor	Central city	\$154,057,100
29. Allied Dunn’s Marsh Neighborhood	Southeast	17,552,200
35. Todd Drive/West Beltline Highway	South	39,039,900
36. Capitol Gateway Corridor	Central city	340,161,300
37. Union Corners	East	52,019,100
38. Badger/Ann/Park Street*	South	-0-
39. Stoughton Road	Southeast	81,446,700
41. University- Whitney	West	38,393,700
42. Wingra	West	22,104,300
44. Royster Clark	East	16,303,100
45. Capitol Square West	Central city	23,290,900
46. Research Park	West	29,359,400
47. Silicon Prairie	West	<u>7,585,700</u>
Total Incremental Value Generated		<u>\$821,313,400</u>

* This district has a zero or negative increment; therefore, no increment value is shown.

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Assessed Valuation Growth

Assessed valuation changes in millions of dollars for residential and commercial real property for the last five years are shown in the following schedule.

Assessment Year	(In Millions of Dollars)				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017*</u>
Residential:					
Construction	\$ 140	\$ 157	\$ 164	\$ 189	\$ 206
Revaluation	<u>288</u>	<u>396</u>	<u>471</u>	<u>789</u>	<u>869</u>
Subtotal	\$ 428	\$ 553	\$ 635	\$ 978	\$ 1,075
Commercial:					
Construction	\$ 252	\$ 369	\$ 354	\$ 561	\$ 398
Revaluation	<u>54</u>	<u>258</u>	<u>200</u>	<u>745</u>	<u>375</u>
Subtotal	\$ 306	\$ 627	\$ 554	\$1,306	\$ 773
Agricultural:					
Construction	-	-	-	-	\$ 1
Revaluation	-	-	-	-	-
Subtotal	-	-	-	-	\$ 1
Total:					
Construction	\$ 392	\$ 526	\$ 518	\$ 750	\$ 605
Revaluation	<u>342</u>	<u>654</u>	<u>671</u>	<u>1,534</u>	<u>1,244</u>
Grand Total	<u>\$ 734</u>	<u>\$1,180</u>	<u>\$1,189</u>	<u>\$2,284</u>	<u>\$1,849</u>

* 2017 assessed valuation breakdowns as of January 1, 2018, as published by the City Assessor on April 13, 2018, (The 2018 Property Tax Base of the City of Madison)

New residential construction during each of the last five years is shown below:

Number of Dwelling Units Constructed - as of July 31, 2018

<u>Assessment Year</u>	<u>One Family</u>	<u>Two or More Families</u>	<u>Total</u>
2014	238	1,557	1,795
2015	300	1,211	1,511
2016	292	1,558	1,850
2017	361	1,698	2,059
2018 (through 7-31)	232	934	1,166

Education

The majority of the City is within the Madison Metropolitan School District, which educates more than 25,200 students. The district operates 50 schools, including five high schools and one alternative high school. In addition, the district operates the University of Wisconsin Hospital School which serves the educational needs of school age children who are under care and treatment at the University of Wisconsin hospital. The Verona School District, the Sun Prairie Area School District, the Middleton-Cross Plains School District, the DeForest School District, the Monona Grove School District, the McFarland School District and the Waunakee Community School District also serve small parts of the City.

The City of Madison is the home of the main campus of the University of Wisconsin (UW) system. UW-Madison graduated over 7,430 students during the Spring 2018 Commencement

Source: <https://www.channel3000.com/news>.

DEBT STRUCTURE

Estimated General Obligation Debt Outstanding as of December 20, 2018

General Obligation Bonds	\$ 64,510,000
General Obligation Promissory Notes	<u>422,551,000</u>
 Total	 <u>\$487,061,000</u>

NOTE: The total general obligation debt of the City of Madison currently includes \$109,623,439 that will be reimbursed from the earnings of various City operations. The total general obligation debt also includes \$57,892,878 borrowed to fund the City's portion of Tax Incremental Districts (TIDs). Principal and interest for TID-related debt are paid by the incremental taxes generated in the TIDs, not the general tax levy.

Estimated Calendar Year General Obligation Debt Service Payments

<u>Year</u>	<u>Principal</u>	<u>Principal & Interest^(a)</u>
2018 (at 12-20)	(Paid)	(Paid)
2019	\$ 75,895,000	\$ 91,879,214
2020	69,698,500	83,470,198
2021	64,288,000	75,561,293
2022	56,572,500	65,612,370
2023	51,785,000	58,788,480
2024	45,724,000	50,862,985
2025	37,072,500	40,572,452
2026	30,054,500	32,513,080
2027	21,748,000	23,445,516
2028	12,948,000	14,043,434
2029	2,910,000	3,599,300
2030	2,910,000	3,497,144
2031	2,905,000	3,398,319
2032	2,905,000	3,311,506
2033	2,145,000	2,463,650
2034	2,145,000	2,397,638
2035	2,140,000	2,324,125
2036	1,525,000	1,639,481
2037	1,190,000	1,252,425
2038	<u>500,000</u>	<u>520,000</u>
 Total	 <u>\$487,061,000*</u>	 <u>\$561,152,610</u>

* 95.6% of this debt will be retired within ten years.

Computation of City's Legal Debt Margin

Debt Limit (5% of 2018 Equalized Value of \$28,727,407,800)	\$1,436,370,390
Total Debt Applicable to Debt Limit	<u>(487,061,000)</u>
Legal Debt Margin as of December 20, 2018*	<u>\$ 949,309,390*</u>
Debt Outstanding as a Percent of Legal Debt Limit	33.91%

* The legal debt margin permits debt to be offset by debt service funds. No such offset has been used to decrease the margin shown above.

Percentage of General Obligation Debt To Equalized Value as of December 31 for Last Five Years

<u>Fiscal Year</u>	<u>Net G.O. Debt</u>	<u>Equalized Value</u>	<u>G.O. Debt as a % of Equalized Value</u>
2013	\$356,372,862	\$21,853,251,100	1.63%
2014	360,809,488	22,710,891,600	1.59
2015	382,345,000	24,596,422,250	1.55
2016	410,505,000	26,768,653,950	1.53
2017	448,645,000	28,727,407,800	1.56

General Obligation Debt Per Capita and Debt Per Capita as a Percentage of Per Capita Personal Income as of December 31 for Last Five Years

<u>Fiscal Year</u>	<u>Net G.O. Debt</u>	<u>Population</u>	<u>Debt Per Capita</u>	<u>Madison MSA Per Capita Income</u>	<u>Debt Per Capita as a % of Per Capita Income</u>
2013	\$356,372,862	238,000	\$1,497	\$49,917	3.00%
2014	360,809,488	240,153	1,502	49,969	3.01
2015	382,345,000	242,216	1,579	52,352	3.02
2016	410,505,000	247,207	1,661	53,595	3.10
2017	448,645,000	255,214	1,758	N/A	N/A

Source: Bureau of Economic Analysis – US Department of Commerce, <http://www.bea.gov/regional/bearfacts>. Personal income last published on November 16, 2017.

Overlapping Debt

<u>Taxing Unit</u>	<u>Est. G.O. Debt as of 12-20-18*</u>	<u>Debt Applicable to Value in City</u>	
		<u>Percent</u>	<u>Amount</u>
Dane County	\$376,155,000	44.92%	\$168,968,826
DeForest School District	40,455,000	9.69	3,920,090
Madison Metropolitan School District	71,685,000	89.70	64,301,445
McFarland School District	64,350,000	10.22	6,576,570
Middleton-Cross Plains School District	73,480,000	22.08	16,224,384
Monona Grove School District	39,815,000	0.13	51,760
Sun Prairie Area School District	199,395,000	16.06	32,022,837
Verona School District	194,485,808	3.75	7,293,218
Waunakee Community School District	78,030,000	2.61	2,036,583
Madison Area Technical College	183,555,000	32.87	<u>60,334,529</u>
Total			<u>\$361,730,242</u>

* Excludes general obligation debt of the Madison Metropolitan Sewerage District (the "District"). The District has not levied a property tax since 1973 for this general obligation debt. All operating and debt service expenditures of the District are paid out of sewer service charges billed to the local units of government within the District.

Estimated Non-General Obligation Debt Outstanding

Revenue Bonds Payable from Enterprise Funds:	
Water Utility	\$212,155,000 ^(a)
Sewer Utility	<u>50,540,000^(b)</u>
Total as of December 20, 2018	<u>\$262,695,000</u>

^(a) Includes the Obligations.

^(b) Includes the Sewer Bonds.

In addition, the Community Development Authority of the City has issued various obligations payable solely from revenues generated by the associated projects, and housing bonds and notes payable from public housing rentals and subsidies. As of December 31, 2017, the total principal amount outstanding of the Community Development Authority obligations was \$12,193,749.

GENERAL FUND FINANCIAL INFORMATION

**Balance Sheets
December 31, 2013-2017 (in thousands)
(AUDITED)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Assets					
Cash and Investments	\$ 60,130	\$ 55,642	\$ 61,167	\$ 68,399	\$ 67,014
Current Receivables	207,873	211,080	218,192	227,625	235,476
Due from other Funds and Component Units	8,726	11,011	2,398	1,416	7,149
Due from other Governmental Units	1,809	2,494	1,984	367	357
Inventories	616	609	600	-0-	574
Advances to other Funds and Component Units	4,828	4,063	3,298	2,533	1,768
Prepaid Items	<u>2,423</u>	<u>2,481</u>	<u>2,143</u>	<u>1,801</u>	<u>1,934</u>
Total Assets	<u>\$286,405</u>	<u>\$287,380</u>	<u>\$289,783</u>	<u>\$302,141</u>	<u>\$314,272</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Total Liabilities	\$226,613	\$231,122	\$235,145	\$ 23,232	\$23,703
Deferred Inflows of Resources					
Unavailable revenues	-0-	-0-	-0-	21,880	19,108
Unearned revenues	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>202,813</u>	<u>213,263</u>
Total Deferred Inflows of Resources	-0-	-0-	-0-	\$224,693	\$232,371
Fund Balances					
Nonspendable	\$ 8,147	\$ 8,223	\$ 8,729	\$ 4,700	\$ 6,677
Assigned	13,064	8,877	7,480	10,209	9,496
Unassigned	<u>38,581</u>	<u>39,158</u>	<u>38,429</u>	<u>39,306</u>	<u>42,025</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$286,405</u>	<u>\$287,380</u>	<u>\$289,783</u>	<u>\$302,140</u>	<u>\$314,272</u>

Statements of Revenues, Expenditures and Changes in Undesignated Fund Balance
Years Ended December 31, 2013-2017 (in thousands)
(AUDITED)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues					
Property Taxes	\$179,481	\$182,859	\$187,636	\$193,567	\$203,091
Other Local Taxes	11,073	12,156	15,694	15,474	14,884
Intergovernmental Revenues	34,359	35,628	35,725	35,717	36,597
Licenses and Permits	5,695	5,563	6,712	9,328	7,706
Charges for Services	9,527	10,182	10,188	8,715	15,968
Fines and Forfeitures	7,003	6,584	7,012	7,679	6,614
Interest and Investments	-2,621	949	1,179	2,760	1,507
Miscellaneous	1,795	3,076	3,059	1,729	1,373
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	\$246,312	\$256,997	\$267,205	\$274,969	\$287,740
Expenditures					
General Government	\$ 1,646	\$ 1,966	\$ 1,824	\$ 22,729	\$ 25,798
Public Safety and Health	112,517	114,149	119,382	125,630	127,524
Public Works and Transportation	58,589	61,175	62,420	44,229	35,486
Planning and Development	18,289	19,311	20,646	19,242	21,884
Culture and recreation	-0-	-0-	-0-	14,281	17,099
Administration	18,003	19,040	19,199	-	-
Debt Service	34,248	37,028	37,669	40,477	44,321
Other	9,259	7,862	7,686	8,803	11,646
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	\$252,551	\$260,531	\$268,826	\$275,391	\$283,758
Excess (Deficit) of Revenues Over Expenditures	(\$6,239)	(\$3,534)	(\$1,621)	(\$422)	\$3,982
Unassigned Fund Balance –Beginning of Year	42,820	38,581	39,158	38,429	39,306
Adjustments (Note A. below)	2,000	4,111	892	1,299	(1,263)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Unassigned Fund Balance-End of Year	<u>\$38,581</u>	<u>\$39,158</u>	<u>\$38,429</u>	<u>\$39,306</u>	<u>\$42,025</u>

Note to Five-Year Financial Schedules:

- A. Adjustments to the unassigned fund balance reflect the changes in the amount of assigned fund balance for future expenditures and/or encumbrances, for compensated absences, inventories, prepaids, noncurrent advances to other funds and/or component units, and any amount applied to the subsequent year's budget.

General Fund and Debt Service Budget Summary

	<u>Budget 2017</u>	<u>Budget 2018</u>
Revenues:		
Property Taxes	\$219,727,999	\$231,041,537
Intergovernmental revenues (includes payment in lieu of taxes)	45,874,871	47,252,639
Charges for Services	9,185,000	9,355,000
Other Local Taxes and revenues (includes fund balance applied/(generated))	10,982,620	11,253,878
Fines and Forfeitures	6,850,000	7,035,000
Licenses and Permits	6,483,620	7,171,620
Interest Income	<u>1,200,000</u>	<u>1,700,000</u>
 Total Revenues	 <u>\$300,304,110</u>	 <u>\$314,809,674</u>
Expenditures:		
Public Safety and Health	\$124,355,094	\$128,936,206
General Government	2,023,418	2,323,616
Public Works and Transportation	60,700,880	62,550,310
Administration	21,247,610	22,990,888
Department of Planning and Development	20,920,170	22,145,633
Debt Service	44,321,039	47,239,111
Miscellaneous	<u>10,370,335</u>	<u>10,844,880</u>
 Total General Fund Expenditures	 \$283,938,546	 \$297,030,644
Library	16,915,564	17,779,030
Anticipated General Fund Lapse	<u>(550,000)</u>	<u>- 0 -</u>
 Total Expenditures	 <u>\$300,304,110</u>	 <u>\$314,809,674</u>

Source: The City's 2018 Adopted Operating Budget, pages 11-13.

Debt Service Expenditures

Net debt service cost as a percentage of total General Fund expenditures for the past five years is shown as follows:

<u>Year</u>	<u>(In Thousands of Dollars)</u>		<u>Percent of Total</u>
	<u>Total General Fund Expenditures</u>	<u>Debt Service Expenditures</u>	
2013	\$252,551	\$34,248	13.6%
2014	261,812	37,027	14.1
2015	268,826	37,669	14.0
2016	273,769	40,477	14.8
2017	285,294	44,321	15.5
2018 (Budget)	297,030	47,239	15.9

TAX LEVIES, COLLECTIONS AND RATES

The City of Madison levies property taxes for general City operations and collects the City's share of tax levies of other governmental units (School Districts, County, Madison Area Technical College (MATC) and State) certified to the City. Taxes are levied by the Common Council. The City collects taxes, and offers citizens two types of payment options. The first option is a lump sum payment due on or before January 31. The second option is two installment payments due on or before January 31 and July 31. All delinquent real estate taxes are purchased by Dane County. Final settlement for these taxes is August 20, at which time the City receives 100% of its real property levy from the County. The City charges back delinquent personal property taxes to other taxing entities on a pro rata basis. Overdue or delinquent personal property taxes and special assessments are subject to an interest charge of 1% per month or fraction of a month. In addition to the interest charge, special assessments are subject to a penalty of 0.5% per month or fraction of a month.

Delinquent personal property taxes for the last five years as of July 31, 2018 are:

<u>Tax/Levy Year</u>	<u>Collection Year</u>	<u>Delinquent Taxes</u>
2013	2014	\$ 80,444
2014	2015	111,168
2015	2016	90,404
2016	2017	105,031
2017	2018	72,664

The City of Madison has never borrowed against delinquent taxes nor has the City ever engaged in interim borrowing for operational purposes.

Property Tax Rates Per \$1,000 of Assessed Value

<u>Fiscal Year</u>	<u>City^(a)</u>	<u>Madison School District</u>	<u>County</u>	<u>State^(b)</u>	<u>MATC</u>	<u>Less: State Credit</u>	<u>Total</u>
2014	\$9.51	\$12.16	\$2.97	\$0.17	\$1.89	\$(1.82)	\$24.88
2015	9.49	12.38	3.03	0.17	0.96	(1.80)	24.23
2016	9.49	12.54	3.06	0.18	0.96	(2.02)	24.21
2017	9.49	12.26	3.03	0.17	0.99	(1.98)	23.96
2018	9.34	11.99	3.09	-	0.97	(2.06)	23.33

^(a) Includes levy for Madison Public Library.

^(b) The State of Wisconsin repealed the forestry mill tax effective in 2018.

Tax Levies

Fiscal Year	City ^(a)	School District ^(b)	County	State ^(c)	MATC	Total ^(d)
2014	\$198,441,725	\$253,662,758	\$61,998,990	\$3,708,628	\$39,382,727	\$557,194,828
2015	202,870,333	264,556,619	64,498,877	3,854,176	20,690,949	556,470,954
2016	209,856,552	285,786,854	69,895,342	4,019,600	21,964,999	591,523,347
2017	219,728,630	282,644,837	70,246,283	4,174,161	23,018,319	599,812,230
2018	231,041,537	294,885,198	76,359,975	-	24,040,527	626,327,237

(a) Includes levy for Madison Public Library. Actual city levy differs slightly from the 2018 adopted budget property tax levy.

(b) The amount shown is the total for all of the school districts in which the City has property.

(c) The State of Wisconsin did not levy taxes during the current fiscal year.

(d) Levy before State tax credit.

CITY PROPERTY VALUES

Equalized and Assessed Value of Taxable Property

Levy Year	Equalized Value	Assessed Value	Ratio of Assessed to Equalized
2014	\$22,710,891,600	\$21,609,763,500	95.2%
2015	23,685,668,450	22,926,883,000	96.8
2016	24,596,422,250	23,949,881,200	97.4
2017	26,768,653,950	26,301,011,850	98.2
2018	28,727,407,800	27,588,748,100	96.0

NOTE: Includes captured tax increment value.

2018 Equalized Value by Class of Property

Real Estate:		
Residential	\$17,439,324,600	60.7%
Commercial	10,393,646,900	36.2
Manufacturing	268,736,800	0.9
Agricultural and Other	23,202,100	0.1
Personal Property	<u>602,497,400</u>	<u>2.1</u>
Total	\$28,727,407,800	100.0%
Less: Captured Tax Increment Value	<u>(821,313,400)</u>	
Net Equalized Value	<u>\$27,906,094,400</u>	

The City Assessor has the statutory duty to determine the full market value of all locally assessable, non-exempt property in the City to ensure that property taxes are levied uniformly and equitably. The Assessor assesses all property at full market value as of January 1; publishes an annual assessment roll which describes the property and lists the owners' names and addresses and sets forth the assessed valuations that are used in computing property tax statements for City taxpayers.

The “equalized value,” also called the “full value assessment” or the “aggregate full value,” attempts to equalize the various local assessment policies so that a basis for uniformity of property values throughout the State is established. Under Section 70.57, Wisconsin Statutes, the State Department of Revenue is required to determine the equalized value of all taxable property in each county and taxation district. Based on several economic factors, including past sales studies, the State Department of Revenue calculates a percentage which, when applied to the assessed value, produces a value which most closely approximates the full market value of each county and taxation district. The State Department of Revenue shall notify each county and taxation district of its equalized value on August 15; with school districts being notified on October 15.

All municipalities must assess taxable property at a minimum of 90% of State equalized values at least once every five years.

Top Ten Individual Taxpayers in the City

<u>Taxpayer & Type of Business</u>	<u>2017 Assessed Value</u>	<u>Amount of Taxes Levied</u>	<u>Percentage of the Tax Levy</u>
1. Madison Joint Venture (Shopping Center Dev. & Management)	\$179,695,600	\$1,678,503	0.73%
2. American Family Insurance Corp (Insurance)	146,437,800	1,367,848	0.59
3. Core Campus Madison LLC (Property Dev. & Management)	97,320,000	909,048	0.39
4. Covance Laboratories Inc (Research)	74,955,000	700,141	0.30
5. University Research Park Inc (Property Dev. & Management)	74,848,900	699,150	0.30
6. 777 University Ave LLC (Property Dev. & Management)	66,909,300	624,987	0.27
7. AX Madison Junction LP (Property Dev. & Management)	64,300,000	600,614	0.26
8. Domain Apartments LLC (Property Dev. & Management)	62,319,000	582,110	0.25
9. Core Campus Madison II LLC (Property Dev. & Management)	57,920,000	541,020	0.24
10. 110 Bedford LLC (Property Dev. & Management)	<u>52,000,000</u>	<u>485,722</u>	<u>0.21</u>
Totals	<u>\$876,705,600^(a)</u>	<u>\$8,189,143^(b)</u>	<u>3.54%</u>

^(a) Represents 3.33% of the City’s 2017 assessed value of \$26,301,011,850. 2018 assessed values for individual taxpayers are not yet available.

^(b) Represents 3.54% of the City’s 2018 adopted property tax levy of \$231,041,537.

Intergovernmental and Operating State Revenues

The City of Madison received 12.9% of its total revenue from intergovernmental and operating program revenues in 2017. Primary sources are described below:

State Shared Taxes – Long-term, payment to municipalities based on population and property values.

State Highway Aid – Long-term, funded by state gasoline tax and motor vehicle fees. This revenue source is based on the type and size of governmental unit. Aid is distributed under a formula which considers the number of miles, types of roads in a municipality and local costs of maintaining the roads. This revenue is utilized by municipalities for major street repairs.

State Payment for Municipal Services – It is a payment in lieu of taxes funded in the state budget based on the value of State-owned property within a local jurisdiction; recognizes the cost of municipal services to state facilities.

State Recycling Aid – Since its inception in 1990, this State-funded grant program has existed to assist local units of government in recovering their recycling costs.

Expenditure Restraint Program – Starting in 1991, the State of Wisconsin implemented a program to provide additional financial assistance to cities with tax rates above the statewide average. In order to qualify for payments, the City must adopt an annual budget reflecting an increase no greater than the increase in the Consumer Price Index (CPI). Debt service expenditures are excluded from cost controls. Additional allowances for annual increases may be made due to growth in the City's tax base.

State Computer Reimbursement – Exempted business computers from being subject to property taxes beginning with the 1999 property tax collected in 2000. It also provides for a state aid payment to municipalities to offset the loss of this taxable property. This aid payment is recognized as General Fund revenue.

Fire Insurance Dues – The State of Wisconsin collects 2% of all fire insurance premiums sold in Wisconsin. All municipalities receive a share based on equalized value of real property improvements. Funds may be used for fire inspection, prevention and protection, training, purchase of fire protection equipment and funding of firefighters' pension programs.

The following table illustrates the amount of revenue the City has received from intergovernmental and operating program revenues over the last five years:

	(In Thousands of Dollars)				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
State Shared Revenue	\$ 6,196	\$ 6,183	\$ 6,018	\$ 6,061	\$ 6,060
State Highway Aid	9,477	9,867	10,250	10,204	10,061
State Payment for Municipal Services	8,066	8,350	8,097	8,011	8,726
State Recycling Aid	804	804	804	765	803
Expenditure Restraint Program	6,374	6,433	6,568	6,399	6,783
State Computer Reimbursement	2,597	2,697	2,560	2,666	3,146
State Fire Insurance Dues	750	863	876	952	1,018
Other Government Payment for Services	<u>95</u>	<u>431</u>	<u>552</u>	<u>659</u>	<u>0*</u>
Total	<u>\$34,359</u>	<u>\$35,628</u>	<u>\$35,725</u>	<u>\$35,717</u>	<u>\$36,597</u>

* In prior years, revenue from payment of services comprised of fire protection for the Town of Burke, Town of Blooming Grove, and the Village of Shorewood Hills. In 2017, the aforementioned revenues are no longer intergovernmental revenues, but are charges for services.

INSURANCE

The City is provided general liability, automobile liability, public official's liability and police professional liability by the Wisconsin Municipal Mutual Insurance Company (WMMIC). The City has a \$500,000 per occurrence self-insurance retention (SIR) with a maximum annual aggregate SIR of \$1,600,000. Coverage of up to \$10,000,000 per occurrence in excess of the SIR is provided by WMMIC. WMMIC also provides the City with a Cyber and Privacy Liability policy with a \$2,000,000 per occurrence/\$2,000,000 aggregate limit and a \$50,000 deductible.

Automobile liability insurance for the City's mass transit operation is provided by the Transit Mutual Insurance Corporation of Wisconsin. The group participants are insured with limits of \$250,000 per person and \$7,000,000 per accident.

Property insurance is provided by Municipal Property Insurance Company. In addition, the City insures its cash and crime exposures through an insurance program underwritten by Fidelity and Deposit Company of Maryland. The City also insures its Boiler and Machinery exposure through the Chubb Group.

Claims against the City are referred to the insurance administrators for processing. The independent administrators also establish "reserves" for the claims.

The City's Insurance and Worker's Compensation Funds had positive net positions of \$904,702, and \$4,000,469, respectively as of December 31, 2017. These balances are based on actuarial estimates of future claim liability and will be recovered through future charges to departments.

The Worker's Compensation program is self-insured and administered by a third-party administrator hired by the City. The City purchases workers' compensation excess coverage from Safety National Casualty Corp. with a \$650,000 retention.

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GENERAL FUND
STATEMENT OF REVENUES—BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017

(With comparative totals for the year ended December 31, 2016)

	2017		Variance - Positive (Negative)	2016 Actual
	Final Amended Budget	Actual		
Taxes:				
Property	\$ 202,812,434	\$ 202,610,257	\$ (202,177)	\$ 193,567,716
Penalties and Interest on				
Delinquent Property Taxes	300,000	353,255	53,255	451,192
Prior Years Taxes	34,000	43,732	9,732	(698)
Mobile Home Tax	100,000	83,280	(16,720)	75,935
General Fund Lapse	-	-	-	-
Transient Occupancy Tax	4,726,020	4,644,934	(81,086)	5,146,599
Payments in Lieu of Property Taxes	10,048,200	10,239,506	191,306	9,800,361
Total Taxes	218,020,654	217,974,964	(45,690)	209,041,105
Intergovernmental:				
State Shared Revenues	6,031,650	6,059,700	28,050	6,060,663
State Highway Aids	10,113,000	10,060,865	(52,135)	10,203,945
State Payment for Municipal Services	8,063,000	8,726,095	663,095	8,011,421
State Recycling Aid	750,000	802,665	52,665	765,263
State Expenditure Restraint Program	6,783,299	6,783,299	-	6,398,824
State Computer Reimbursement	3,135,722	3,146,459	10,737	2,665,527
State Fire Insurance Dues	950,000	1,017,603	67,603	952,123
Other Government Payment for Service	-	-	-	659,412
Total Intergovernmental	35,826,671	36,596,686	770,015	35,717,178
Licenses and Permits:				
Licenses	1,143,500	1,297,886	154,386	3,943,491
Permits	5,190,120	6,408,313	1,218,193	5,384,356
Total Licenses and Permits	6,333,620	7,706,199	1,372,579	9,327,847
Fines and Forfeitures:				
Moving Violations	700,000	549,407	(150,593)	638,889
Uniform Citations	850,000	880,185	30,185	1,910,337
Parking Violations	5,300,000	5,183,531	(116,469)	5,129,965
NSF Fee	-	985	985	-
Total Fines and Forfeitures	6,850,000	6,614,108	(236,877)	7,679,191
Charges for Services:				
Engineering	500,000	751,209	251,209	441,650
Recreation	630,000	628,823	(1,177)	604,437
Cemetery	240,000	265,633	25,633	321,242
Current Services	1,080,000	1,546,550	466,550	666,263
Cable TV Fees	-	2,559,454	2,559,454	-
Ambulance Fees	7,685,000	10,215,968	2,530,968	6,681,270
Total Charges for Services	10,135,000	15,967,637	5,832,637	8,714,862
Investment Income	1,485,000	1,506,537	21,537	2,759,893
Other:				
Proceeds from Rental and				
Sale of Property	50,000	106,692	56,692	43,435
TIF Reimbursements	-	-	-	409,913
Miscellaneous	4,287,600	1,267,501	(3,020,099)	1,275,851
Total Other	4,337,600	1,374,193	(2,963,407)	1,729,199
Total Revenues	\$ 282,988,545	\$ 287,740,324	\$ 4,750,794	\$ 274,969,275

**GENERAL FUND
STATEMENT OF EXPENDITURES—BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017**

(With comparative totals for the year ended December 31, 2016)

	2017		Variance - Positive (Negative)	2016 Actual
	Final Amended Budget	Actual		
Public Safety and Health:				
Fire	\$ 51,812,437	\$ 51,573,040	\$ 239,397	\$ 50,640,567
Police	71,481,195	71,692,539	(211,344)	70,196,580
Public Health	4,535,370	4,535,371	(1)	4,793,266
Total Public Safety and Health	<u>127,829,002</u>	<u>127,800,950</u>	<u>28,052</u>	<u>125,630,413</u>
General Government:				
Council	629,560	545,612	83,948	507,545
Mayor	1,484,858	1,497,285	(12,427)	1,370,215
Municipal Court	80,000	65,551	14,449	(51,004)
Attorney	3,003,891	2,983,401	20,490	2,736,676
Assessor	2,532,868	2,491,810	41,058	2,312,123
Clerk	1,440,855	1,281,093	159,762	2,394,710
Treasurer	739,954	689,175	50,779	615,914
Finance	3,695,763	3,691,551	4,212	3,382,022
Information Technology	6,482,598	6,319,679	162,919	6,056,278
Human Resources	1,862,401	1,861,767	634	1,723,722
EAP	344,591	316,624	27,967	330,652
Department of Civil Rights	1,561,158	1,522,794	38,364	1,350,529
Total General Government	<u>23,858,497</u>	<u>23,266,342</u>	<u>592,155</u>	<u>22,729,382</u>
Public Works and Transportation:				
Engineering	4,697,611	4,601,510	96,101	4,148,712
Streets	26,125,034	24,130,646	1,994,388	26,890,206
Transit Utility	11,880,431	11,880,431	-	7,380,384
Traffic Engineering	6,141,366	6,031,131	110,235	5,809,975
Total Public Works and Transportation	<u>48,844,442</u>	<u>46,643,718</u>	<u>2,200,724</u>	<u>44,229,277</u>
Planning and Development:				
Office of the Director of Planning	673,206	656,688	16,518	633,016
Planning Division	3,257,021	3,074,026	182,995	3,045,031
Building Inspection Division	4,357,827	4,340,940	16,887	4,358,868
Community Development Division	11,261,158	12,399,176	(1,138,018)	9,987,936
Economic Development Division	1,374,480	1,384,178	(9,698)	1,042,689
CDA Housing Operations	176,512	176,512	-	174,218
Total Planning and Development	<u>21,100,204</u>	<u>22,031,520</u>	<u>(931,316)</u>	<u>19,241,758</u>
Culture and Recreation				
Parks	13,480,834	13,388,362	92,472	14,281,009
Other:				
Unallocated Employee Benefits	-	-	-	1,543,297
Miscellaneous	5,859,732	6,305,946	(446,214)	7,259,464
Total Other	<u>5,859,732</u>	<u>6,305,946</u>	<u>(446,214)</u>	<u>8,802,761</u>
Debt Service	<u>44,321,038</u>	<u>44,321,038</u>	<u>-</u>	<u>40,476,749</u>
Total Expenditures	<u>\$ 285,293,749</u>	<u>\$ 283,757,876</u>	<u>\$ 1,535,873</u>	<u>\$ 275,391,349</u>

**GENERAL FUND
STATEMENT OF CHANGES IN UNASSIGNED FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2017**

(With comparative totals for the year ended December 31, 2016)

	<u>2016</u>	<u>2017</u>
Unassigned Fund Balance—January 1	\$38,428,657	\$39,306,185
Excess (Deficit) of Revenues Over Expenditures and Encumbrances	(422,074)	3,982,448
Decrease (Increase) in Amount Assigned for Future Expenditures	(2,729,138)	713,342
Other Changes to Nonspendable, Restricted, Committed and/or Assigned Fund Balance	<u>4,028,740</u>	<u>(1,976,628)</u>
Unassigned Fund Balance—December 31	<u>\$39,306,185</u>	<u>\$42,025,347</u>

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PROPOSED FORMS OF LEGAL OPINIONS

December __, 2018

City of Madison Water Utility
 119 East Olin Avenue
 Madison, Wisconsin 53703

Subject: \$30,765,000
 City of Madison, Wisconsin
 Water Utility Revenue Bonds, Series 2018A

We have acted as bond counsel in connection with the issuance by the City of Madison, Wisconsin (the “**Municipality**”) of its \$30,765,000 Water Utility Revenue Bonds, Series 2018A, dated December 20, 2018 (the “**Bonds**”). The Bonds were issued pursuant to a resolution adopted by the Common Council of the Municipality on December 4, 2018 (the “**Resolution**”).

We examined the law, a certified copy of the proceedings relating to the issuance of the Bonds, and certifications of public officials and others. As to questions of fact material to our opinion, we relied upon the certified proceedings and certifications without independently undertaking to verify them.

The Bonds are payable only from a special redemption fund established by the Municipality (the “**Special Redemption Fund**”) and the revenues pledged to such fund. The Bonds are issued on a parity with the Municipality’s (i) \$47,065,000 Water Utility Revenue Refunding and Improvement Bonds, Series 2009A, dated December 9, 2009, (ii) \$13,250,000 Taxable Water Utility Revenue Bonds, Series 2010, dated November 10, 2010, (iii) \$19,370,000 Water Utility Revenue Bonds, Series 2011, dated December 22, 2011, (iv) \$21,095,000 Water Utility Revenue Bonds, Series 2012, (v) \$24,335,000 Water Utility Revenue Bonds, Series 2013, dated December 18, 2013, (vi) \$41,610,000 Water Utility Revenue Bonds, Series 2015, dated December 17, 2015, and (vii) \$38,420,000 Water Utility Revenue Refunding and Improvement Bonds, Series 2016, dated December 18, 2016 (collectively, the “**Outstanding Bonds**”) and its \$9,065,000 Taxable Water Utility Revenue Notes, Series 2018B, issued contemporaneously with the Bonds (the “**2018 Notes**”). The Bonds and interest thereon are not general obligations of the Municipality, and the Municipality is not obligated, directly or indirectly or contingently, to levy or to pledge any form of taxation whatsoever for payments of the Bonds.

Under circumstances and subject to conditions stated in the Resolution, additional bonds or notes may later be issued on a parity and equality of rank with the Bonds, the 2018 Notes, and the Outstanding Bonds (any such bonds or notes being hereinafter referred to as “**Parity Bonds**”).

The Municipality has pledged a portion of the revenues of the Municipality’s waterworks system (the “**System**”) to the Special Redemption Fund created by the Municipality to pay the principal of, and interest on, the Bonds, the 2018 Notes, the Outstanding Bonds, and

any Parity Bonds. In addition, the Resolution provides that amounts held in certain other funds and accounts created or continued under the Resolution shall be transferred to the Special Redemption Fund in the event the funds therein are insufficient to pay the Bonds.

Based upon this examination, we are of the opinion that, under existing law:

1. The Bonds were duly authorized, executed, and delivered by the Municipality and are valid and binding revenue obligations enforceable in accordance with their terms.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on all taxpayers; however, interest on the Bonds is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations. The Municipality must comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied after the Bonds are issued for interest on the Bonds to be, or continue to be, excluded from gross income for federal income tax purposes. The Municipality has agreed to comply with those requirements. Its failure to do so may cause interest on the Bonds to be included in gross income for federal income tax purposes, in some cases retroactively to the date the Bonds were issued. We express no opinion about other federal tax law consequences relating to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or an equitable proceeding).

We express no opinion as to the truth or completeness of any official statement or other disclosure document used in connection with the offer and sale of the Bonds.

Our opinion is given as of the date of this letter. We assume no duty to update our opinion to reflect any facts or circumstances that later come to our attention or any subsequent changes in law. In acting as bond counsel, we have established an attorney-client relationship only with the Municipality.

Very truly yours,

December __, 2018

City of Madison Water Utility
119 East Olin Avenue
Madison, Wisconsin 53703

Subject: \$9,605,000
City of Madison, Wisconsin
Taxable Water Utility Revenue Notes, Series 2018B

We have acted as bond counsel in connection with the issuance by the City of Madison, Wisconsin (the “**Municipality**”) of its \$9,605,000 Taxable Water Utility Revenue Notes, Series 2018B, dated December 20, 2018 (the “**Notes**”). The Notes were issued pursuant to a resolution adopted by the Common Council of the Municipality on December 4, 2018 (the “**Resolution**”).

We examined the law, a certified copy of the proceedings relating to the issuance of the Notes, and certifications of public officials and others. As to questions of fact material to our opinion, we relied upon the certified proceedings and certifications without independently undertaking to verify them.

The Notes are payable only from a special redemption fund established by the Municipality (the “**Special Redemption Fund**”) and the revenues pledged to such fund. The Notes are issued on a parity with the Municipality’s (i) \$47,065,000 Water Utility Revenue Refunding and Improvement Bonds, Series 2009A, dated December 9, 2009, (ii) \$13,250,000 Taxable Water Utility Revenue Bonds, Series 2010, dated November 10, 2010, (iii) \$19,370,000 Water Utility Revenue Bonds, Series 2011, dated December 22, 2011, (iv) \$21,095,000 Water Utility Revenue Bonds, Series 2012, (v) \$24,335,000 Water Utility Revenue Bonds, Series 2013, dated December 18, 2013, (vi) \$41,610,000 Water Utility Revenue Bonds, Series 2015, dated December 17, 2015, and (vii) \$38,420,000 Water Utility Revenue Refunding and Improvement Bonds, Series 2016, dated December 18, 2016 (collectively, the “**Outstanding Bonds**”) and its \$30,765,000 Water Utility Revenue Bonds, Series 2018A, issued contemporaneously with the Notes (the “**2018 Bonds**”). The Notes and interest thereon are not general obligations of the Municipality, and the Municipality is not obligated, directly or indirectly or contingently, to levy or to pledge any form of taxation whatsoever for payments of the Notes.

Under circumstances and subject to conditions stated in the Resolution, additional bonds or notes may later be issued on a parity and equality of rank with the Notes, the 2018 Bonds, and the Outstanding Bonds (any such bonds or notes being hereinafter referred to as “**Parity Bonds**”).

The Municipality has pledged a portion of the revenues of the Municipality’s waterworks system (the “**System**”) to the Special Redemption Fund created by the Municipality to pay the principal of, and interest on, the Notes, the 2018 Bonds, the Outstanding Bonds, and any Parity Bonds. In addition, the Resolution provides that amounts held in certain other funds and accounts created or continued under the Resolution shall be transferred to the Special Redemption Fund in the event the funds therein are insufficient to pay the Notes.

Based upon this examination, we are of the opinion that, under existing law the Notes were duly authorized, executed, and delivered by the Municipality and are valid and binding revenue obligations enforceable in accordance with their terms.

The rights of the owners of the Notes and the enforceability of the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or an equitable proceeding).

We express no opinion as to the truth or completeness of any official statement or other disclosure document used in connection with the offer and sale of the Notes.

Our opinion is given as of the date of this letter. We assume no duty to update our opinion to reflect any facts or circumstances that later come to our attention or any subsequent changes in law. In acting as bond counsel, we have established an attorney-client relationship only with the Municipality.

Very truly yours,

FORMS OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of December 20, 2018 (this “**Disclosure Agreement**”), is executed and delivered by the City of Madison, Wisconsin (the “**Issuer**”), a municipal securities issuer and a governmental entity located in the State of Wisconsin. The Issuer covenants and agrees as follows:

Section 1. Definitions.

The following capitalized terms have the following meanings:

“**Annual Financial Information**” means the financial information or operating data of the Issuer’s Water Utility, for the preceding fiscal year, of the type included in the Final Official Statement as further described in Section 3(b) hereof.

“**Commission**” means the U.S. Securities and Exchange Commission.

“**Dissemination Agent**” means any agent responsible for assisting the Issuer in carrying out its obligations under this Disclosure Agreement, which has been designated as a dissemination agent in writing by the Issuer, and has filed with the Issuer a written acceptance of such designation, and the successors and assigns of such dissemination agent.

“**EMMA**” means the Electronic Municipal Market Access system for municipal securities disclosures, a Commission-approved electronic database established and operated by the MSRB to accommodate the collection and availability of required filings of secondary market disclosures under the Rule.

“**Event Notice**” means a notice of occurrence of a Listed Event provided under Section 4(b) hereof or a notice provided under Sections 3(d), 4(c), or 8 hereof, each of which shall be transmitted as described in Section 5 hereof.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time.

“**Final Official Statement**” means the offering document prepared and distributed to a Participating Underwriter in connection with the primary offering of the Obligations.

“**Issuer**” means the municipal securities issuer named above.

“**Listed Event**” means any of the events listed in Section 4(a) of this Disclosure Agreement.

“**MSRB**” means the Municipal Securities Rulemaking Board, which serves as the sole repository for all required filings of all secondary market disclosures under the Rule.

“**Obligations**” means the Issuer’s \$30,765,000 Water Utility Revenue Bonds, Series 2018A, dated December 20, 2018.

“**Owners**” means the beneficial owners from time to time of the Obligations.

“**Participating Underwriter**” means any broker, dealer, or municipal securities dealer that is required to comply with the Rule when acting as an underwriter in a primary offering of the Obligations.

“**Resolution**” means the resolution adopted by the governing body of the Issuer on December 4, 2018, pursuant to which the Obligations are issued.

“**Rule**” means Rule 15c2-12(b)(5) adopted by the Commission under the Exchange Act.

“**Water Utility**” means the Issuer’s waterworks system.

Section 2. Purpose of this Disclosure Agreement.

The purpose of this Disclosure Agreement is to assist Participating Underwriters in complying with the Rule when acting as an underwriter in a primary offering of the Obligations.

Section 3. Annual Financial Information.

- (a) The Issuer shall submit its Annual Financial Information to the MSRB not later than 12 months following the close of the Issuer’s fiscal year (currently December 31), beginning with the 2018 Annual Financial Information.
- (b) The Annual Financial Information will consist of (i) the audited annual financial statements of the Issuer’s Water Utility prepared using generally accepted accounting principles and (ii) the following operating data of the Issuer’s Water Utility:
 - 1. water rates,
 - 2. billing practices, and
 - 3. debt service and coverage ratios.
- (c) If the audited annual financial statements of the Issuer’s Water Utility are not available on the date the Annual Financial Information is submitted, then the Issuer shall submit the statements to the MSRB within ten business days after they are publicly available.
- (d) If the Issuer fails to submit its Annual Financial Information to the MSRB by the date required in subsection (a) above, then the Issuer shall promptly send an Event Notice of such failure to the MSRB.

Section 4. Reporting of Listed Events; Event Notices.

- (a) This Section 4 shall govern the submission of an Event Notice after the occurrence of any of the following Listed Events with respect to the Obligations:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material under the Exchange Act.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations.
7. Modifications to rights of Owners, if material under the Exchange Act.
8. Redemptions of the Obligations, if material under the Exchange Act, and tender offers.
9. Defeasances.
10. Release, substitution, or sale of property securing repayment of the Obligations, if material under the Exchange Act.
11. Rating changes.
12. Bankruptcy, insolvency, receivership, or similar event of the Issuer (for the purposes of this event, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Issuer or the Water Utility in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer or the Water Utility, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all the assets or business of the Issuer).
13. The consummation of a merger, consolidation, or acquisition involving the Issuer or the Water Utility or the sale of all or

substantially all the assets of the Issuer or the Water Utility, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material under the Exchange Act.

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material under the Exchange Act.
- (b) The Issuer shall submit an Event Notice to the MSRB within ten business days after the occurrence of any Listed Event.
 - (c) If the Issuer determines that it failed to submit an Event Notice of an occurrence of a Listed Event as required by subsection (b) above, then it shall promptly submit an Event Notice with respect to such occurrence to the MSRB.

Section 5. Transmittal of Annual Financial Information and Event Notices.

Annual Financial Information and Event Notices shall be submitted to the MSRB in an electronic format, and accompanied by identifying information, as prescribed by the MSRB. As of the date of this Disclosure Agreement, the MSRB requires that all submissions of secondary market disclosure be made through EMMA. The Annual Financial Information may be submitted as a single document or as a package comprising separate documents. Any or all the items constituting the Annual Financial Information may be incorporated by reference from other documents available to the public on the MSRB's internet website or filed with the Commission. The Issuer shall clearly identify each document that is incorporated by reference.

Section 6. Duty to Confirm MSRB's Filing Format and Procedure.

The Issuer shall confirm, in the manner it deems appropriate, the MSRB's prescriptions concerning the electronic format and accompanying identifying information for submissions. As of the date of this Disclosure Agreement, information on the MSRB's required electronic format and submission procedures through EMMA can be found on the MSRB's website at www.emma.msrb.org.

Section 7. Termination of Disclosure Agreement and Reporting Obligation.

This Disclosure Agreement and the Issuer's disclosure obligations under this Disclosure Agreement with respect to the Obligations shall terminate upon the legal defeasance (if applicable), prior redemption, or payment in full of all the Obligations or if the Rule shall be revoked or rescinded by the Commission or declared invalid by a final decision of a court of competent jurisdiction.

Section 8. Amendment; Waiver.

Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if the following conditions are met:

- (a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Issuer or an obligated person, or the type of business conducted;
- (b) This Disclosure Agreement, as amended or waived, would have complied with the requirements of the Rule on the date of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment or waiver does not materially impair the interests of Owners, as determined either by parties unaffiliated with the Issuer (such as the fiscal agent, trustee, or bond counsel), or by approving vote of the Owners pursuant to the terms of the Resolution at the time of the amendment.

In the event this Disclosure Agreement is amended for any reason other than to cure any ambiguities, inconsistencies, or typographical errors that may be contained herein, the Issuer agrees the next Annual Financial Information it submits after such amendment shall include an explanation of the reasons for the amendment and the impact of the change, if any, on the type of financial statements or operating data being provided.

If the amendment concerns the accounting principles to be followed in preparing financial statements, then the Issuer agrees that it will give an Event Notice and that the next Annual Financial Information it submits after such amendment will include a comparison between financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Dissemination Agent.

The Issuer may, from time to time, appoint or engage a Dissemination Agent and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent.

Section 10. Additional Information.

The Issuer may from time to time choose to disseminate other information, using the means of transmittal set forth in Section 5 hereof or any other means of communication, or to include other information with its Annual Financial Information or Event Notice, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information with its Annual Financial Information or Event Notice in addition to that which is specifically required by this Disclosure Agreement, then the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Financial Information or Event Notice.

Section 11. Default.

The sole remedy of the Owners under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. Beneficiaries.

The Issuer intends to be contractually bound by this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Participating Underwriters, and the Owners, and shall create no rights in any other person or entity.

Section 13. Recordkeeping.

The Issuer shall maintain records of all Annual Financial Information and Event Notices submitted to the MSRB pursuant to this Disclosure Agreement, including the content and the date of filing of such submissions, until the last Obligation is retired.

Section 14. Responsible Officer.

The Issuer's Finance Director shall be the officer, representative, agency, or agent of the Issuer ultimately responsible for submitting Annual Financial Information and Event Notices to the MSRB, to the extent required hereunder, regardless of whether a Dissemination Agent has been appointed. Any inquiries regarding this Disclosure Agreement should be directed to:

Finance Director
City of Madison
City-County Building, Room 406
210 Martin Luther King, Jr. Blvd.
Madison, Wisconsin 53703-3345
Telephone: (608) 267-8710
Fax: (608) 266-4426
Email: dschmiedicke@cityofmadison.com

[Signature Page Follows]

IN WITNESS WHEREOF, the Issuer has caused this Disclosure Agreement to be executed by its duly authorized officer or representative as of the date written above.

CITY OF MADISON, WISCONSIN
Issuer

By: _____
Title: Mayor

By: _____
Title: Clerk

By: _____
Title: Finance Director

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of December 20, 2018 (this “**Disclosure Agreement**”), is executed and delivered by the City of Madison, Wisconsin (the “**Issuer**”), a municipal securities issuer and a governmental entity located in the State of Wisconsin. The Issuer covenants and agrees as follows:

Section 1. Definitions.

The following capitalized terms have the following meanings:

“**Annual Financial Information**” means the financial information or operating data of the Issuer’s Water Utility, for the preceding fiscal year, of the type included in the Final Official Statement as further described in Section 3(b) hereof.

“**Commission**” means the U.S. Securities and Exchange Commission.

“**Dissemination Agent**” means any agent responsible for assisting the Issuer in carrying out its obligations under this Disclosure Agreement, which has been designated as a dissemination agent in writing by the Issuer, and has filed with the Issuer a written acceptance of such designation, and the successors and assigns of such dissemination agent.

“**EMMA**” means the Electronic Municipal Market Access system for municipal securities disclosures, a Commission-approved electronic database established and operated by the MSRB to accommodate the collection and availability of required filings of secondary market disclosures under the Rule.

“**Event Notice**” means a notice of occurrence of a Listed Event provided under Section 4(b) hereof or a notice provided under Sections 3(d), 4(c), or 8 hereof, each of which shall be transmitted as described in Section 5 hereof.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time.

“**Final Official Statement**” means the offering document prepared and distributed to a Participating Underwriter in connection with the primary offering of the Obligations.

“**Issuer**” means the municipal securities issuer named above.

“**Listed Event**” means any of the events listed in Section 4(a) of this Disclosure Agreement.

“**MSRB**” means the Municipal Securities Rulemaking Board, which serves as the sole repository for all required filings of all secondary market disclosures under the Rule.

“**Obligations**” means the Issuer’s \$9,605,000 Taxable Water Utility Revenue Notes, Series 2018B, dated December 20, 2018.

“**Owners**” means the beneficial owners from time to time of the Obligations.

“**Participating Underwriter**” means any broker, dealer, or municipal securities dealer that is required to comply with the Rule when acting as an underwriter in a primary offering of the Obligations.

“**Resolution**” means the resolution adopted by the governing body of the Issuer on December 4, 2018, pursuant to which the Obligations are issued.

“**Rule**” means Rule 15c2-12(b)(5) adopted by the Commission under the Exchange Act.

“**Water Utility**” means the Issuer’s waterworks system.

Section 1. Purpose of this Disclosure Agreement.

The purpose of this Disclosure Agreement is to assist Participating Underwriters in complying with the Rule when acting as an underwriter in a primary offering of the Obligations.

Section 2. Annual Financial Information.

- (a) The Issuer shall submit its Annual Financial Information to the MSRB not later than 12 months following the close of the Issuer’s fiscal year (currently December 31), beginning with the 2018 Annual Financial Information.
- (b) The Annual Financial Information will consist of (i) the audited annual financial statements of the Issuer’s Water Utility prepared using generally accepted accounting principles and (ii) the following operating data of the Issuer’s Water Utility:
 - 1. water rates,
 - 2. billing practices, and
 - 3. debt service and coverage ratios.
- (c) If the audited annual financial statements of the Issuer’s Water Utility are not available on the date the Annual Financial Information is submitted, then the Issuer shall submit the statements to the MSRB within ten business days after they are publicly available.
- (d) If the Issuer fails to submit its Annual Financial Information to the MSRB by the date required in subsection (a) above, then the Issuer shall promptly send an Event Notice of such failure to the MSRB.

Section 3. Reporting of Listed Events; Event Notices.

- (a) This Section 4 shall govern the submission of an Event Notice after the occurrence of any of the following Listed Events with respect to the Obligations:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material under the Exchange Act.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations.
7. Modifications to rights of Owners, if material under the Exchange Act.
8. Redemptions of the Obligations, if material under the Exchange Act, and tender offers.
9. Defeasances.
10. Release, substitution, or sale of property securing repayment of the Obligations, if material under the Exchange Act.
11. Rating changes.
12. Bankruptcy, insolvency, receivership, or similar event of the Issuer (for the purposes of this event, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Issuer or the Water Utility in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer or the Water Utility, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all the assets or business of the Issuer).
13. The consummation of a merger, consolidation, or acquisition involving the Issuer or the Water Utility or the sale of all or

substantially all the assets of the Issuer or the Water Utility, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material under the Exchange Act.

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material under the Exchange Act.
- (b) The Issuer shall submit an Event Notice to the MSRB within ten business days after the occurrence of any Listed Event.
 - (c) If the Issuer determines that it failed to submit an Event Notice of an occurrence of a Listed Event as required by subsection (b) above, then it shall promptly submit an Event Notice with respect to such occurrence to the MSRB.

Section 4. Transmittal of Annual Financial Information and Event Notices.

Annual Financial Information and Event Notices shall be submitted to the MSRB in an electronic format, and accompanied by identifying information, as prescribed by the MSRB. As of the date of this Disclosure Agreement, the MSRB requires that all submissions of secondary market disclosure be made through EMMA. The Annual Financial Information may be submitted as a single document or as a package comprising separate documents. Any or all the items constituting the Annual Financial Information may be incorporated by reference from other documents available to the public on the MSRB's internet website or filed with the Commission. The Issuer shall clearly identify each document that is incorporated by reference.

Section 5. Duty to Confirm MSRB's Filing Format and Procedure.

The Issuer shall confirm, in the manner it deems appropriate, the MSRB's prescriptions concerning the electronic format and accompanying identifying information for submissions. As of the date of this Disclosure Agreement, information on the MSRB's required electronic format and submission procedures through EMMA can be found on the MSRB's website at www.emma.msrb.org.

Section 6. Termination of Disclosure Agreement and Reporting Obligation.

This Disclosure Agreement and the Issuer's disclosure obligations under this Disclosure Agreement with respect to the Obligations shall terminate upon the legal defeasance (if applicable), prior redemption, or payment in full of all the Obligations or if the Rule shall be revoked or rescinded by the Commission or declared invalid by a final decision of a court of competent jurisdiction.

Section 7. Amendment; Waiver.

Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if the following conditions are met:

- (a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Issuer or an obligated person, or the type of business conducted;
- (b) This Disclosure Agreement, as amended or waived, would have complied with the requirements of the Rule on the date of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment or waiver does not materially impair the interests of Owners, as determined either by parties unaffiliated with the Issuer (such as the fiscal agent, trustee, or bond counsel), or by approving vote of the Owners pursuant to the terms of the Resolution at the time of the amendment.

In the event this Disclosure Agreement is amended for any reason other than to cure any ambiguities, inconsistencies, or typographical errors that may be contained herein, the Issuer agrees the next Annual Financial Information it submits after such amendment shall include an explanation of the reasons for the amendment and the impact of the change, if any, on the type of financial statements or operating data being provided.

If the amendment concerns the accounting principles to be followed in preparing financial statements, then the Issuer agrees that it will give an Event Notice and that the next Annual Financial Information it submits after such amendment will include a comparison between financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. Dissemination Agent.

The Issuer may, from time to time, appoint or engage a Dissemination Agent and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent.

Section 9. Additional Information.

The Issuer may from time to time choose to disseminate other information, using the means of transmittal set forth in Section 5 hereof or any other means of communication, or to include other information with its Annual Financial Information or Event Notice, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information with its Annual Financial Information or Event Notice in addition to that which is specifically required by this Disclosure Agreement, then the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Financial Information or Event Notice.

Section 10. Default.

The sole remedy of the Owners under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Beneficiaries.

The Issuer intends to be contractually bound by this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Participating Underwriters, and the Owners, and shall create no rights in any other person or entity.

Section 12. Recordkeeping.

The Issuer shall maintain records of all Annual Financial Information and Event Notices submitted to the MSRB pursuant to this Disclosure Agreement, including the content and the date of filing of such submissions, until the last Obligation is retired.

Section 13. Responsible Officer.

The Issuer's Finance Director shall be the officer, representative, agency, or agent of the Issuer ultimately responsible for submitting Annual Financial Information and Event Notices to the MSRB, to the extent required hereunder, regardless of whether a Dissemination Agent has been appointed. Any inquiries regarding this Disclosure Agreement should be directed to:

Finance Director
City of Madison
City-County Building, Room 406
210 Martin Luther King, Jr. Blvd.
Madison, Wisconsin 53703-3345
Telephone: (608) 267-8710
Fax: (608) 266-4426
Email: dschmiedicke@cityofmadison.com

[Signature Page Follows]

IN WITNESS WHEREOF, the Issuer has caused this Disclosure Agreement to be executed by its duly authorized officer or representative as of the date written above.

CITY OF MADISON, WISCONSIN
Issuer

By: _____
Title: Mayor

By: _____
Title: Clerk

By: _____
Title: Finance Director

**SELECTED SECTIONS FROM THE
THE RESOLUTIONS**

Bond Resolution

RECITALS

The Common Council (the “**Governing Body**”) of the City of Madison, Wisconsin (the “**Municipality**”) makes the following findings and determinations:

1. Through the Madison Water Utility, the Municipality currently owns and operates a municipal waterworks system (the “**System**”, as more fully defined below), which is a “public utility” within the meaning of Section 66.0621 (1) (b) of the Wisconsin Statutes.

2. Under the provisions of Section 66.0621 of the Wisconsin Statutes, as amended (the “**Act**”), the Municipality may, by action of the Governing Body, provide for, among other things, the acquisition, construction, extension, improvement, operation, and management of the System, and the refunding of municipal obligations issued for such purposes, from the proceeds of obligations that are payable solely from the income and revenues derived from the operation of the System.

3. The Municipality has previously authorized, sold, and issued its \$27,185,000 Water Utility Revenue Bonds, Series 2007, dated December 1, 2007 (the “**Series 2007 Bonds**”), pursuant to a resolution adopted by the Governing Body on November 6, 2007 (the “**2007 Resolution**”). The Series 2007 Bonds were redeemed on January 1, 2018.

4. The Municipality has previously authorized, sold, and issued its \$47,065,000 Water Utility Revenue Refunding and Improvement Bonds, Series 2009A, dated December 9, 2009 (the “**Series 2009A Bonds**”), pursuant to a resolution adopted by the Governing Body on November 17, 2009 (the “**2009A Resolution**”). The Series 2009A Bonds are currently outstanding in the aggregate principal amount of \$35,520,000.

5. The Municipality has previously authorized, sold, and issued its \$13,250,000 Taxable Water Utility Revenue Bonds, Series 2010, dated November 10, 2010 (the “**Series 2010 Bonds**”), pursuant to a resolution adopted by the Governing Body on October 19, 2010 (the “**2010 Resolution**”). The Series 2010 Bonds are currently outstanding in the aggregate principal amount of \$9,300,000.

6. The Municipality has previously authorized, sold, and issued its \$19,370,000 Water Utility Revenue Bonds, Series 2011, dated December 22, 2011 (the “**Series 2011 Bonds**”), pursuant to a resolution adopted by the Governing Body on December 13, 2011 (the “**2011 Resolution**”). The Series 2011 Bonds are currently outstanding in the aggregate principal amount of \$14,750,000.

7. The Municipality has previously authorized, sold, and issued its \$21,095,000 Water Utility Revenue Bonds, Series 2012, dated December 19, 2012 (the “**Series 2012 Bonds**”), pursuant to a resolution adopted by the Governing Body on November 27, 2012 (the “**2012 Resolution**”). The Series 2012 Bonds are currently outstanding in the aggregate principal amount of \$16,725,000.

8. The Municipality has previously authorized, sold, and issued its \$24,335,000 Water Utility Revenue Bonds, Series 2013, dated December 18, 2013 (the “**Series 2013 Bonds**”), pursuant to a resolution adopted by the Governing Body on December 3, 2013 (the “**2013 Resolution**”). The Series 2013 Bonds are currently outstanding in the aggregate principal amount of \$20,680,000.

9. The Municipality has previously authorized, sold, and issued its \$41,610,000 Water Utility Revenue Bonds, Series 2015, dated December 17, 2015 (the “**Series 2015 Bonds**”), pursuant to a resolution adopted by the Governing Body on December 1, 2015 (the “**2015 Resolution**”). The Series 2015 Bonds are currently outstanding in the aggregate principal amount of \$38,555,000.

10. The Municipality has previously authorized, sold, and issued its \$38,420,000 Water Utility Revenue Refunding and Improvement Bonds, Series 2016, dated December 18, 2016 (the “**Series 2016 Bonds**”), pursuant to a resolution adopted by the Governing Body on December 7, 2016 (the “**2016 Resolution**”). The Series 2016 Bonds are currently outstanding in the aggregate principal amount of \$36,255,000.

11. No other obligations are payable solely from the income and revenues derived from the operation of the System.

12. The Municipality needs funds to finance certain additions, extensions, improvements, renewals, or replacements to the System identified in the Municipality’s 2017, 2018, and 2019 Water Utility Projected Annual Capital Spending Plans (the “**Project**”).

13. The Municipality wishes to finance the costs of the Project by authorizing, selling, and issuing its \$30,765,000 Water Utility Revenue Bonds, Series 2018A (the “**Bonds**”). The Bonds will be issued pursuant to the Act, on the terms and conditions described in this resolution, and will be secured by and payable from the income and revenues derived and to be derived from the operation of the System. The Bonds will be issued on a parity and equality of rank with the Series 2009A Bonds, the Series 2010 Bonds, the Series 2011 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2015 Bonds, and the Series 2016 Bonds (collectively, the “**Outstanding Bonds**”) and the Notes (as defined below).

14. The Municipality also wishes to finance certain operating costs relating to the System by authorizing, selling, and issuing its \$9,605,000* Taxable Water Utility Revenue Notes, Series 2018B (the “**Notes**”) to be issued contemporaneously with the Bonds, pursuant to a resolution adopted by the Governing Body on the same date as this resolution (the “**2018B Resolution**”).

15. Section 37 of the 2007 Resolution (the “**Additional Bonds Test**”), which section is continued under each resolution authorizing the issuance of the related Outstanding Bonds, authorizes the issuance of additional bonds and notes on a parity and equality of rank with the Outstanding Bonds upon compliance with the conditions set forth under the Additional Bonds Test. All conditions set forth under the Additional Bonds Test have been or will be satisfied prior to the issuance of the Bonds and the Notes, by virtue of receipt of the written opinion of an Independent Consultant as described in Section 21(c)(1)(A) hereof.

16. In accordance with the provisions of Section 66.0621 (4) (a) 2 of the Wisconsin Statutes and this resolution: (i) interest on the Bonds will be payable at least annually, and (ii) payment of principal of the Bonds will commence not later than three years after the date of issuance of the Bonds.

17. The Municipality caused notice of the sale of the Bonds (the “**Notice to Bidders**”) to be given to media typically monitored by prospective bidders. The Notice to Bidders is made of record in these proceedings, and the Governing Body ratifies the Notice to Bidders.

18. In accordance with the Notice to Bidders and the bidding terms included in the disclosure document used for offering the Bonds for sale by competitive bid (the “**Official Terms of Offering**”), written bids for the sale of the Bonds were received and delivered to the Governing Body.

19. The Governing Body has considered all the bids it received. The Governing Body has decided to accept the bid of _____ (the “**Bond Purchaser**”), or a group that it leads, to purchase the Bonds on the terms specified in the Bond Purchaser’s bid. The Bond Purchaser bid the price of \$ _____ for the entire issue of Bonds (the “**Purchase Price**”), and specified that the Bonds maturing on January 1 in the years shown below will bear interest at the respective rates shown below:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2020	\$1,020,000	_____ %	2030	\$1,550,000	_____ %
2021	1,095,000	_____	2031	1,600,000	_____
2022	1,140,000	_____	2032	1,655,000	_____
2023	1,185,000	_____	2033	1,710,000	_____
2024	1,235,000	_____	2034	1,770,000	_____
2025	1,285,000	_____	2035	1,830,000	_____
2026	1,335,000	_____	2036	1,895,000	_____
2027	1,390,000	_____	2037	1,965,000	_____
2028	1,445,000	_____	2038	2,040,000	_____
2029	1,500,000	_____	2039	2,120,000	_____

20. The Bond Purchaser’s bid complies with the terms of the Official Terms of Offering.

21. The amount of the annual debt service payments to be made or provided for with respect to the Bonds is reasonable in accordance with prudent municipal utility management practices.

22. The Municipality has taken all actions required by law and has the power to sell and issue the Bonds.

23. The Governing Body will adopt this resolution to sell and issue the Bonds.

Section 1. Definitions.

In this resolution, the following terms have the meanings given in this section, unless the context requires another meaning.

“**2007 Resolution**” has the meaning given in the recitals to this resolution, and established the terms and conditions under which Parity Bonds may be issued.

“**2018B Resolution**” has the meaning given in the recitals to this resolution.

“**Act**” means Section 66.0621 of the Wisconsin Statutes, as amended.

“**Bond Counsel**” means either Foley & Lardner LLP or any other nationally recognized firm of attorneys, employed by the Municipality, experienced in the field of municipal finance, whose legal and tax opinions concerning municipal obligations are generally accepted by purchasers of such obligations.

“**Bonds**” means the \$30,865,000 City of Madison, Wisconsin Water Utility Revenue Bonds, Series 2018A, which will be issued pursuant to this resolution.

“**Bond Purchaser**” has the meaning given in the recitals to this resolution.

“**Bond Register**” means the register maintained by the Fiscal Agent at its designated office, in which the Fiscal Agent records:

The name and address of the owner of each Bond.

All transfers of each Bond.

“**Book-Entry System**” means a system in which no physical distribution of certificates representing ownership of the Bonds is made to the owners of the Bonds but instead all outstanding Bonds are registered in the name of a securities depository appointed by the Municipality, or in the name of such a depository’s nominee, and the depository and its participants record beneficial ownership and transfers of the Bonds electronically.

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**Continuing Disclosure Agreement**” means the Continuing Disclosure Agreement, dated as of the Original Issue Date, to be executed by the Municipality and delivered on the closing date of the Bonds.

“**Current Expenses**” means the reasonable and necessary cost of operating, maintaining, administering, insuring, and repairing the System. Current Expenses shall be determined in accordance with generally accepted accounting principles and shall include, but not be limited to, salaries and wages, premiums for insurance, and the cost of materials, supplies, and audits. Current Expenses shall exclude allowances for depreciation, debt service on obligations of the System, tax equivalents, capital expenditures, and accumulations of reserves.

“**Depository**” means DTC or any successor appointed by the Municipality and acting as securities depository for the Bonds.

“Depreciation Fund” means the fund designated as such and described in Section 34(a)(4) of the 2007 Resolution and continued in Section 18(a)(4) of this resolution.

“DTC” means The Depository Trust Company, New York, New York.

“Financial Officer” means the Municipality’s Treasurer.

“Fiscal Agent” means U.S. Bank National Association, or any successor fiscal agent appointed by the Municipality to act as authentication agent, paying agent, and registrar for the Bonds pursuant to Section 67.10 (2) of the Wisconsin Statutes.

“Fiscal Year” means the twelve-month period beginning on January 1 of each year and ending on December 31 of each year. The Municipality may change the Fiscal Year of the System; any change will not constitute a modification, change, amendment, or alteration of this resolution for purposes of Section 24 of this resolution.

“Funds and Accounts” has the meaning set forth in Section 18(a) of this resolution.

“Governing Body” means the Municipality’s Common Council.

“Gross Revenues” means the gross revenues of the System from all sources, excluding (i) customer deposits, (ii) collected taxes imposed by other governmental entities, and (iii) earnings on amounts held in the Special Redemption Fund, the Depreciation Fund, and any construction fund funded with proceeds of the Bonds or any issue of Parity Bonds.

“Independent Consultant” means a recognized engineer or firm of engineers or a recognized certified public accountant or firm of certified public accountants who or which is not an officer or regular employee of the Municipality or the System and who or which is not devoting substantially all of his, her, or its time and efforts to the affairs of the System.

“Minimum Reserve Amount” means the least of the following: (i) the maximum annual debt service coming due in any future year on the Bonds and Parity Bonds then outstanding, (ii) 10% of the sum of the original stated principal amounts of the Bonds and each issue of Parity Bonds then outstanding, or (iii) 125% of the average annual debt service on the Bonds and Parity Bonds then outstanding.

“Municipal Officers” means the Mayor and the Clerk of the Municipality. These are the officers required by law to execute revenue obligations on the Municipality’s behalf.

“Municipality” means the City of Madison, Wisconsin.

“Net Revenues” means Gross Revenues after deduction of Current Expenses, plus earnings on amounts held in the Special Redemption Fund.

“Notes” means the \$9,605,000 City of Madison, Wisconsin Taxable Water Utility Revenue Notes, Series 2018B, which will be issued contemporaneously with the Bonds pursuant to the 2018B Resolution.

“**Official Terms of Offering**” means the Official Terms of Offering used in offering the Bonds for sale to underwriters by competitive bid.

“**Original Issue Date**” means December 20, 2018.

“**Original Purchasers**” means the Bond Purchaser and the initial purchaser of each issue of Parity Bonds (as long as the issue of Parity Bonds remains outstanding).

“**Outstanding Bonds**” has the meaning given in the recitals to this resolution.

“**Parity Bonds**” means all obligations payable from the revenues of the System (including the Outstanding Bonds and the Notes) other than the Bonds but which are issued on a parity and equality of rank with the Bonds, the Notes, and the Outstanding Bonds pursuant to the restrictive provisions of Section 37 of the 2007 Resolution, the applicable section continued in the other Prior Resolutions, and Section 21 of this Resolution.

“**Prior Resolutions**” means, collectively, the 2007 Resolution, the 2009A Resolution, the 2010 Resolution, the 2011 Resolution, the 2012 Resolution, the 2013 Resolution, the 2015 Resolution, and the 2016 Resolution, each as defined in the recitals to this resolution.

“**Project**” has the meaning given in the recitals to this resolution.

“**Purchase Price**” has the meaning given in the recitals to this Resolution.

“**Record Date**” means the 15th day (whether or not a business day) of the calendar month just before a regularly scheduled interest payment date for the Bonds.

“**Recording Officer**” means the Municipality’s Clerk.

“**Reserve Account**” means the Reserve Account of the Special Redemption Fund.

“**Special Redemption Fund**” means the fund designated as such and described in Section 34(a)(3) of the 2007 Resolution and continued in Section 18(a)(3) of this resolution.

“**System**” means the water utility of the Municipality, which shall include all property of every nature now or hereafter owned by the Municipality for the extraction, collection, storage, treatment, transmission, distribution, metering, and discharge of domestic, industrial, and potable public water, or constituting part of, or used or useful in connection with, the water utility of the Municipality, including all appurtenances, contracts, leases, franchises, and other intangibles relating thereto.

[“**Term Bonds**” means the Bonds maturing on January 1 in the years 20__ and 20___.]

Section 14. Payable Only From Special Redemption Fund.

The Bonds and Parity Bonds, together with interest thereon, shall be payable only from the Special Redemption Fund as provided in the Prior Resolutions and in this resolution. The registered owners of the Bonds and Parity Bonds will have a valid claim only against the Special Redemption Fund and the revenues pledged to such fund. The Bonds and all Parity Bonds, together with the interest thereon, shall not constitute an indebtedness of the Municipality within the meaning of any constitutional or statutory limitation or provision and shall not constitute a general obligation of the Municipality or a charge against its general credit or taxing power. The Municipality will not be liable for the payment of the principal of, and interest on, the Bonds except as provided in this resolution.

Section 15. Pledge.

The Municipality pledges the Net Revenues to the Special Redemption Fund to pay the principal of, and interest on, the Bonds and all Parity Bonds as provided in this resolution. Such revenues will be used for no purpose other than to pay the principal of, and interest on, the Bonds and all Parity Bonds on the dates on which such amounts are due.

Section 16. Equality of Lien.

All Bonds and all Parity Bonds, regardless of issue dates, maturity dates, or series designations, will be secured equally by the pledge of the Net Revenues and all amounts in the Special Redemption Fund.

Section 17. No Senior Bonds; Parity Bonds.

The Municipality will issue no bonds, notes, or other obligations payable from the revenues of the System, or enjoying a lien on the revenues or property of the System, that have a priority over the Bonds with respect to their payment or security, except as otherwise permitted in Section 21(a) of this resolution. The Municipality may issue Parity Bonds on the terms and conditions set forth in the applicable sections of each Prior Resolution and in Sections 21(b) and (c) of this resolution.

Section 18. Funds and Accounts.

(a) Funds and Accounts; Purposes.

The Municipality affirms, continues, and creates, as applicable, the following funds and accounts of the System, some of which were originally created, continued, or renamed, as applicable, under Section 34 of the 2007 Resolution (collectively, the “**Funds and Accounts**”), to provide for the collection, distribution, and use of the Gross Revenues and proceeds of the Bonds:

- 1) Water Utility Revenue Fund (the “**Revenue Fund**”), into which the entire Gross Revenues will be deposited as received.
- 2) Water Utility Operation and Maintenance Fund (the “**Operation and Maintenance Fund**”), which will be used to hold amounts expected to be used for the payment of the reasonable and

necessary expenses of operating and maintaining the System, including salaries, wages, materials, supplies, and insurance, and for the purposes described in Section 19(c)(1) of this resolution.

- 3) Water Utility Special Redemption Fund, which will be divided into the following three accounts: (i) the “**Interest and Principal Account**”, (ii) the “**Earnings Account**”, and (iii) the “**Reserve Account**.” Amounts held in the Interest and Principal Account and the Earnings Account will be used only to pay principal of, and premium, if any, and interest on, the Bonds and any Parity Bonds as provided in this resolution. Amounts held in the Reserve Account will be used to pay principal of, or interest on, the Bonds or any Parity Bonds on any date when amounts in the Interest and Principal Account and the Earnings Account are insufficient to make such payments.
- 4) Water Utility Depreciation Fund (the “**Depreciation Fund**”), which will be used to hold amounts expected to be used to pay for repairs, replacements, extensions, or additions to the System, *provided*, that amounts in the Depreciation Fund can be used for any such purpose only if such amounts are not needed to make up any deficiency in the Interest and Principal Account or the Reserve Account.
- 5) Water Utility Surplus Fund (the “**Surplus Fund**”), amounts in which will be used for the purposes described in Section 19(c)(4) of this resolution.
- 6) 2018A Water Utility Construction Fund (the “**2018A Construction Fund**”), amounts in which will be used to pay (i) the costs of issuing of the Bonds and the Project or (ii) interest on the Bonds on any date when there shall be insufficient money in the Special Redemption Fund for that purpose. Any balance remaining in the 2018A Construction Fund after the completion of the Project must be transferred to the Earnings Account.

(b) **Limitation on the Use of Amounts in the Funds and Accounts.**

Amounts held in the Funds and Accounts must be used only for the purposes described in this resolution.

(c) **Requirement to Maintain the Special Redemption Fund as a Separate Fund.**

The Special Redemption Fund must be maintained as a separate fund either in the treasury of the Municipality or with a trustee. The other Funds and Accounts may be combined in a single investment or bank account.

(d) Investment of Amounts held in Funds and Accounts.

Amounts in the Funds and Accounts may be invested in any manner permitted by the laws of Wisconsin, subject to the following limitations:

- (i) The investments in each Fund or Account must be sold whenever necessary to provide funds for the purposes for which the Fund or Account was created.
- (ii) No investment may be purchased or retained if the purchase of the investment or its retention would cause any Bond to be an “arbitrage bond” (within the meaning of Section 148 of the Code or the Treasury Regulations promulgated thereunder).
- (iii) All investments held in the Funds and Accounts must be secured to the fullest extent required by the laws of Wisconsin.

(e) Required Transfers of Earnings on Certain Funds and Accounts.

All income from the investment of amounts in the Special Redemption Fund must be transferred to the Earnings Account. All income from the investment of amounts in the 2018A Construction Fund must be retained in the 2018A Construction Fund. All income from the investment of amounts in the Depreciation Fund must be retained in the Depreciation Fund. All income from the investment of amounts in all other Funds and Accounts must be transferred to the Revenue Fund and regarded as revenues of the System.

(f) Rebate Matters.

To comply with the rebate requirements of Section 148(f) of the Code and the related Treasury Regulations:

- (i) The Municipality must cause a determination to be made of the amount, if any, of rebate required to be paid with respect to the Bonds to the United States Treasury at least every five years (as of the anniversary date of the issuance of the Bonds) and upon the retirement of the last Bond. The Municipality may engage Bond Counsel or another qualified rebate determination provider to prepare the determination and may pay reasonable compensation to the provider for the performance of such services.
- (ii) The Municipality must make required rebate payments to the United States Treasury with respect to the Bonds on such dates and in such amounts and manner as are required by the Code and the related Treasury Regulations.
- (iii) The Municipality must keep records of the rebate determinations prepared and rebate payments made until three years after the April 15th of the calendar year immediately following the date of the retirement of the last Bond.

Section 19. Application of Revenues.

(a) Deposits to Revenue Fund and Transfers From Revenue Fund.

Until all Bonds and Parity Bonds have been retired, or until there is on deposit in the Special Redemption Fund an amount sufficient to provide for the payment of the principal of all Bonds and all Parity Bonds, together with the interest thereon to maturity, the Gross Revenues must, to the extent permitted by law, be deposited as collected in the Revenue Fund and must be transferred from the Revenue Fund and deposited in the Operation and Maintenance Fund, the Special Redemption Fund, the Depreciation Fund, and the Surplus Fund in the following order:

- (1) A sum sufficient of the money in the Revenue Fund for the purposes of the Operation and Maintenance Fund must be deposited in the Operation and Maintenance Fund.
- (2) A sum sufficient of the money in the Revenue Fund for the purposes of the Special Redemption Fund must be deposited in the Special Redemption Fund.
- (3) A sum sufficient of the money in the Revenue Fund for the purposes of the Depreciation Fund must be deposited in the Depreciation Fund until there is on hand in the Depreciation Fund an amount equal to \$750,000.
- (4) The remainder of the money in the Revenue Fund must be deposited in the Surplus Fund.

Transfers from the Revenue Fund to the Operation and Maintenance Fund, the Special Redemption Fund, the Depreciation Fund, and the Surplus Fund must be made in the order indicated above, on such dates as are necessary to carry out the purposes of the respective funds.

(b) Transfers to the Special Redemption Fund.

The Governing Body intends that the amount of money deposited in the Special Redemption Fund from all sources will be sufficient (i) to pay the interest on the Bonds and Parity Bonds as the same becomes due, (ii) to retire the Bonds and the Parity Bonds at maturity, and (iii) to provide for any required monthly deposits to the Reserve Account.

(c) Transfers Among Certain Funds and Accounts; Uses of Amounts in Funds and Accounts.

Amounts deposited in the following Funds and Accounts must be held, used, or transferred as follows:

- 1) *Operation and Maintenance Fund.* Amounts deposited in the Operation and Maintenance Fund must be used for the purposes described in Section 18(a)(2) of this resolution, unless the balance in the Operation and Maintenance Fund exceeds the estimated

operating and maintenance expenses of the System for the next succeeding 90 days, in which case the excess amount (i) must be transferred to the Special Redemption Fund to remedy any deficiency in the Special Redemption Fund, and (ii) if or to the extent that no such deficiency exists, then the remaining excess amount may be transferred to the Surplus Fund.

- 2) *Interest and Principal Account and Earnings Account.* Amounts deposited in the Special Redemption Fund must first be used to deposit each month into the Interest and Principal Account an amount equal to one-sixth (1/6) of the next installment of interest due on the Bonds and Parity Bonds then outstanding, plus an amount equal to one-twelfth (1/12) of the next installment of principal of the Bonds and such Parity Bonds coming due, until the full amount of such installments is on deposit in the Interest and Principal Account. The deposits must be made first from the Earnings Account until it is depleted, and all moneys in the Earnings Account will be deemed to have been used first in payment of interest on the Bonds and Parity Bonds. Any funds remaining in the Earnings Account after each such transfer must first be transferred to the Interest and Principal Account until there is on hand in the Interest and Principal Account an amount equal to the full amount of interest and principal coming due on the Bonds and any Parity Bonds then outstanding during the 12 months following the date of such transfer and after that either (i) be used to retire the Bonds or Parity Bonds in advance of maturity by redemption or by purchase of such Bonds or Parity Bonds on the open market or an invitation and receipt of tenders of the lowest dollar price or prices obtainable, but not exceeding the lowest price at which such Bonds or Parity Bonds could be redeemed on the next succeeding redemption date or (ii) be invested so as to restrict the yield thereon to avoid the Bonds and the Outstanding Bonds being classified as “arbitrage bonds” within the meaning of Section 148 of the Code or any Treasury Regulations promulgated thereunder. Notwithstanding the foregoing, unless the Municipality is provided with an opinion of Bond Counsel that the action specified below will not adversely affect the exclusion of interest on the Bonds or the Outstanding Bonds from gross income for federal income tax purposes, (A) moneys in the Earnings Account that are allocable to “proceeds” (within the meaning of Treas. Reg. § 1.148-1(b)) of the Bonds or the Outstanding Bonds may only be deposited in the Interest and Principal Account if such moneys will be used to pay principal of, or interest on, the issue to which such proceeds are allocable, and (B) no moneys that are allocable to proceeds of the Bonds or the Outstanding Bonds be used to pay principal of, or interest on, obligations that are not part of the issue to which the proceeds are allocable.

- 3) *Reserve Account.* The next available amounts in the Special Redemption Fund must be used to make monthly transfers to the Reserve Account until there is on hand in the Reserve Account an amount equal to the Minimum Reserve Amount. Amounts in the Reserve Account must be used whenever necessary to pay principal of, or interest on, the Bonds and Parity Bonds whenever the Interest and Principal Account and the Earnings Account are insufficient for that purpose. Any amounts in the Reserve Account in excess of the Minimum Reserve Amount must be transferred to the Earnings Account. For the purpose of computing the Minimum Reserve Amount, all investments in the Reserve Account shall be valued semiannually, on each interest payment date, at then current market value. In the event that amounts are withdrawn from the Reserve Account or amounts on deposit in the Reserve Account on any valuation date are less than the Minimum Reserve Amount, the Municipality, from revenues of the System, must restore any amounts so withdrawn or any shortfall so that 12 months following such withdrawal or shortfall the amount on deposit in the Reserve Account equals the Minimum Reserve Amount.

- 4) *Surplus Fund.* Amounts in the Surplus Fund must first be used whenever necessary to pay principal of, or interest on, the Bonds and Parity Bonds when the Special Redemption Fund is insufficient for that purpose, and thereafter to remedy any deficiency in any of the Funds or Accounts, or if at the close of any Fiscal Year there is no such deficiency, then such amounts may be disbursed as follows:
 - i. to retire Bonds or Parity Bonds in advance of maturity by redemption or by purchase of such Bonds or Parity Bonds on the open market or an invitation and receipt of tenders at the lowest dollar price or prices obtainable; or
 - ii. to rebate payments made by customers of the System pursuant to any plan adopted by the Governing Body of the Municipality; or
 - iii. to the general fund of the Municipality.

All transfers and deposits within any Fund or Account or to any other Fund or Account required or permitted by this section shall be made at such times as are necessary to carry out the purposes of the applicable Fund or Account.

Section 20. Agreements and Covenants Regarding the Operation of the System.

For so long as the Bonds and any Outstanding Bonds remain outstanding, the Municipality agrees and covenants with each and every registered owner of the Bonds and any Outstanding Bonds as follows:

- (a) The reasonable cost and value of any service rendered to the Municipality by the System by furnishing utility services, including, but not limited to, fire, police, safety, and health protection, will, to the extent permitted by law, be charged against the Municipality and be paid by it monthly as the service accrues out of the current revenues of the Municipality collected or in process of collection, but not from Gross Revenues, and, if necessary, out of the tax levy of the Municipality made by it to raise money to meet its necessary current expenses.
- (b) The Municipality will faithfully and punctually perform all duties concerning the System required by the constitution and statutes of the State of Wisconsin, including the making and collecting of reasonable, lawful, and sufficient rates for services rendered by the System and the segregation and application of the revenues of the System as provided in this resolution.
- (c) The Municipality will not sell, lease, or in any manner dispose of all, or any part of, the System or any additions or extensions that may be made to the System, until all Bonds and Outstanding Bonds have been paid in full, both principal and interest, or until provision has been made for the payment in full of all Bonds and Outstanding Bonds, both principal and interest, unless the property to be sold, leased, or otherwise disposed of has been found by the Governing Body not to be necessary or useful in the operation of the System. The proceeds received from any sale, lease, or disposal of any such property of the System must be paid into (i) the Earnings Account of the Special Redemption Fund, if the property sold or leased was acquired or improved with proceeds of the Bonds or any Outstanding Bonds that are tax-exempt obligations, or (ii) the Revenue Fund, in all other cases.
- (d) The Municipality will: (i) operate and maintain the System in good condition; (ii) charge and collect such lawfully established rates and charges for the service rendered by the System so that the Gross Revenues will be sufficient to make the payments into the Funds and Accounts created by this resolution and provide for Net Revenues at least equal to 1.25 times the highest combined annual principal and interest requirements on all Bonds and Parity Bonds then outstanding; and (iii) promptly take such actions as are necessary to adopt and enforce increased rates whenever such increase shall be necessary to fulfill any covenant of this resolution.

- (e) The Municipality will keep proper books and accounts relating to the System separate from all other records of the Municipality and will cause such books and accounts to be audited annually by a recognized independent firm of certified public accountants and will make available to the owners of any of the Bonds or Outstanding Bonds the latest balance sheet and the profit and loss statement of the System as certified by such accountants. The registered owners of any Bonds or Outstanding Bonds will have the right to inspect the System and the records, accounts, and data of the Municipality relating to the System at all reasonable times. Each audit of the books and accounts of the System, in addition to whatever matters may be thought proper by the accountants to be included therein, must include the following: (i) a statement in detail of the revenues and expenditures of the System for the Fiscal Year; (ii) a statement of the Net Revenues for the Fiscal Year; (iii) a balance sheet as of the end of the Fiscal Year; (iv) the accountants' comment regarding the manner in which the Municipality has carried out the requirements of this resolution and the accountants' recommendation for any changes or improvements in the operation of the System; (v) a list of the insurance policies in force at the end of the Fiscal Year setting out as to each policy the amount of the policy, the risks covered, the name of the insurer, and the expiration date of the policy; and (vi) the number and types of connections at the end of the Fiscal Year.
- (f) The Municipality will carry, for the benefit of the registered owners of the Bonds and Parity Bonds, insurance of a kind and in such amounts as would usually be carried by private companies or other public bodies engaged in operating a similar utility system. All amounts received for losses under any of such insurance policies, except public liability, must be used in repairing the damage or in replacing the property destroyed, unless the Governing Body finds that it is not advisable to repair such damage or replace such property and that the operation of the System will not be impaired if such property is not repaired or such property is not replaced, in which case such amounts shall be deposited in the Earnings Account, *provided, however*, that any amounts deposited in the Earnings Account must not reduce the amounts otherwise required to be paid into the Special Redemption Fund.
- (g) The Municipality will grant no franchise for the operation of another System (or any part thereof) within the geographic limits of the Municipality, unless the denial of such franchise would be in violation of any law.
- (h) The Municipality will by ordinance or resolution of its Governing Body require all buildings in the Municipality used for human habitation and located adjacent to service from the System, or located in a block through which service from the System extends, to be connected with service from the System.

- (i) The Municipality will not enter into any contract with any person or persons which would cause any Bonds or Outstanding Bonds that were issued with the intent that interest on the issue would be excluded from gross income for federal income tax purposes to become “private activity bonds,” within the meaning of Section 141(a) of the Code or any Treasury Regulations promulgated thereunder.
- (j) The Municipality will comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds or the Outstanding Bonds, including, but not limited to the rebate requirements set forth in the Code and the Treasury Regulations. The Municipality will comply with the provisions of the Tax Certificate delivered in connection with the issuance of the Bonds relating to these requirements.

Section 21. Additional Bonds.

The Municipality will issue no notes, bonds, or any other obligations of any kind or nature payable from or enjoying a lien on the Gross Revenues, the Special Redemption Fund, or properties of the System on a parity with or having a priority over the Bonds, except as provided in this Section:

- (a) Notes (including bond anticipation notes) or bonds may be issued having a priority over the Bonds and Parity Bonds if either (i) such notes or bonds are issued, wholly or in part, for the purpose of and will provide an amount sufficient, together with the earnings thereon and all other funds legally available therefor, to pay the entire principal of, and all interest on, the Bonds and Parity Bonds to their maturity or early redemption; or (ii) immediately upon the issuance of such notes or bonds, the Municipality has discharged all the Bonds and Parity Bonds in the manner provided in Section 22 of this resolution, the corresponding provisions of the Prior Resolutions, and the resolutions authorizing the issuance of Parity Bonds issued after the Original Issue Date.
- (b) Additional notes (including bond anticipation notes) or bonds may be issued on a parity with the Bonds and Parity Bonds if such notes or bonds are issued for the purpose of refunding any of the Bonds or Parity Bonds which either (i) have matured or (ii) will mature not later than 90 days after the date of delivery of such refunding notes or bonds if there are insufficient amounts in the Special Redemption Fund to provide for the required payments.
- (c) Additional notes (including bond anticipation notes) or bonds may be issued on a parity with the Bonds and Parity Bonds if all the following conditions have been satisfied:
 - (1) If (A) the Net Revenues for the last completed Fiscal Year were at least equal to 1.25 times the highest combined annual principal and interest requirements on all bonds and notes then outstanding payable from the Gross Revenues (other than bonds being

refunded) and the bonds or notes so proposed to be issued for any succeeding Bond Year; *provided, however*, that if prior to the authorization of such additional bonds or notes the Municipality has adopted and put into effect a revised schedule of rates, then the Net Revenues for the last completed Fiscal Year which would, in the written opinion of an Independent Consultant employed for that purpose, have resulted from such rates had they been in effect for such period, may be used in lieu of the actual Net Revenues for the last completed Fiscal Year; (B) the need for such financing is evidenced by a certificate or certificates of an Independent Consultant with recognized expertise in utility ratemaking before the Public Service Commission of Wisconsin employed for that purpose, giving a detailed description of the proposed projects to be financed, an estimate of the cost of the proposed projects including proposed capitalized interest, if any, and an estimate of the time of completion of the proposed projects, and showing the feasibility of such financing with reference to projected Net Revenues based on rates and charges projected to be in effect upon completion of such projects; *provided*, that such feasibility shall not be deemed shown unless the projected Net Revenues for each of the two full Fiscal Years next succeeding the estimated date of completion of such projects shall be equal to at least 1.25 times the highest combined annual principal and interest requirements on all bonds and notes then outstanding payable from the Gross Revenues (other than bonds and notes being refunded), and the bonds or notes so proposed to be issued for any succeeding Fiscal Year in which there shall be a principal maturity on such outstanding bonds or notes; or (C) the proceeds of the additional bonds or notes will be used to refund Bonds or Parity Bonds, and after giving effect to the refunding, the payments due in each year of the principal of, and interest on, the Bonds and Parity Bonds then outstanding (not including the obligations being refunded) and the additional bonds or notes proposed to be issued will be less than the payments due in each year of the principal of, and interest on, the Bonds and Parity Bonds then outstanding (in other words, the refunding will produce debt service savings in each year). For purposes of this subsection, except as otherwise provided, Net Revenues for any Fiscal Year will be either (x) the Net Revenues shown in the audit of the System's books and accounts for the Fiscal Year required by Section 20(e) of this resolution, if such an audit is available, or (y) if such an audit is not available, then the estimated, unaudited Net Revenues for the last completed Fiscal Year.

- (2) The payments required to be made into the Funds and Accounts created or continued pursuant to Section 18 of this resolution must be current.

- (3) There must be on hand in the Reserve Account immediately upon the issuance of such additional bonds or notes an amount not less than the Minimum Reserve Amount.
- (4) The additional bonds or notes must be payable as to principal on January 1 of each year and as to interest on January 1 and July 1 of each year.
- (5) The proceeds of the additional bonds or notes must be used only to refund Bonds or Parity Bonds, or for acquiring or constructing additions, extensions, improvements, renewals or replacements to the System.

In the case of bond anticipation notes, the provisions of the Act shall govern with respect to all matters relating to the lien and sources of payment of such notes.

Section 22. Discharge and Satisfaction of Bonds and Covenants.

The agreements, covenants, liens, and pledges entered into, created, or imposed pursuant to this resolution may be fully discharged and satisfied with respect to any or all of the Bonds in any one or more of the following ways:

- (a) By paying the Bonds when they become due and payable, or upon their prior redemption in the manner provided in this resolution;
- (b) By depositing with the appropriate fiscal agent(s) for the Bonds funds in the amount necessary, without consideration of any reinvestment thereof, to pay the principal of, and interest on, the Bonds until their maturity or earlier redemption; *provided* that if the Bonds are to be redeemed prior to their stated maturities, then (i) the Bonds must have been irrevocably called for redemption by the Municipality, and (ii) provision must have been made for the required notice of the redemption in the manner provided in this resolution; *provided, further*, that any such deposit can only be made if the deposit will not adversely affect the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes; or
- (c) By depositing with a trustee or an escrow agent, in trust for such purpose, on or before the date of maturity or redemption, money and/or direct obligations of, or obligations the principal of, and interest on, which are fully guaranteed by, the United States of America, in such amount as, together with the income or increment to accrue thereon without consideration of any reinvestment thereof, will be fully sufficient to pay or redeem (when redeemable) the Bonds at or before their respective maturity dates; *provided*, that if a Bond is to be redeemed prior to its stated maturity date, then (i) the Bond must have been irrevocably called for redemption by the Municipality, and (ii) provision must have been made for the required notice of the redemption in the manner provided in this resolution; *provided, further*, that any such deposit can only be made if the deposit will not adversely affect the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes.

Upon a payment or a deposit of money or investments in the amount and manner required by this section, all liability of the Municipality with respect to the relevant Bonds will cease, determine, and be completely discharged, and the registered owners of any Bonds that are not then retired will be entitled only to payment out of the money and investments deposited as required by this section.

Section 23. Resolution a Contract; Remedies of Bondowners.

The provisions of this resolution constitute a contract between the Municipality and the registered owners of the Bonds. After the issuance of the Bonds no change or alteration in the provisions of this resolution may be made, except (a) as provided in Section 24 of this resolution, and (b) as provided in the definition of “Fiscal Year” in Section 1 of this resolution.

The registered owners of any of the Bonds will have the right, in addition to all other rights, by mandamus or other suit or action in any court of competent jurisdiction, to enforce their rights against the Municipality, the Governing Body, and any and all officers and agents thereof, including, but not limited to, the right to require the Municipality, the Governing Body, and any other authorized body to fix and collect rates and charges fully adequate to carry out all provisions and agreements contained in this resolution, and the right to have a receiver appointed for the System in the event of a default in the payment of principal of, or interest on, the Bonds.

Section 24. Amendment of Resolution.

Amendment Without the Consent of the Owners. This resolution may be amended from time to time without the consent of the registered owners of the Bonds to make any change that does not adversely affect the registered owners of the Bonds, including, without limitation, to cure any ambiguities, inconsistencies, or typographical errors that may be contained in this resolution.

Amendment With the Consent of the Owners. This resolution may also be amended from time to time with the written consent of the registered owners of not less than two-thirds in outstanding principal amount of the Bonds (not including any Bonds that are held or owned by or for the account of the Municipality); *provided, however,* this resolution may be amended only with the unanimous written consent of:

- (a) The registered owners of the Bonds:
 - (i) To make any change in the stated maturity date of, or interest rate on, any Bond; to modify the terms of payment of principal of, or interest on, any Bond; or to impose any conditions with respect to payment of principal of, or interest on, any Bond;
 - (ii) To materially affect the rights of the owners of less than all Bonds then outstanding; or
 - (iii) To reduce the required outstanding principal amount of the Bonds for which consent must be given to effect any future amendments to this resolution; and

- (b) The registered owners of any series of Outstanding Bonds:
 - (i) To make any change in the stated maturity date of or interest rate on any Outstanding Bond of the series; to modify the terms of payment of principal of, or interest on, any Outstanding Bond of the series; or to impose any conditions with respect to payment of principal of, or interest on, any Outstanding Bond of the series;
 - (ii) To materially affect the rights of the owners of less than all Outstanding Bonds of the series then outstanding; or
 - (iii) To reduce the required outstanding principal amount of Outstanding Bonds of the series for which consent must be given to effect any future amendments to this resolution.

Notice. If the Municipality proposes to amend this resolution under any provision of this section, then the Municipality must cause notice of the proposed amendment (the “**Amendment Notice**”) and, if consent is required, a form of consent to the proposed amendment (the “**Consent**”) to be (i) sent by certified mail to all registered owners of the Bonds and, if appropriate, any Outstanding Bonds and (ii) filed with the Municipal Securities Rulemaking Board if required under the Continuing Disclosure Agreement. The Amendment Notice must briefly describe the nature of the proposed amendment and must state that a copy of the proposed amendment is on file for public inspection in the office of the Recording Officer. The Consent must refer to the proposed amendment, specifically evidence consent to and approval of the proposed amendment, and be dated by the owner of the Bonds and, if appropriate, the Outstanding Bonds upon execution of the Consent. The Amendment Notice and Consent may be one instrument.

If on any date prior to one year after the date the Amendment Notice and Consent were sent the Recording Officer receives Consents executed by the registered owners of the Bonds and Outstanding Bonds owning not less than the outstanding principal amount required to approve the amendment, then the Governing Body may adopt a resolution effecting the proposed amendment, and upon the adoption of the resolution effecting the proposed amendment, the proposed amendment will become effective and binding upon the registered owners of all the Bonds and Outstanding Bonds.

Any Consent given by the registered owner of a Bond or an Outstanding Bond pursuant to the provisions of this section will be irrevocable for a period of six months from the date of the Consent and will be conclusive and binding upon all future registered owners of the same Bond or Outstanding Bond during the six-month period. A Consent may be revoked on any date after the six-month period by the registered owner who gave the Consent or by a successor in title by filing notice of such revocation with the Recording Officer; *provided*, that a revocation will not be effective if the Recording Officer has already received Consents from registered owners of the Bonds and Outstanding Bonds owning not less than the required outstanding principal amount to approve the amendment, evidencing their consent to and approval of the proposed amendment that was the subject of the Consent.

Note Resolution

RECITALS

The Common Council (the “**Governing Body**”) of the City of Madison, Wisconsin (the “**Municipality**”) makes the following findings and determinations:

1. Through the Madison Water Utility, the Municipality currently owns and operates a municipal waterworks system (the “**System**”, as more fully defined below), which is a “public utility” within the meaning of Section 66.0621 (1) (b) of the Wisconsin Statutes.

2. Under the provisions of Section 66.0621 of the Wisconsin Statutes, as amended (the “**Act**”), the Municipality may, by action of the Governing Body, provide for, among other things, the acquisition, construction, extension, improvement, operation, and management of the System, and the refunding of municipal obligations issued for such purposes, from the proceeds of obligations that are payable solely from the income and revenues derived from the operation of the System.

3. The Municipality has previously authorized, sold, and issued its \$27,185,000 Water Utility Revenue Bonds, Series 2007, dated December 1, 2007 (the “**Series 2007 Bonds**”), pursuant to a resolution adopted by the Governing Body on November 6, 2007 (the “**2007 Resolution**”). The Series 2007 Bonds were redeemed on January 1, 2018.

4. The Municipality has previously authorized, sold, and issued its \$47,065,000 Water Utility Revenue Refunding and Improvement Bonds, Series 2009A, dated December 9, 2009 (the “**Series 2009A Bonds**”), pursuant to a resolution adopted by the Governing Body on November 17, 2009 (the “**2009A Resolution**”). The Series 2009A Bonds are currently outstanding in the aggregate principal amount of \$35,520,000.

5. The Municipality has previously authorized, sold, and issued its \$13,250,000 Taxable Water Utility Revenue Bonds, Series 2010, dated November 10, 2010 (the “**Series 2010 Bonds**”), pursuant to a resolution adopted by the Governing Body on October 19, 2010 (the “**2010 Resolution**”). The Series 2010 Bonds are currently outstanding in the aggregate principal amount of \$9,300,000.

6. The Municipality has previously authorized, sold, and issued its \$19,370,000 Water Utility Revenue Bonds, Series 2011, dated December 22, 2011 (the “**Series 2011 Bonds**”), pursuant to a resolution adopted by the Governing Body on December 13, 2011 (the “**2011 Resolution**”). The Series 2011 Bonds are currently outstanding in the aggregate principal amount of \$14,750,000.

7. The Municipality has previously authorized, sold, and issued its \$21,095,000 Water Utility Revenue Bonds, Series 2012, dated December 19, 2012 (the “**Series 2012 Bonds**”), pursuant to a resolution adopted by the Governing Body on November 27, 2012 (the “**2012 Resolution**”). The Series 2012 Bonds are currently outstanding in the aggregate principal amount of \$16,725,000.

8. The Municipality has previously authorized, sold, and issued its \$24,335,000 Water Utility Revenue Bonds, Series 2013, dated December 18, 2013 (the “**Series 2013 Bonds**”), pursuant to a resolution adopted by the Governing Body on December 3, 2013

(the “**2013 Resolution**”). The Series 2013 Bonds are currently outstanding in the aggregate principal amount of \$20,680,000.

9. The Municipality has previously authorized, sold, and issued its \$41,610,000 Water Utility Revenue Bonds, Series 2015, dated December 17, 2015 (the “**Series 2015 Bonds**”), pursuant to a resolution adopted by the Governing Body on December 1, 2015 (the “**2015 Resolution**”). The Series 2015 Bonds are currently outstanding in the aggregate principal amount of \$38,555,000.

10. The Municipality has previously authorized, sold, and issued its \$38,420,000 Water Utility Revenue Refunding and Improvement Bonds, Series 2016, dated December 18, 2016 (the “**Series 2016 Bonds**”), pursuant to a resolution adopted by the Governing Body on December 7, 2016 (the “**2016 Resolution**”). The Series 2016 Bonds are currently outstanding in the aggregate principal amount of \$36,255,000.

11. No other obligations are payable solely from the income and revenues derived from the operation of the System.

12. The Municipality advanced approximately \$6,100,000 from its general fund through December 31, 2017 to fund deficits in amounts required to be on deposit in the Operation and Maintenance Fund (as described in Section 18 of this resolution) necessary to operate the System.

13. The Municipality needs funds to finance operating costs relating to the System, including by reimbursement of the Municipality’s general fund (collectively, the “**Project**”).

14. The Municipality wishes to finance the costs of the Project by authorizing, selling, and issuing its \$9,605,000 Taxable Water Utility Revenue Notes, Series 2018B (the “**Notes**”). The Notes will be issued pursuant to the Act, on the terms and conditions described in this resolution, and will be secured by and payable from the income and revenues derived and to be derived from the operation of the System. The Notes will be issued on a parity and equality of rank with the Series 2009A Bonds, the Series 2010 Bonds, the Series 2011 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2015 Bonds, and the Series 2016 Bonds (collectively, the “**Outstanding Bonds**”) and the Bonds (as defined below).

15. The Municipality also wishes to finance certain additions, extensions, improvements, renewals, or replacements to the System identified in the Municipality’s 2017 and 2018 Water Utility Projected Annual Capital Spending Plans by authorizing, selling, and issuing its \$30,765,000* Water Utility Revenue Bonds, Series 2018A (the “**Bonds**”) to be issued contemporaneously with the Notes, pursuant to a resolution adopted by the Governing Body on the same date as this resolution (the “**2018A Resolution**”).

16. Section 37 of the 2007 Resolution (the “**Additional Bonds Test**”), which section is continued under each resolution authorizing the issuance of the related Outstanding Bonds, authorizes the issuance of additional bonds and notes on a parity and equality of rank with the Outstanding Bonds upon compliance with the conditions set forth under the Additional Bonds Test. All conditions set forth under the Additional Bonds Test have been or will be satisfied prior to the issuance of the Bonds and the Notes, by virtue of receipt of the written opinion of an Independent Consultant as described in Section 21(c)(1)(A) hereof.

17. In accordance with the provisions of Section 66.0621 (4) (a) 2 of the Wisconsin Statutes and this resolution: (i) interest on the Notes will be payable at least annually, and (ii) payment of principal of the Notes will commence not later than three years after the date of issuance of the Notes.

18. The Municipality caused notice of the sale of the Notes (the “**Notice to Bidders**”) to be given to media typically monitored by prospective bidders. The Notice to Bidders is made of record in these proceedings, and the Governing Body ratifies the Notice to Bidders.

19. In accordance with the Notice to Bidders and the bidding terms included in the disclosure document used for offering the Notes for sale by competitive bid (the “**Official Terms of Offering**”), written bids for the sale of the Notes were received and delivered to the Governing Body.

20. The Governing Body has considered all the bids it received. The Governing Body has decided to accept the bid of _____ (the “**Note Purchaser**”), or a group that it leads, to purchase the Notes on the terms specified in the Note Purchaser’s bid. The Note Purchaser bid the price of \$ _____ for the entire issue of Notes (the “**Purchase Price**”), and specified that the Notes maturing on January 1 in the years shown below will bear interest at the respective rates shown below:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2020	\$ 25,000	_____%	2025	\$1,100,000	_____%
2021	960,000	_____	2026	1,135,000	_____
2022	995,000	_____	2027	1,180,000	_____
2023	1,025,000	_____	2028	1,225,000	_____
2024	1,060,000	_____			

21. The Note Purchaser’s bid complies with the terms of the Official Terms of Offering.

22. The amount of the annual debt service payments to be made or provided for with respect to the Notes is reasonable in accordance with prudent municipal utility management practices.

23. The Municipality has taken all actions required by law and has the power to sell and issue the Notes.

24. The Governing Body will adopt this resolution to sell and issue the Notes.

Section 1. Definitions.

In this resolution, the following terms have the meanings given in this section, unless the context requires another meaning.

“**2007 Resolution**” has the meaning given in the recitals to this resolution, and established the terms and conditions under which Parity Bonds may be issued.

“**2018A Resolution**” has the meaning given in the recitals to this resolution.

“**Act**” means Section 66.0621 of the Wisconsin Statutes, as amended.

“**Bond Counsel**” means either Foley & Lardner LLP or any other nationally recognized firm of attorneys, employed by the Municipality, experienced in the field of municipal finance, whose legal and tax opinions concerning municipal obligations are generally accepted by purchasers of such obligations.

“**Bonds**” means the \$30,865,000 City of Madison, Wisconsin Water Utility Revenue Bonds, Series 2018A, which will be issued contemporaneously with the Notes pursuant to the 2018A Resolution.

“**Book-Entry System**” means a system in which no physical distribution of certificates representing ownership of the Notes is made to the owners of the Notes but instead all outstanding Notes are registered in the name of a securities depository appointed by the Municipality, or in the name of such a depository’s nominee, and the depository and its participants record beneficial ownership and transfers of the Notes electronically.

“**Continuing Disclosure Agreement**” means the Continuing Disclosure Agreement, dated as of the Original Issue Date, to be executed by the Municipality and delivered on the closing date of the Notes.

“**Current Expenses**” means the reasonable and necessary cost of operating, maintaining, administering, insuring, and repairing the System. Current Expenses shall be determined in accordance with generally accepted accounting principles and shall include, but not be limited to, salaries and wages, premiums for insurance, and the cost of materials, supplies, and audits. Current Expenses shall exclude allowances for depreciation, debt service on obligations of the System, tax equivalents, capital expenditures, and accumulations of reserves.

“**Depository**” means DTC or any successor appointed by the Municipality and acting as securities depository for the Notes.

“**Depreciation Fund**” means the fund designated as such and described in Section 34(a)(4) of the 2007 Resolution and continued in Section 18(a)(4) of this resolution.

“**DTC**” means The Depository Trust Company, New York, New York.

“**Financial Officer**” means the Municipality’s Treasurer.

“**Fiscal Agent**” means U.S. Bank National Association, or any successor fiscal agent appointed by the Municipality to act as authentication agent, paying agent, and registrar for the Notes pursuant to Section 67.10 (2) of the Wisconsin Statutes.

“**Fiscal Year**” means the twelve-month period beginning on January 1 of each year and ending on December 31 of each year. The Municipality may change the Fiscal Year of the System; any change will not constitute a modification, change, amendment, or alteration of this resolution for purposes of Section 24 of this resolution.

“**Funds and Accounts**” has the meaning set forth in Section 18(a) of this resolution.

“**Governing Body**” means the Municipality’s Common Council.

“**Gross Revenues**” means the gross revenues of the System from all sources, excluding (i) customer deposits, (ii) collected taxes imposed by other governmental entities, and (iii) earnings on amounts held in the Special Redemption Fund, the Depreciation Fund, and any construction fund funded with proceeds of the Notes or any issue of Parity Bonds.

“**Independent Consultant**” means a recognized engineer or firm of engineers or a recognized certified public accountant or firm of certified public accountants who or which is not an officer or regular employee of the Municipality or the System and who or which is not devoting substantially all of his, her, or its time and efforts to the affairs of the System.

“**Minimum Reserve Amount**” means the least of the following: (i) the maximum annual debt service coming due in any future year on the Notes and Parity Bonds then outstanding, (ii) 10% of the sum of the original stated principal amounts of the Notes and each issue of Parity Bonds then outstanding, or (iii) 125% of the average annual debt service on the Notes and Parity Bonds then outstanding.

“**Municipal Officers**” means the Mayor and the Clerk of the Municipality. These are the officers required by law to execute revenue obligations on the Municipality’s behalf.

“**Municipality**” means the City of Madison, Wisconsin.

“**Net Revenues**” means Gross Revenues after deduction of Current Expenses, plus earnings on amounts held in the Special Redemption Fund.

“**Note Purchaser**” has the meaning given in the recitals to this resolution.

“**Note Register**” means the register maintained by the Fiscal Agent at its designated office, in which the Fiscal Agent records:

- (i) The name and address of the owner of each Note.

All transfers of each Note.

“**Notes**” means the \$9,605,000 City of Madison, Wisconsin Taxable Water Utility Revenue Notes, Series 2018B, which will be issued pursuant to this resolution.

“**Official Terms of Offering**” means the Official Terms of Offering used in offering the Notes for sale to underwriters by competitive bid.

“**Original Issue Date**” means December 20, 2018.

“**Original Purchasers**” means the Note Purchaser and the initial purchaser of each issue of Parity Bonds (as long as the issue of Parity Bonds remains outstanding).

“**Outstanding Bonds**” has the meaning given in the recitals to this resolution.

“**Parity Bonds**” means all obligations payable from the revenues of the System (including the Outstanding Bonds and the Bonds) other than the Notes but which are issued on a parity and equality of rank with the Bonds, the Notes, and the Outstanding Bonds pursuant to the restrictive provisions of Section 37 of the 2007 Resolution, the applicable section continued in the other Prior Resolutions, and Section 21 of this Resolution.

“**Prior Resolutions**” means, collectively, the 2007 Resolution, the 2009A Resolution, the 2010 Resolution, the 2011 Resolution, the 2012 Resolution, the 2013 Resolution, the 2015 Resolution, and the 2016 Resolution, each as defined in the recitals to this resolution.

“**Project**” has the meaning given in the recitals to this resolution.

“**Purchase Price**” has the meaning given in the recitals to this Resolution.

“**Record Date**” means the 15th day (whether or not a business day) of the calendar month just before a regularly scheduled interest payment date for the Notes.

“**Recording Officer**” means the Municipality’s Clerk.

“**Reserve Account**” means the Reserve Account of the Special Redemption Fund.

“**Special Redemption Fund**” means the fund designated as such and described in Section 34(a)(3) of the 2007 Resolution and continued in Section 18(a)(3) of this resolution.

“**System**” means the water utility of the Municipality, which shall include all property of every nature now or hereafter owned by the Municipality for the extraction, collection, storage, treatment, transmission, distribution, metering, and discharge of domestic, industrial, and potable public water, or constituting part of, or used or useful in connection with, the water utility of the Municipality, including all appurtenances, contracts, leases, franchises, and other intangibles relating thereto.

[“**Term Notes**” means the Notes maturing on January 1 in the years 20__ and 20___.]

Section 14. Payable Only From Special Redemption Fund.

The Notes and Parity Bonds, together with interest thereon, shall be payable only from the Special Redemption Fund as provided in the Prior Resolutions and in this resolution. The registered owners of the Notes and Parity Bonds will have a valid claim only against the Special Redemption Fund and the revenues pledged to such fund. The Notes and all Parity Bonds, together with the interest thereon, shall not constitute an indebtedness of the Municipality within the meaning of any constitutional or statutory limitation or provision and shall not constitute a general obligation of the Municipality or a charge against its general credit or taxing power. The Municipality will not be liable for the payment of the principal of, and interest on, the Notes except as provided in this resolution.

Section 15. Pledge.

The Municipality pledges the Net Revenues to the Special Redemption Fund to pay the principal of, and interest on, the Notes and all Parity Bonds as provided in this resolution. Such revenues will be used for no purpose other than to pay the principal of, and interest on, the Notes and all Parity Bonds on the dates on which such amounts are due.

Section 16. Equality of Lien.

All Notes and all Parity Bonds, regardless of issue dates, maturity dates, or series designations, will be secured equally by the pledge of the Net Revenues and all amounts in the Special Redemption Fund.

Section 17. No Senior Obligations; Parity Bonds.

The Municipality will issue no bonds, notes, or other obligations payable from the revenues of the System, or enjoying a lien on the revenues or property of the System, that have a priority over the Notes with respect to their payment or security, except as otherwise permitted in Section 21(a) of this resolution. The Municipality may issue Parity Bonds on the terms and conditions set forth in the applicable sections of each Prior Resolution and in Sections 21(b) and (c) of this resolution.

Section 18. Funds and Accounts.

(a) Funds and Accounts; Purposes.

The Municipality affirms, continues, and creates, as applicable, the following funds and accounts of the System, some of which were originally created, continued, or renamed, as applicable, under Section 34 of the 2007 Resolution (collectively, the “**Funds and Accounts**”), to provide for the collection, distribution, and use of the Gross Revenues and proceeds of the Notes:

- (1) Water Utility Revenue Fund (the “**Revenue Fund**”), into which the entire Gross Revenues will be deposited as received.
- (2) Water Utility Operation and Maintenance Fund (the “**Operation and Maintenance Fund**”), which will be used to hold amounts expected to be used for the payment of the reasonable and

necessary expenses of operating and maintaining the System, including salaries, wages, materials, supplies, and insurance, and for the purposes described in Section 19(c)(1) of this resolution.

- (3) Water Utility Special Redemption Fund, which will be divided into the following three accounts: (i) the “Interest and Principal Account”, (ii) the “Earnings Account”, and (iii) the “Reserve Account.” Amounts held in the Interest and Principal Account and the Earnings Account will be used only to pay principal of, and premium, if any, and interest on, the Notes and any Parity Bonds as provided in this resolution. Amounts held in the Reserve Account will be used to pay principal of, or interest on, the Notes or any Parity Bonds on any date when amounts in the Interest and Principal Account and the Earnings Account are insufficient to make such payments.
- (4) Water Utility Depreciation Fund (the “Depreciation Fund”), which will be used to hold amounts expected to be used to pay for repairs, replacements, extensions, or additions to the System, provided, that amounts in the Depreciation Fund can be used for any such purpose only if such amounts are not needed to make up any deficiency in the Interest and Principal Account or the Reserve Account.
- (5) Water Utility Surplus Fund (the “Surplus Fund”), amounts in which will be used for the purposes described in Section 19(c)(4) of this resolution.
- (6) 2018B Water Utility Project Fund (the “2018B Project Fund”), amounts in which will be used to pay (i) the costs of issuing of the Notes and the Project or (ii) interest on the Notes or any Parity Bonds on any date when there shall be insufficient money in the Special Redemption Fund for that purpose.

(b) **Limitation on the Use of Amounts in the Funds and Accounts.**

Amounts held in the Funds and Accounts must be used only for the purposes described in this resolution.

(c) **Requirement to Maintain the Special Redemption Fund as a Separate Fund.**

The Special Redemption Fund must be maintained as a separate fund either in the treasury of the Municipality or with a trustee. The other Funds and Accounts may be combined in a single investment or bank account.

(d) **Investment of Amounts held in Funds and Accounts.**

Amounts in the Funds and Accounts may be invested in any manner permitted by the laws of Wisconsin, subject to the following limitations:

- (i) The investments in each Fund or Account must be sold whenever necessary to provide funds for the purposes for which the Fund or Account was created.
- (ii) All investments held in the Funds and Accounts must be secured to the fullest extent required by the laws of Wisconsin.
- (e) **Required Transfers of Earnings on Certain Funds and Accounts.**

All income from the investment of amounts in the Special Redemption Fund must be transferred to the Earnings Account. All income from the investment of amounts in the 2018B Project Fund must be retained in the 2018B Project Fund. All income from the investment of amounts in the Depreciation Fund must be retained in the Depreciation Fund. All income from the investment of amounts in all other Funds and Accounts must be transferred to the Revenue Fund and regarded as revenues of the System.

Section 19. Application of Revenues.

(a) Deposits to Revenue Fund and Transfers From Revenue Fund.

Until all Notes and Parity Bonds have been retired, or until there is on deposit in the Special Redemption Fund an amount sufficient to provide for the payment of the principal of all Notes and all Parity Bonds, together with the interest thereon to maturity, the Gross Revenues must, to the extent permitted by law, be deposited as collected in the Revenue Fund and must be transferred from the Revenue Fund and deposited in the Operation and Maintenance Fund, the Special Redemption Fund, the Depreciation Fund, and the Surplus Fund in the following order:

- (1) A sum sufficient of the money in the Revenue Fund for the purposes of the Operation and Maintenance Fund must be deposited in the Operation and Maintenance Fund.
- (2) A sum sufficient of the money in the Revenue Fund for the purposes of the Special Redemption Fund must be deposited in the Special Redemption Fund.
- (3) A sum sufficient of the money in the Revenue Fund for the purposes of the Depreciation Fund must be deposited in the Depreciation Fund until there is on hand in the Depreciation Fund an amount equal to \$750,000.
- (4) The remainder of the money in the Revenue Fund must be deposited in the Surplus Fund.

Transfers from the Revenue Fund to the Operation and Maintenance Fund, the Special Redemption Fund, the Depreciation Fund, and the Surplus Fund must be made in the order indicated above, on such dates as are necessary to carry out the purposes of the respective funds.

(b) **Transfers to the Special Redemption Fund.**

The Governing Body intends that the amount of money deposited in the Special Redemption Fund from all sources will be sufficient (i) to pay the interest on the Notes and Parity Bonds as the same becomes due, (ii) to retire the Notes and the Parity Bonds at maturity, and (iii) to provide for any required monthly deposits to the Reserve Account.

(c) **Transfers Among Certain Funds and Accounts; Uses of Amounts in Funds and Accounts.**

Amounts deposited in the following Funds and Accounts must be held, used, or transferred as follows:

- (1) *Operation and Maintenance Fund.* Amounts deposited in the Operation and Maintenance Fund must be used for the purposes described in Section 18(a)(2) of this resolution, unless the balance in the Operation and Maintenance Fund exceeds the estimated operating and maintenance expenses of the System for the next succeeding 90 days, in which case the excess amount (i) must be transferred to the Special Redemption Fund to remedy any deficiency in the Special Redemption Fund, and (ii) if or to the extent that no such deficiency exists, then the remaining excess amount may be transferred to the Surplus Fund.
- (2) *Interest and Principal Account and Earnings Account.* Amounts deposited in the Special Redemption Fund must first be used to deposit each month into the Interest and Principal Account an amount equal to one-sixth (1/6) of the next installment of interest due on the Notes and Parity Bonds then outstanding, plus an amount equal to one-twelfth (1/12) of the next installment of principal of the Notes and such Parity Bonds coming due, until the full amount of such installments is on deposit in the Interest and Principal Account. The deposits must be made first from the Earnings Account until it is depleted, and all moneys in the Earnings Account will be deemed to have been used first in payment of interest on the Notes and Parity Bonds. Any funds remaining in the Earnings Account after each such transfer must first be transferred to the Interest and Principal Account until there is on hand in the Interest and Principal Account an amount equal to the full amount of interest and principal coming due on the Notes and any Parity Bonds then outstanding during the 12 months following the date of such transfer and after that either (i) be used to retire the Notes or Parity Bonds in advance of maturity by redemption or by purchase of such Notes or Parity Bonds on the open market or an invitation and receipt of tenders of the lowest dollar price or prices obtainable, but not exceeding the lowest price at which such Notes or Parity Bonds could be redeemed on the next succeeding redemption date or (ii) be invested so as to restrict the yield thereon to avoid the Outstanding Bonds being classified

as “arbitrage bonds” within the meaning of Section 148 of the Code or any Treasury Regulations promulgated thereunder. Notwithstanding the foregoing, unless the Municipality is provided with an opinion of Bond Counsel that the action specified below will not adversely affect the exclusion of interest on the Outstanding Bonds from gross income for federal income tax purposes, (A) moneys in the Earnings Account that are allocable to “proceeds” (within the meaning of Treas. Reg. § 1.148-1(b)) of Outstanding Bonds may only be deposited in the Interest and Principal Account if such moneys will be used to pay principal of, or interest on, the issue to which such proceeds are allocable, and (B) no moneys that are allocable to proceeds of the Outstanding Bonds be used to pay principal of, or interest on, obligations that are not part of the issue to which the proceeds are allocable.

- (3) *Reserve Account.* The next available amounts in the Special Redemption Fund must be used to make monthly transfers to the Reserve Account until there is on hand in the Reserve Account an amount equal to the Minimum Reserve Amount. Amounts in the Reserve Account must be used whenever necessary to pay principal of, or interest on, the Notes and Parity Bonds whenever the Interest and Principal Account and the Earnings Account are insufficient for that purpose. Any amounts in the Reserve Account in excess of the Minimum Reserve Amount must be transferred to the Earnings Account. For the purpose of computing the Minimum Reserve Amount, all investments in the Reserve Account shall be valued semiannually, on each interest payment date, at then current market value. In the event that amounts are withdrawn from the Reserve Account or amounts on deposit in the Reserve Account on any valuation date are less than the Minimum Reserve Amount, the Municipality, from revenues of the System, must restore any amounts so withdrawn or any shortfall so that 12 months following such withdrawal or shortfall the amount on deposit in the Reserve Account equals the Minimum Reserve Amount.
- (4) *Surplus Fund.* Amounts in the Surplus Fund must first be used whenever necessary to pay principal of, or interest on, the Notes and Parity Bonds when the Special Redemption Fund is insufficient for that purpose, and thereafter to remedy any deficiency in any of the Funds or Accounts, or if at the close of any Fiscal Year there is no such deficiency, then such amounts may be disbursed as follows:
 - (i) to retire Notes or Parity Bonds in advance of maturity by redemption or by purchase of such Notes or Parity Bonds on the open market or an invitation and receipt of tenders at the lowest dollar price or prices obtainable; or

- (ii) to rebate payments made by customers of the System pursuant to any plan adopted by the Governing Body of the Municipality; or
- (iii) to the general fund of the Municipality.

All transfers and deposits within any Fund or Account or to any other Fund or Account required or permitted by this section shall be made at such times as are necessary to carry out the purposes of the applicable Fund or Account.

Section 20. Agreements and Covenants Regarding the Operation of the System.

For so long as the Notes and any Outstanding Bonds remain outstanding, the Municipality agrees and covenants with each and every registered owner of the Notes and any Outstanding Bonds as follows:

- (a) The reasonable cost and value of any service rendered to the Municipality by the System by furnishing utility services, including, but not limited to, fire, police, safety, and health protection, will, to the extent permitted by law, be charged against the Municipality and be paid by it monthly as the service accrues out of the current revenues of the Municipality collected or in process of collection, but not from Gross Revenues, and, if necessary, out of the tax levy of the Municipality made by it to raise money to meet its necessary current expenses.
- (b) The Municipality will faithfully and punctually perform all duties concerning the System required by the constitution and statutes of the State of Wisconsin, including the making and collecting of reasonable, lawful, and sufficient rates for services rendered by the System and the segregation and application of the revenues of the System as provided in this resolution.
- (c) The Municipality will not sell, lease, or in any manner dispose of all, or any part of, the System or any additions or extensions that may be made to the System, until all Notes and Outstanding Bonds have been paid in full, both principal and interest, or until provision has been made for the payment in full of all Notes and Outstanding Bonds, both principal and interest, unless the property to be sold, leased, or otherwise disposed of has been found by the Governing Body not to be necessary or useful in the operation of the System. The proceeds received from any sale, lease, or disposal of any such property of the System must be paid into (i) the Earnings Account of the Special Redemption Fund, if the property sold or leased was acquired or improved with proceeds of the Notes or any Outstanding Bonds that are tax-exempt obligations, or (ii) the Revenue Fund, in all other cases.
- (d) The Municipality will: (i) operate and maintain the System in good condition; (ii) charge and collect such lawfully established rates and charges for the service rendered by the System so that the Gross Revenues

will be sufficient to make the payments into the Funds and Accounts created by this resolution and provide for Net Revenues at least equal to 1.25 times the highest combined annual principal and interest requirements on all Notes and Parity Bonds then outstanding; and (iii) promptly take such actions as are necessary to adopt and enforce increased rates whenever such increase shall be necessary to fulfill any covenant of this resolution.

- (e) The Municipality will keep proper books and accounts relating to the System separate from all other records of the Municipality and will cause such books and accounts to be audited annually by a recognized independent firm of certified public accountants and will make available to the owners of any of the Notes or Outstanding Bonds the latest balance sheet and the profit and loss statement of the System as certified by such accountants. The registered owners of any Notes or Outstanding Bonds will have the right to inspect the System and the records, accounts, and data of the Municipality relating to the System at all reasonable times. Each audit of the books and accounts of the System, in addition to whatever matters may be thought proper by the accountants to be included therein, must include the following: (i) a statement in detail of the revenues and expenditures of the System for the Fiscal Year; (ii) a statement of the Net Revenues for the Fiscal Year; (iii) a balance sheet as of the end of the Fiscal Year; (iv) the accountants' comment regarding the manner in which the Municipality has carried out the requirements of this resolution and the accountants' recommendation for any changes or improvements in the operation of the System; (v) a list of the insurance policies in force at the end of the Fiscal Year setting out as to each policy the amount of the policy, the risks covered, the name of the insurer, and the expiration date of the policy; and (vi) the number and types of connections at the end of the Fiscal Year.
- (f) The Municipality will carry, for the benefit of the registered owners of the Notes and Parity Bonds, insurance of a kind and in such amounts as would usually be carried by private companies or other public bodies engaged in operating a similar utility system. All amounts received for losses under any of such insurance policies, except public liability, must be used in repairing the damage or in replacing the property destroyed, unless the Governing Body finds that it is not advisable to repair such damage or replace such property and that the operation of the System will not be impaired if such property is not repaired or such property is not replaced, in which case such amounts shall be deposited in the Earnings Account, *provided, however*, that any amounts deposited in the Earnings Account must not reduce the amounts otherwise required to be paid into the Special Redemption Fund.
- (g) The Municipality will grant no franchise for the operation of another System (or any part thereof) within the geographic limits of the Municipality, unless the denial of such franchise would be in violation of any law.

- (h) The Municipality will by ordinance or resolution of its Governing Body require all buildings in the Municipality used for human habitation and located adjacent to service from the System, or located in a block through which service from the System extends, to be connected with service from the System.
- (i) The Municipality will not enter into any contract with any person or persons which would cause any Outstanding Bonds that were issued with the intent that interest on the issue would be excluded from gross income for federal income tax purposes to become “private activity bonds,” within the meaning of Section 141(a) of the Code or any Treasury Regulations promulgated thereunder.

Section 21. Additional Bonds.

The Municipality will issue no notes, bonds, or any other obligations of any kind or nature payable from or enjoying a lien on the Gross Revenues, the Special Redemption Fund, or properties of the System on a parity with or having a priority over the Notes, except as provided in this Section:

- (a) Notes (including bond anticipation notes) or bonds may be issued having a priority over the Notes and Parity Bonds if either (i) such notes or bonds are issued, wholly or in part, for the purpose of and will provide an amount sufficient, together with the earnings thereon and all other funds legally available therefor, to pay the entire principal of, and all interest on, the Notes and Parity Bonds to their maturity or early redemption; or (ii) immediately upon the issuance of such notes or bonds, the Municipality has discharged all the Notes and Parity Bonds in the manner provided in Section 22 of this resolution, the corresponding provisions of the Prior Resolutions, and the resolutions authorizing the issuance of Parity Bonds issued after the Original Issue Date.
- (b) Additional notes (including bond anticipation notes) or bonds may be issued on a parity with the Notes and Parity Bonds if such notes or bonds are issued for the purpose of refunding any of the Notes or Parity Bonds which either (i) have matured or (ii) will mature not later than 90 days after the date of delivery of such refunding notes or bonds if there are insufficient amounts in the Special Redemption Fund to provide for the required payments.
- (c) Additional notes (including bond anticipation notes) or bonds may be issued on a parity with the Notes and Parity Bonds if all the following conditions have been satisfied:
 - (1) If (A) the Net Revenues for the last completed Fiscal Year were at least equal to 1.25 times the highest combined annual principal and interest requirements on all bonds and notes then outstanding payable from the Gross Revenues (other than bonds being refunded) and the bonds or notes so proposed to be issued for any

succeeding Bond Year; *provided, however*, that if prior to the authorization of such additional bonds or notes the Municipality has adopted and put into effect a revised schedule of rates, then the Net Revenues for the last completed Fiscal Year which would, in the written opinion of an Independent Consultant employed for that purpose, have resulted from such rates had they been in effect for such period, may be used in lieu of the actual Net Revenues for the last completed Fiscal Year; (B) the need for such financing is evidenced by a certificate or certificates of an Independent Consultant with recognized expertise in utility ratemaking before the Public Service Commission of Wisconsin employed for that purpose, giving a detailed description of the proposed projects to be financed, an estimate of the cost of the proposed projects including proposed capitalized interest, if any, and an estimate of the time of completion of the proposed projects, and showing the feasibility of such financing with reference to projected Net Revenues based on rates and charges projected to be in effect upon completion of such projects; *provided*, that such feasibility shall not be deemed shown unless the projected Net Revenues for each of the two full Fiscal Years next succeeding the estimated date of completion of such projects shall be equal to at least 1.25 times the highest combined annual principal and interest requirements on all bonds and notes then outstanding payable from the Gross Revenues (other than bonds and notes being refunded), and the bonds or notes so proposed to be issued for any succeeding Fiscal Year in which there shall be a principal maturity on such outstanding bonds or notes; or (C) the proceeds of the additional bonds or notes will be used to refund Notes or Parity Bonds, and after giving effect to the refunding, the payments due in each year of the principal of, and interest on, the Notes and Parity Bonds then outstanding (not including the obligations being refunded) and the additional bonds or notes proposed to be issued will be less than the payments due in each year of the principal of, and interest on, the Notes and Parity Bonds then outstanding (in other words, the refunding will produce debt service savings in each year). For purposes of this subsection, except as otherwise provided, Net Revenues for any Fiscal Year will be either (x) the Net Revenues shown in the audit of the System's books and accounts for the Fiscal Year required by Section 20(e) of this resolution, if such an audit is available, or (y) if such an audit is not available, then the estimated, unaudited Net Revenues for the last completed Fiscal Year.

- (2) The payments required to be made into the Funds and Accounts created or continued pursuant to Section 18 of this resolution must be current.

- (3) There must be on hand in the Reserve Account immediately upon the issuance of such additional bonds or notes an amount not less than the Minimum Reserve Amount.
- (4) The additional bonds or notes must be payable as to principal on January 1 of each year and as to interest on January 1 and July 1 of each year.
- (5) The proceeds of the additional bonds or notes must be used only to refund Notes or Parity Bonds, or for acquiring or constructing additions, extensions, improvements, renewals or replacements to the System.

In the case of bond anticipation notes, the provisions of the Act shall govern with respect to all matters relating to the lien and sources of payment of such notes.

Section 22. Discharge and Satisfaction of Notes and Covenants.

The agreements, covenants, liens, and pledges entered into, created, or imposed pursuant to this resolution may be fully discharged and satisfied with respect to any or all of the Notes in any one or more of the following ways:

- (a) By paying the Notes when they become due and payable[, or upon their prior redemption in the manner provided in this resolution];
- (b) By depositing with the appropriate fiscal agent(s) for the Notes funds in the amount necessary, without consideration of any reinvestment thereof, to pay the principal of, and interest on, the Notes until their maturity [or earlier redemption]; or
- (c) By depositing with a trustee or an escrow agent, in trust for such purpose, on or before the date of maturity or redemption, money and/or direct obligations of, or obligations the principal of, and interest on, which are fully guaranteed by, the United States of America, in such amount as, together with the income or increment to accrue thereon without consideration of any reinvestment thereof, will be fully sufficient to pay [or redeem (when redeemable)] the Notes [at or before] their respective maturity dates.

Upon a payment or a deposit of money or investments in the amount and manner required by this section, all liability of the Municipality with respect to the relevant Notes will cease, determine, and be completely discharged, and the registered owners of any Notes that are not then retired will be entitled only to payment out of the money and investments deposited as required by this section.

Section 23. Resolution a Contract; Remedies of Noteowners.

The provisions of this resolution constitute a contract between the Municipality and the registered owners of the Notes. After the issuance of the Notes no change or alteration in the provisions of this resolution may be made, except (a) as provided in Section 24 of this resolution, and (b) as provided in the definition of “Fiscal Year” in Section 1 of this resolution.

The registered owners of any of the Notes will have the right, in addition to all other rights, by mandamus or other suit or action in any court of competent jurisdiction, to enforce their rights against the Municipality, the Governing Body, and any and all officers and agents thereof, including, but not limited to, the right to require the Municipality, the Governing Body, and any other authorized body to fix and collect rates and charges fully adequate to carry out all provisions and agreements contained in this resolution, and the right to have a receiver appointed for the System in the event of a default in the payment of principal of, or interest on, the Notes.

Section 24. Amendment of Resolution.

Amendment Without the Consent of the Owners. This resolution may be amended from time to time without the consent of the registered owners of the Notes to make any change that does not adversely affect the registered owners of the Notes, including, without limitation, to cure any ambiguities, inconsistencies, or typographical errors that may be contained in this resolution.

Amendment With the Consent of the Owners. This resolution may also be amended from time to time with the written consent of the registered owners of not less than two-thirds in outstanding principal amount of the Notes (not including any Notes that are held or owned by or for the account of the Municipality); *provided, however,* this resolution may be amended only with the unanimous written consent of:

- (a) The registered owners of the Notes:
 - (i) To make any change in the stated maturity date of, or interest rate on, any Note; to modify the terms of payment of principal of, or interest on, any Note; or to impose any conditions with respect to payment of principal of, or interest on, any Note;
 - (ii) To materially affect the rights of the owners of less than all Notes then outstanding; or
 - (iii) To reduce the required outstanding principal amount of the Notes for which consent must be given to effect any future amendments to this resolution; and
- (b) The registered owners of any series of Outstanding Bonds:
 - (i) To make any change in the stated maturity date of or interest rate on any Outstanding Note of the series; to modify the terms of payment of principal of, or interest on, any Outstanding Note of

the series; or to impose any conditions with respect to payment of principal of, or interest on, any Outstanding Note of the series;

- (ii) To materially affect the rights of the owners of less than all Outstanding Bonds of the series then outstanding; or
- (iii) To reduce the required outstanding principal amount of Outstanding Bonds of the series for which consent must be given to effect any future amendments to this resolution.

Notice. If the Municipality proposes to amend this resolution under any provision of this section, then the Municipality must cause notice of the proposed amendment (the “**Amendment Notice**”) and, if consent is required, a form of consent to the proposed amendment (the “**Consent**”) to be (i) sent by certified mail to all registered owners of the Notes and, if appropriate, any Outstanding Bonds and (ii) filed with the Municipal Securities Rulemaking Board if required under the Continuing Disclosure Agreement. The Amendment Notice must briefly describe the nature of the proposed amendment and must state that a copy of the proposed amendment is on file for public inspection in the office of the Recording Officer. The Consent must refer to the proposed amendment, specifically evidence consent to and approval of the proposed amendment, and be dated by the owner of the Notes and, if appropriate, the Outstanding Bonds upon execution of the Consent. The Amendment Notice and Consent may be one instrument.

If on any date prior to one year after the date the Amendment Notice and Consent were sent the Recording Officer receives Consents executed by the registered owners of the Notes and Outstanding Bonds owning not less than the outstanding principal amount required to approve the amendment, then the Governing Body may adopt a resolution effecting the proposed amendment, and upon the adoption of the resolution effecting the proposed amendment, the proposed amendment will become effective and binding upon the registered owners of all the Notes and Outstanding Bonds.

Any Consent given by the registered owner of a Note or an Outstanding Note pursuant to the provisions of this section will be irrevocable for a period of six months from the date of the Consent and will be conclusive and binding upon all future registered owners of the same Note or Outstanding Bond during the six-month period. A Consent may be revoked on any date after the six-month period by the registered owner who gave the Consent or by a successor in title by filing notice of such revocation with the Recording Officer; *provided*, that a revocation will not be effective if the Recording Officer has already received Consents from registered owners of the Notes and Outstanding Bonds owning not less than the required outstanding principal amount to approve the amendment, evidencing their consent to and approval of the proposed amendment that was the subject of the Consent.

MADISON WATER UTILITY

FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

The Utility's auditor was not asked to perform any additional review in connection with this Official Statement.

INDEPENDENT AUDITORS' REPORT

To the Water Utility Board
Madison Water Utility
Madison, Wisconsin

We have audited the accompanying financial statements of Madison Water Utility, an enterprise fund of the City of Madison, Wisconsin, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Madison Water Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Madison Water Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison Water Utility as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Madison Water Utility enterprise fund and do not purport to, and do not present fairly the financial position of the City of Madison, Wisconsin, as of December 31, 2017 and 2016 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us sufficient evidence to express an opinion or provide an assurance.

Madison Water Utility has not presented the Schedule of Funding Progress for the other post-employment benefit program that accounting principles generally accepted in the United States of America require to supplement, although not be a part of, the financial statements. Our opinion on the financial statements is not affected by this missing information. We note that this information is included in the City of Madison's financial statements.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
June 20, 2018

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

GENERAL INFORMATION ABOUT MADISON WATER UTILITY

Madison recognized the need for a central water supply early in its history. The common council of the City of Madison (municipality) directed its waterworks committee to establish the Madison Waterworks on September 5, 1881. Financing was obtained and contracts let in spring of 1882. Pumping commenced on December 7, 1882. Early management was vested in the common council through its committee, and on March 2, 1884, general management was transferred to a Board of Water Commissioners. The Madison Waterworks achieved department status in the early 1960's and, at that time, became the Madison Water Utility (utility) under a General Manager leadership with a Water Utility Board that continues today.

The utility has always been a groundwater system in spite of being surrounded by lakes. The utility currently has 22 deep wells with a capacity of 68 million gallons per day. In common with other Wisconsin water utilities, the Public Service Commission of Wisconsin (PSCW) regulates the utility in matters of rates, rules and levels of service.

2017 FINANCIAL HIGHLIGHTS

- > Total operating revenues decreased \$633,000 or 1.8% from 2016 to 2017, while pumpage decreased 4.4% for that same time frame.
- > Income before capital contributions and transfers decreased \$4.0 million or 49.0% from the prior year. The decrease was due to a \$2.0 million in tank painting expenses in 2017 compared to 2016, increased interest expense of \$700,000 on outstanding debt, and increased depreciation expense of \$600,000.

2016 FINANCIAL HIGHLIGHTS

- > Total operating revenues increased \$6.0 million or 20.5% from 2015 to 2016, while pumpage decreased 1.2%. In September 2015, the utility implemented a rate increase which increased revenue.
- > Income before capital contributions and transfers increased \$4.8 million or 139.6% from the prior year. The increase was due to the \$6.0 million increase in revenue and higher depreciation, nonoperating expense and operation and maintenance expense.

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

RATES

The utility filed an application to increase rates with the Public Service Commission of Wisconsin that was accepted on November 3, 2017. This application is requesting a 25% increase in revenues. The last rate increase was effective on September 29, 2015. The utility is currently ranked thirty-sixth for residential rates out of seventy-nine utilities classified as AB (over 4,000 customers) in Wisconsin.

UTILITY FINANCIAL ANALYSIS

The Statement of Net Position includes all of the utility's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utility.

A summary of the utility's Statements of Net Position is presented in Table 1 as of December 31:

Table 1

Condensed Statements of Net Position
(000's)

	2017	2016	2015
Current and Other Assets	\$ 42,747	\$ 62,207	\$ 59,727
Capital Assets	286,479	266,711	244,982
Total Assets	<u>329,226</u>	<u>328,918</u>	<u>304,709</u>
Deferred Outflows of Resources	5,248	6,889	3,098
Current Liabilities	18,730	15,643	14,879
Long-term Debt Outstanding	171,785	180,840	166,490
Long-term Liabilities	17,205	16,561	13,819
Total Liabilities	<u>207,720</u>	<u>213,044</u>	<u>195,188</u>
Deferred Inflows of Resources	1,480	1,864	-
Net Investment in Capital Assets	115,880	106,282	98,847
Restricted	8,569	7,964	8,369
Unrestricted	<u>826</u>	<u>6,653</u>	<u>5,403</u>
Total Net Position	<u>\$ 125,275</u>	<u>\$ 120,899</u>	<u>\$ 112,619</u>

Total assets combined with deferred outflows of resources decreased \$1.3 million and total liabilities with deferred inflows of resources decreased \$5.7 million, resulting in an increase in net position of \$4.4 million from 2016. In 2016, total assets combined with deferred outflows of resources increased \$28.0 million and total liabilities with deferred inflows of resources increased \$19.7 million, resulting in an increase in net position of \$8.3 million from 2015.

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Table 2

**Condensed Statements of Revenues,
Expenses and Changes in Net Position
(000's)**

	Year Ended December 31,		
	2017	2016	2015
Operating Revenues	\$ 33,838	\$ 34,588	\$ 28,381
Other Operating Revenues	1,082	964	1,132
Total Revenues	<u>34,920</u>	<u>35,552</u>	<u>29,513</u>
Operation & Maintenance Expense	18,432	15,357	15,250
Depreciation Expense	6,945	6,328	5,776
Nonoperating Expense	5,337	5,623	5,053
Total Expenses	<u>30,714</u>	<u>27,308</u>	<u>26,079</u>
Income before Capital Contributions and Transfers	4,206	8,244	3,434
Capital Contributions	6,693	5,789	2,311
Transfers, net	(6,578)	(5,753)	(5,910)
Special Item – Net Assets Acquired from Transfer of Operations	55	-	-
Change in Net Position	4,376	8,280	(165)
Beginning Net Position	120,899	112,619	110,064
Cumulative effect of change in accounting principle	-	-	2,720
Ending Net Position	<u>\$ 125,275</u>	<u>\$ 120,899</u>	<u>\$ 112,619</u>

The utility's total revenues decreased \$0.6 million or 1.8% from 2016 to 2017. Pumping decreased 4.4%, and the utility added 475 new customers in 2017 from the transfer of operations from Waunona Sanitary District No. 2. Total revenues increased \$6.0 million or 20.5% in 2016 from 2015 due mainly to a rate increase that was implemented on September 29, 2015. This increase was in effect for all of 2016.

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Table 3

**Operating Revenues and Expenses
(000's)**

	Year Ended December 31,		
	2017	2016	2015
OPERATING REVENUES			
Unmetered Sales	\$ 169	\$ 175	\$ 91
Metered Sales			
Residential	12,290	12,377	11,168
Commercial	11,248	11,534	9,395
Industrial	667	1,060	960
Public authority	4,397	4,502	2,848
Sales for resale	357	262	333
Total Metered Sales	<u>28,959</u>	<u>29,735</u>	<u>24,704</u>
Private Fire Protection	589	585	424
Public Fire Protection	4,121	4,094	3,162
Total Sales of Water	<u>33,838</u>	<u>34,589</u>	<u>28,381</u>
Customer Late Payment Penalties	191	176	163
Miscellaneous	158	100	91
Rents from water property	277	214	383
Other	456	473	495
Total Operating Revenues	<u>34,920</u>	<u>35,552</u>	<u>29,513</u>
OPERATING EXPENSES			
Source of Supply	17	75	53
Pumping	3,760	3,584	3,422
Water Treatment	735	742	744
Transmission and Distribution	8,067	5,460	6,180
Customer Accounts	849	847	735
Administrative and General	4,502	4,172	3,633
Total Operation and Maintenance	<u>17,930</u>	<u>14,880</u>	<u>14,767</u>
Depreciation	6,945	6,328	5,776
Taxes	502	477	483
Total Operating Expenses	<u>25,377</u>	<u>21,685</u>	<u>21,026</u>
Operating Income	<u>\$ 9,543</u>	<u>\$ 13,867</u>	<u>\$ 8,487</u>

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Revenues

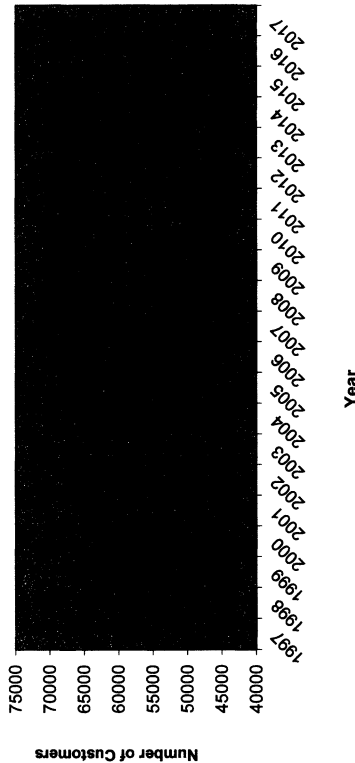
Total operating revenues were \$34.9 million in 2017, compared with \$35.5 million in 2016, a decrease of \$0.6 million or 1.8%. Although pumping decreased 4.4%, the utility added 475 new customers in 2017, the highest number of new customers added since 2007 (536).

Expenses

Operation and maintenance expenses totaled \$17.9 million in 2017, compared to \$14.9 million in 2016, an increase of \$3.0 million or 20.1%. In 2017, the utility painted 3 reservoir tanks at a total cost of \$2.4 million. Depreciation expense increased \$600,000 or 9.5% to \$6.9 million in 2017 from \$6.3 million in 2016.

Chart 1

Customer Growth 1997 - 2017



In 2017, the utility received 644 new applications for service, compared with 630, 604 and 529 new applications received in 2016, 2015 and 2014, respectively. 2017, 2016 and 2015 continued the first increase in consecutive years since a record number of new applications (1,442) was received in 2002, following 1,405 new applications in 2001.

See accompanying independent auditors' report.

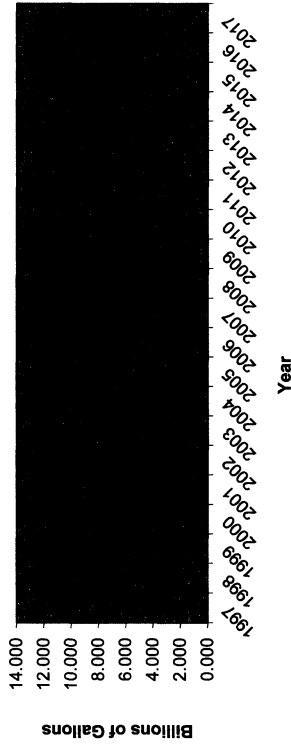
MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Chart 2

Pumpage 1997 - 2017



Pumping for the year decreased 4.4% from 9,848 billion gallons in 2016 to 9,419 billion gallons in 2017, due to moderate weather conditions and continued water conservation efforts by customers.

CAPITAL EXPENDITURES

The utility added a net \$19.8 million of plant in 2017. Of this amount, approximately \$6.6 million was contributed by developers and contractors, and received by special assessment.

Capital projects paid for by the utility in 2017 included \$13.41 million for new and replacement water mains, \$4.24 million for the Operations Center Vehicle and Material Storage Buildings, \$412,000 for various Unit Well Flow and Mag Meter additions and VFDs and \$568,000 for our meter program.

Capital projects paid for by the utility in 2016 included \$9.35 million for new and replacement water mains, \$2.6 million for Lakeview Reservoir reconstruction, \$9.4 million for the Operations Center Building Remodel, \$944,000 for miscellaneous pumping station work and our meter program.

Please refer to the notes to the financial statements for further details of the utility's capital assets.

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

CAPITAL BORROWING

The previous policy of the utility had been to maintain depreciation and net revenues such that depreciation funds could be used for capital projects, and net income could be used for debt retirement. Due to the increased level of planned capital spending, the utility has looked to fund the vast majority of its capital budget needs through the sale of revenue bonds. The utility borrowed \$38.4 million in 2016, \$41.6 million in 2015, \$24.3 million in 2013, \$21.1 million in 2012, \$19.4 million in 2011, and \$13.2 million in 2010. The 2016 borrowing included \$23.8 million to fund 2016 and 2017 capital projects and \$14.6 million to advance refund 2007 revenue bonds. The utility plans a sale of revenue bonds in late 2018 to fund its 2018 & 2019 capital budgets. Management envisions a reduction in their capital borrowing due to reduced capital budgets for the next several years. The utility is currently working with the PSC to explore alternative funding sources for our main replacement program. This could include accelerated depreciation on mains replaced during the year to effectuate a "pay as you go" funding for our main replacement program thereby reducing the amount of capital borrowing required by the utility.

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

Madison has a unique status in terms of economic stability, being the state capital and home to the University of Wisconsin – Madison and its 43,000 students, versus the national economy. While customer growth has slowed, the utility added a net 27.2 miles of water main in the last three years as its service area has grown. Growth entails the need for additional infrastructure while meeting the challenge of upkeep of current infrastructure. Management believes that future rate increases will ensure that the utility is well prepared to handle these challenges. While rates are expected to increase over time, management expects utility rates will remain near the statewide median average.

On August 15, 2017, the City of Madison acquired the assets and customers of Waunona Sanitary District #2. Waunona Sanitary District #2 had been a wholesale customer of Madison Water Utility. The acquisition included 4.5 miles of main, 392 service laterals, 27 hydrants and 465 meters. Madison Water Utility continues to serve the Village of Maple Bluff, Village of Shorewood Hills and a portion of the City of Fitchburg as wholesale customers.

UTILITY CONTACT INFORMATION

This financial report is designed to provide customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Robin G. Piper, Chief Administrative Officer, Madison Water Utility, 119 East Olin Avenue, Madison, Wisconsin 53713 or by phone at (608) 266-4656 or e-mail at rpiper@madisonwater.org.

See accompanying independent auditors' report.

MADISON WATER UTILITY

STATEMENTS OF NET POSITION
As of December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 20,920	\$ 1,898,987
Restricted cash and investments	9,781,679	9,542,889
Customer accounts receivable	6,394,352	5,947,548
Prepays	4,056	-
Materials and supplies	778,893	718,568
Current portion of special assessments	158,075	85,883
Other current assets, net	<u>624,741</u>	<u>438,687</u>
Total Current Assets	<u>17,762,716</u>	<u>18,632,562</u>
NONCURRENT ASSETS		
Restricted Assets		
Cash and investments	17,050,217	36,683,104
Other Assets		
Special assessments receivable	3,267,857	2,233,195
Preliminary survey and investigation	394,466	394,466
Property held for future use	4,009,072	4,009,072
Nonutility property (net of accumulated depreciation)	263,319	254,832
Capital Assets		
Plant in service	358,287,677	332,737,945
Accumulated depreciation	(82,346,902)	(75,673,321)
Construction work in progress	<u>10,538,547</u>	<u>9,645,941</u>
Total Noncurrent Assets	<u>311,464,253</u>	<u>310,285,234</u>
Total Assets	<u>329,226,969</u>	<u>328,917,796</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advance refunding	1,675,129	1,973,323
Deferred outflows related to pension	<u>3,572,521</u>	<u>4,915,123</u>
Total Deferred Outflows of Resources	<u>5,247,650</u>	<u>6,888,446</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 834,553	\$ 1,034,472
Other current liabilities	914,325	893,649
Payable to other funds	3,302,211	3,214,909
Accrued interest	-	8,941
Current portion of implicit financing from city	3,079,684	-
Current portion of loan from municipality	765,000	765,000
Current portion of advance from municipality	97,451	89,040
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	6,890,000	6,660,000
Accrued interest	<u>2,846,660</u>	<u>2,976,857</u>
Total Current Liabilities	<u>18,729,884</u>	<u>15,642,868</u>
NONCURRENT LIABILITIES		
Revenue bonds	171,785,000	180,840,000
Unamortized debt premium	9,015,887	10,186,093
Accrued compensated absences	1,808,215	1,757,251
Other postemployment benefit obligation	773,380	636,434
Noncurrent portion of implicit financing from city	3,079,684	-
Advance from municipality	1,265,783	1,358,504
Loan from municipality	765,000	1,530,000
Customer advances for construction	58,341	211,807
Net pension liability	<u>438,906</u>	<u>880,490</u>
Total Noncurrent Liabilities	<u>188,990,196</u>	<u>197,400,579</u>
Total Liabilities	<u>207,720,079</u>	<u>213,043,447</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	<u>1,479,658</u>	<u>1,864,058</u>
NET POSITION		
Net investment in capital assets	115,880,264	106,282,192
Restricted for:		
Debt service	7,668,536	7,064,739
Capital repairs and replacement	900,000	900,000
Unrestricted	<u>826,082</u>	<u>6,651,806</u>
TOTAL NET POSITION	<u>\$ 125,274,882</u>	<u>\$ 120,898,737</u>

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Sales of water	\$ 33,838,096	\$ 34,588,398
Other	1,081,845	964,093
Total Operating Revenues	34,919,941	35,552,491
OPERATING EXPENSES		
Operation and maintenance	18,431,561	15,356,637
Depreciation	6,944,967	6,328,463
Total Operating Expenses	25,376,528	21,685,100
Operating Income	9,543,413	13,867,391
NONOPERATING REVENUES (EXPENSES)		
Merchandising and jobbing	199,433	(15,941)
Bond issuance costs	-	(222,252)
Investment income	511,259	357,059
Interest and amortization expense	(6,585,178)	(6,255,982)
Interest charged to construction	116,127	385,952
Gain on transfer of operations	21,919	-
Other	398,613	128,204
Total Nonoperating Revenues (Expenses)	(5,337,827)	(5,622,960)
Income before Capital Contributions and Transfers	4,205,586	8,244,431
CAPITAL CONTRIBUTIONS	6,693,090	5,789,485
TRANSFERS IN / (OUT)	187,769	169,967
TRANSFERS - TAX EQUIVALENT	(6,923,928)	(6,415,680)
CAPITALIZED TAX EQUIVALENT	158,879	491,158
SPECIAL ITEM		
Net assets acquired from transfer of operations	54,749	-
Change in Net Position	4,376,145	8,279,361
NET POSITION - Beginning of Year	120,898,737	112,619,376
NET POSITION - END OF YEAR	\$ 125,274,882	\$ 120,898,737

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 34,993,485	\$ 36,530,782
Paid to suppliers for goods and services	(10,775,671)	(8,572,513)
Paid to employees for services	(6,284,891)	(5,978,193)
Net Cash Flows from Operating Activities	<u>17,932,923</u>	<u>21,980,076</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers - paid to municipality for tax equivalent	(6,765,049)	(6,415,680)
Loan from municipality receipts (payments) - operating portion	(765,000)	(765,000)
Repayment of advances from other funds	(89,040)	(81,499)
Interest paid on advances and loans from other funds	(55,557)	(59,479)
Transfers from (to) other funds	187,769	169,967
Implicit financing from municipality	6,159,367	-
Net Cash Flows from Noncapital Financing Activities	<u>(1,327,510)</u>	<u>(7,151,691)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(23,002,326)	(24,166,390)
Special assessments received	868,493	229,458
Contributions in aid of construction	(153,466)	(390,128)
Payments to escrow during refunding	-	(18,361,196)
Debt issued	-	38,420,000
Premium on debt issued	-	4,026,144
Debt issuance costs	-	(222,252)
Build America Bond interest credit received	143,377	111,149
Debt retired	(8,825,000)	(6,120,000)
Interest paid	(7,424,644)	(6,065,327)
Advances from other funds	4,730	3,586
Net Cash Flows from Capital and Related Financing Activities	<u>(38,388,836)</u>	<u>(12,534,956)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities purchased	(15,276,451)	(6,019,850)
Marketable securities sold	14,056,177	4,111,640
Investment income	511,259	357,059
Net Cash Flows from Investing Activities	<u>(709,015)</u>	<u>(1,551,151)</u>
Net Change in Cash and Cash Equivalents	(22,492,438)	742,278
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>36,193,930</u>	<u>35,451,652</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 13,701,492	\$ 36,193,930
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 9,543,413	\$ 13,867,391
Nonoperating income	454,669	1,114
Noncash items included in operating income		
Depreciation	6,944,967	6,328,463
Depreciation charged to other accounts	1,012,476	1,005,696
Net assets acquired from transfer of operations	54,749	-
Changes in Assets and Liabilities		
Customer accounts receivable	(497,940)	551,338
Receivable from other funds	(160,522)	(49,117)
Materials and supplies	(60,325)	(77,834)
Other current assets	(138,974)	(25,779)
Accounts payable and other current liabilities	(171,942)	761,800
Payable to other funds	247,824	(926,916)
Other postemployment benefit obligation	136,946	79,494
Pension related deferrals and liabilities	516,618	571,333
Accrued compensated absences	50,964	(106,907)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 17,932,923	\$ 21,980,076
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS		
Cash and investments	\$ 20,920	\$ 1,898,987
Restricted cash and investments - current	9,781,679	9,542,889
Restricted cash and investments - noncurrent	17,050,217	36,883,104
Total Cash and Investments	26,852,816	48,124,980
Less: Noncash equivalents	(13,151,324)	(11,931,050)
CASH AND CASH EQUIVALENTS	\$ 13,701,492	\$ 36,193,930
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Municipality, customer and developer financed additions to utility plant	\$ 6,274,701	\$ 4,577,803
Capital additions assessed to customers	\$ 2,101,707	\$ 170,000
Adjustments to special assessments	\$ (126,360)	\$ (54,944)
Interest capitalized	\$ 116,127	\$ 385,952
Net changes in loss on refundings	\$ -	\$ (569,396)

See accompanying notes to financial statements.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Madison Water Utility (utility) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the utility are described below.

REPORTING ENTITY

The utility is a separate enterprise fund of the City of Madison (municipality). The utility provides retail water service to customers in the municipality, portions of the Town of Madison and the Town of Burke, wholesale water service to Waunona Sanitary District No. 2, the Villages of Maple Bluff and Shorewood Hills, and portions of Fitchburg Utility District No. 1. Effective August 15, 2017, Waunona Sanitary District No. 2 transferred all customers and operations to the utility.

The utility charges rates and operates under rules authorized by the Public Service Commission of Wisconsin (PSCW). Accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW.

The utility is managed by an eight member Water Utility Board comprised of two Madison Common Council members (each serving a two year term), five citizen members, and the Director, Public Health Madison and Dane County (ex-officio), each serving a five year term.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

The utility is presented as an enterprise fund of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for management accountability.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION

Deposits and Investments

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Investment of utility funds is restricted by state statutes. Investments are limited to:

1. Time deposits in any credit union, bank, savings bank, trust company maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district, the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

The utility, as part of the municipality, has adopted an investment policy. The policy follows the state statute for allowable investments.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on methods and inputs as outlined in Note 2. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year-end.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

Receivables/Payables

Transactions between the utility and other funds of the municipality that are representative of lending/borrowing arrangements outstanding at year-end are referred to as advances to/from other funds. All other outstanding balances between the utility and other funds of the municipality are reported as due to/from other funds.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION (cont.)

Receivables/Payables (cont.)

The utility has the right under Wisconsin statutes to place delinquent water bills on the tax roll for collection. As such, no allowance for uncollectible customer utility service billings is considered necessary.

Materials and Supplies

Materials and supplies inventories are generally used for construction, operation and maintenance work, not for resale. They are valued at average cost and charged to construction and expense when used.

Other Current Assets

The balance represents amounts due from other municipalities, miscellaneous receivables, and prepaid expenses.

There has been an allowance account set up relating to miscellaneous accounts receivable. The allowance balance was \$91,188 and \$51,136 in 2017 and 2016, respectively.

Preliminary Survey and Investigation

The balance represents initial project engineering costs related to utility plant construction. The balance will be transferred as a capital asset upon commencement of the project.

Property Held for Future Use

These amounts represent tower and well sites which are owned by the utility but not currently used during the course of operation.

Nonutility Property

This balance includes sewer meters which are being amortized over an average period of 20 years as well as certain parcels of land related to abandoned facilities.

Capital Assets

Capital assets are defined by the utility as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION (cont.)

Capital Assets (cont.)

Capital assets of the utility are recorded at cost or estimated acquisition cost at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	Years
Plant in Service	
Source of supply	22-58
Pumping	23-31
Water treatment	16-31
Transmission and distribution	18-77
General	4-34 65

Special Assessments Receivable

The utility assesses the cost of system extensions to benefited properties. This account represents the long-term portion of special assessments to be collected. Interest is charged on the unpaid balance at various rates.

Deferred Outflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Other Current Liabilities

The balance represents amounts payable relating to accrued wages, comp time, vacation time, and payroll taxes payable.

Implicit Financing from the City

The city manages operating cash through a centralized treasury function for all city-wide funds including the water utility. Deficiencies in operating cash are presented as financings from the city and are replenished when sufficient funds are available. The utility and city have agreed to a plan for repayment of the funds over a two-year period.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION (cont.)

Accrued Compensated Absences

Utility employees are allowed to convert, at retirement, the lesser of 100% of accumulated days or 150 days, to a sick leave escrow account maintained in the municipality's trust and agency fund. No payment is made if the employee resigns or is terminated. The balance on the financial statements is based on the probability employees will be employed by the utility at the time of retirement. The liability is liquidated from general operating revenues of the utility.

After the satisfactory employee completion of a probationary period, vacation leave is accrued on the basis of continuous service, including periods of paid absent time. The vacation leave is granted at a rate dependent on the employee's length of service.

Customer Advances for Construction

The balance represents customer advances for construction and meters which may be refundable in part or in whole pursuant to rules prescribed and on file with the PSCW.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

Long-Term Obligations

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Gains or losses on refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year-end for premiums and discounts is shown as an increase or decrease in the liability section of the statements of net position. The balance at year-end for the loss on refunding is shown as a deferred outflow in the statements of net position.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION (cont.)

Revenues and Expenses

The utility distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a utility's principal ongoing operations. The principal operating revenues of the utility are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charges for Services

Utility billings are rendered and recorded based on actual service provided. The utility does not accrue revenues beyond billing dates.

Current rates were authorized by the PSCW in an order dated September 29, 2015 and are designed to earn a 6.5% return on rate base.

Transfers – Tax Equivalent

The utility records an annual payment in lieu of taxes (PILOT) expense based on the value of its capital assets times the current assessment ratio and local and school portions of the mill rate.

Capital Contributions

The municipality has invested capital in the utility at various times. This capital is not currently subject to repayment on demand or at a fixed future date by the utility. Certain utility plant has been contributed by utility customers. These contributions are not subject to repayment. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses and changes in net position.

Special Item

The activity represents the net fund balance received for the transfer of operations from Waunona Sanitary District #2 during 2017. See Note 11 for details regarding this transaction.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus*, Statement No. 86, *Certain Debt Extinguishment Issues*, and Statement No. 87, *Leases*. When they become effective, application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of		Associated Risks
	2017	2016	
Other Investment Pool Money Market Mutual Funds	\$ 4,522,312	\$ 32,067,240	(A) Custodial credit, interest rate
U.S. Agencies	13,151,324	11,931,050	Custodial credit, interest rate, credit, concentration
Working Funds – Petty Cash	20,920	20,920	None
Totals	\$ 20,693,449	\$ 48,124,960	

(A) – The other investment pool is commingled with the municipality; therefore, the risk pertaining specifically to the utility cannot be determined individually. Please refer to the municipality's financial statements. The water utility required financing from the city to adequately fund restricted cash balances at December 31, 2017 in the amount of \$6,159,367. This amount is presented as implicit financing from the city in current and non-current liabilities.

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities.

The utility may also maintain separate cash and investment accounts at the same financial institutions utilized by the municipality. Federal depository insurance and the State of Wisconsin Guarantee Fund Insurance apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the utility alone. Therefore, coverage for the utility may be reduced. Investment income on commingled investments of the entire municipality is allocated based on average investment balances.

FAIR VALUE

The utility categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At December 31, 2017 and 2016, the utility had investments in US Agency Securities of \$13,151,324 and \$11,931,050, respectively. These investments were valued using institutional bond quotes (Level 2 input) at December 31, 2017 and December 31, 2016. The utility also had investments in Money Market Mutual Funds of \$2,998,893 and \$4,105,770 at December 31, 2017 and 2016, respectively. These investments were valued using broker information (Level 2 input).

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

FAIR VALUE (cont.)

In addition to US Agency Securities and Money Market Mutual Funds, the utility maintains certain investments commingled with the municipality. The fair value hierarchy pertaining specifically to the utility's resources cannot be determined for those accounts. Please refer to the municipality's financial statements for information on the fair value measurements.

CUSTODIAL CREDIT RISK

Deposits

Custodial credit risk is the risk that in an event of a financial institution failure, the utility's deposits may not be returned to the utility.

The utility maintains certain deposits at the same institutions as the municipality. The custodial credit risk pertaining specifically to the utility's resources at these institutions cannot be determined individually for those accounts. The following is a summary of the utility's total deposit balances at these institutions on December 31:

	2017		2016	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
US Bank	\$ 2,998,893	\$ 2,998,893	\$ 4,105,770	\$ 4,105,770

The municipality's investment policy addresses this risk by requiring security for all cash and investments maintained in any financial institution designated as a depository. The municipality exercises this authority under Sec. 34.07 of the Wisconsin Statutes which states that security may be required of any public depository for any public deposits that exceed the amount of deposit insurance provided by an agency of the United States or by the Wisconsin public deposit guarantee program. The utility is covered under the municipality's collateral agreements.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The utility's investments included \$13,151,324 and \$11,931,050 of U.S. Agencies securities which were exposed to custodial credit risk as of December 31, 2017 and 2016, respectively, because the investments were neither insured nor registered and are held by counterparty.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

CUSTODIAL CREDIT RISK (cont.)

Investments (cont.)

The municipality's investment policy addresses this risk by requiring funds in excess of insured or guaranteed limits to be secured by some form of collateral. The municipality will accept for collateral any of the following assets: obligations of the United States government or an agency or instrumentality of the United States government, obligations of the State of Wisconsin, investment grade obligations of Wisconsin local jurisdictions; obligations of the City of Madison. The fair market value of all collateral pledged will be not less than 110% of the amount of public funds to be secured at each institution. The ratio of fair market value of collateral to the amount of funds secured will be reviewed regularly and additional collateral will be requested when this ratio declines below the level required. Pledged collateral will be held in safekeeping by a third party. All collateral agreements will be written so as to preclude release of the assets without an authorized signature from the municipality. The municipality will allow for even exchange of collateral.

INTEREST RATE RISK, CREDIT RISK AND CONCENTRATION RISK

Interest rate risk is the risk changes in interest rates will adversely affect the fair market value of an investment. All U.S. Agency securities and Money Market Mutual Funds mature within five years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2017 and 2016, all of the U.S. Agency investments were rated Aaa by Moody's Investors Service. All of the U.S. Agency investments were rated AA+ by S&P.

Concentration risk is the risk of loss attributable to the magnitude of a government's investments in a single issuer. As of December 31, 2017, the utility had 29% of its portfolio in Federal Farm Credit Bank securities, 19% of its portfolio in Federal Home Loan Bank system securities, and 6% of its portfolio in Federal Home Loan Mortgage Corporation system securities. As of December 31, 2016, the utility had 15% of its portfolio in Federal Farm Credit Bank securities.

The investment policy addresses these risks by permitting investments which mature to meet cash requirements, following state statutes as to allowable investments and limiting certificates with any one institution to 25% of the overall portfolio.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances as of December 31, 2017 and 2016:

Due To	Due From	2017		2016	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 3,302,211	Items due to Sewer, Storm, Landfill, and Urban Forestry less items on tax roll	\$ 3,214,909	Items due to Sewer, Storm, Landfill, and Urban Forestry less items on tax roll

The following is a schedule of transfer balances as of December 31, 2017 and 2016:

To	From	2017		2016	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 6,923,928	Tax equivalent	\$ 6,415,680	Tax equivalent
Municipality	Water	-	-	16,000	Capital projects
Water	Sewer	187,769	Tax equivalent	185,967	Tax equivalent

NOTE 4 – RESTRICTED ASSETS

RESTRICTED ACCOUNTS

Certain proceeds of the utility's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net position because their use is limited by applicable bond covenants. The following accounts are reported as restricted assets:

- Operation and Maintenance Reserve – Used to remedy any deficiency in the operation account, make extraordinary repairs or replacements, or pay principal and interest on the bonds or parity bonds.
- Principal and Interest – Used solely for the purpose of paying principal and interest on the bonds or parity bonds.
- Reserve – Used solely for the purpose of paying principal and interest on the bonds or parity bonds whenever the balance in the principal and interest account is insufficient for that purpose.
- Depreciation – Used for the payment of principal and interest on the bonds and parity bonds whenever the balance in the principal and interest account is insufficient for that purpose, to remedy any deficiency in the principal and interest account, or to make extraordinary repairs or improvements to the utility.
- Construction – Used to report bond proceeds restricted for use in construction.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 4 – RESTRICTED ASSETS (cont.)

The following calculation supports the amount of restricted net position:

	December 31,	
	2017	2016
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 9,781,879	\$ 9,542,889
Noncurrent Restricted Assets		
Operation and maintenance reserve	150,000	150,000
Reserve	16,150,217	15,915,407
Construction	-	19,867,697
Depreciation	750,000	750,000
Total Noncurrent Restricted Assets	<u>17,050,217</u>	<u>36,683,104</u>
Total Restricted Assets	26,831,896	46,225,993
Less: Restricted Assets not Funded by Revenues		
Reserve fund	(15,416,700)	(15,416,700)
Construction fund	-	(19,867,697)
Current Liabilities Payable from Restricted Assets	<u>(2,846,660)</u>	<u>(2,976,857)</u>
Total Restricted Net Position	\$ 8,568,536	\$ 7,964,739
The purpose of the restricted net position is as follows:		
Debt service	\$ 7,668,536	\$ 7,064,739
Capital repairs and replacement	<u>900,000</u>	<u>900,000</u>
Total	\$ 8,568,536	\$ 7,964,739

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2017 follows:

	1/1/17	Increases	Decreases	12/31/17
	Balance	\$	\$	Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,601,317	\$ 28,879	\$ 2,443	\$ 2,627,753
Capital assets being depreciated				
Source of supply	10,698,888	-	-	10,698,888
Pumping	22,154,212	587,362	64,167	22,677,407
Water treatment	4,047,471	-	-	4,047,471
Transmission and distribution	260,242,253	21,424,799	1,090,032	280,577,020
General	32,993,804	5,004,618	339,284	37,659,138
Total Capital Assets	330,136,628	27,016,779	1,493,483	355,659,924
Being Depreciated	332,737,945	27,045,658	1,495,926	358,287,677
Total Capital Assets				
Less: Accumulated Depreciation				
Source of supply	(5,528,651)	(236,450)	-	(5,765,101)
Pumping	(7,702,273)	(835,247)	69,000	(8,468,520)
Water treatment	(723,506)	(149,724)	-	(873,230)
Transmission and distribution	(51,152,446)	(5,471,359)	1,184,003	(55,439,802)
General	(10,566,445)	(1,573,088)	339,284	(11,800,249)
Total Accumulated Depreciation	<u>(75,673,321)</u>	<u>(8,285,868)</u>	<u>1,592,287</u>	<u>(82,346,902)</u>
Construction in progress	9,645,941	31,755,673	30,863,067	10,538,547
Net Capital Assets	\$ 266,710,565		\$ 286,479,322	

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2016 follows:

	1/1/16 Balance	Increases	Decreases	12/31/16 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,549,608	\$ 55,535	\$ 3,826	\$ 2,601,317
Capital assets being depreciated				
Source of supply	10,797,925	-	99,037	10,698,888
Pumping	20,594,797	1,637,316	77,901	22,154,212
Water treatment	4,039,104	11,833	3,466	4,047,471
Transmission and distribution	232,132,572	29,174,749	1,065,068	260,242,253
General	20,770,915	13,666,729	1,443,840	32,993,804
Completed construction not classified	2,300,782	-	2,300,782	-
Total Capital Assets	290,636,095	44,490,627	4,990,094	330,136,628
Being Depreciated				
Total Capital Assets	293,185,703	44,546,162	4,993,920	332,737,945
Less: Accumulated Depreciation				
Source of supply	(5,291,359)	(237,292)	-	(5,528,651)
Pumping	(6,807,510)	(980,455)	85,692	(7,702,273)
Water treatment	(577,846)	(149,473)	3,813	(723,506)
Transmission and distribution	(46,367,058)	(5,903,992)	1,118,604	(51,152,446)
General	(10,685,994)	(1,410,041)	1,528,590	(10,566,445)
Completed construction not classified	(1,195,383)	-	1,195,383	-
Total Accumulated Depreciation	(70,925,150)	(8,681,253)	3,933,082	(75,673,321)
Construction in progress	22,721,204	32,536,372	45,611,635	9,645,941
Net Capital Assets	\$ 244,981,757			\$ 266,710,565

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/2017 Amount Outstanding
12/9/09	Refunding debt and system improvements	1/1/30	2.00 - 5.00%	48,540,000	37,550,000
11/10/10	System improvements	1/1/31	0.90 - 5.25%	13,250,000	9,895,000
12/22/11	System improvements	1/1/32	2.00 - 4.00%	19,370,000	15,565,000
12/19/12	System improvements	1/1/33	2.00 - 4.00%	21,095,000	17,640,000
12/18/13	System improvements	1/1/34	3.00 - 5.00%	24,335,000	21,645,000
12/17/15	System improvements	1/1/36	2.85 - 5.00%	41,610,000	40,125,000
12/28/16	Refunding debt and system improvements	1/1/37	1.24 - 3.82%	38,420,000	36,255,000
Totals				\$ 206,620,000	\$ 178,675,000
Revenue bond debt service requirements to maturity follows:					
Bond Year	Principal	Interest	Total		
2018*	6,890,000	7,172,993	14,062,993		
2019	9,255,000	6,803,854	16,058,854		
2020	9,460,000	6,398,874	15,858,874		
2021	9,770,000	5,967,717	15,737,717		
2022	10,290,000	5,494,924	15,784,924		
2023	10,690,000	5,002,909	15,692,909		
2024	10,935,000	4,492,751	15,427,751		
2025	11,240,000	3,989,233	15,229,233		
2026	11,645,000	3,514,391	15,159,391		
2027	11,630,000	3,052,313	14,682,313		
2028	12,100,000	2,577,727	14,677,727		
2029	12,940,000	2,119,984	15,059,984		
2030	11,750,000	1,643,379	13,393,379		
2031	8,650,000	1,255,849	9,905,849		
2032	8,080,000	949,631	9,029,631		
2033	6,995,000	682,281	7,677,281		
2034	5,850,000	453,578	6,303,578		
2035	4,310,000	270,844	4,580,844		
2036	4,470,000	114,661	4,584,661		
2037	1,725,000	-	1,725,000		
Totals	\$ 178,675,000	\$ 61,957,893	\$ 240,632,893		

*Note bond payments on outstanding issuances are required to be paid on 1/1 of each subsequent year. However, the 2016 refunding bonds require payment 1 - 3 days before this date per the bond resolution and are therefore not included in the current portion of debt as the payment was made in 2017.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 - LONG-TERM OBLIGATIONS

REVENUE BONDS (cont.)

The 2010 bonds are Build America Bonds. See pages 45 - 46 for the details of the anticipated federal interest credit. The amount disclosed is based on the originally approved 35% credit. During the federal fiscal year 2017 interest subsidies were reduced by 6.9% and during the federal fiscal year 2016, the subsidy payments had been reduced by 6.8%. This amount may change based on sequestration.

The bonds are secured by a pledge of the redemption fund, net utility revenues and a mortgage lien on utility plant. Principal and interest paid for 2017 and 2016 were \$16,360,483 and \$12,567,693, respectively. Total customer net revenues as defined for 2017 and 2016 were \$16,999,639 and \$20,552,913, respectively. Annual principal and interest payments are expected to require 70% of net revenues.

ADVANCE FROM MUNICIPALITY

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/17 Amount Outstanding
10/3/10	Payoff unfunded pension liability		3.41%	\$ 1,404,052	\$ 915,926
04/23/08	Advance from Municipality, Burke Utility District #1	(A)	0.83%	393,762	447,308

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
2018	\$ 97,451	\$ 33,538	\$ 130,989
2019	107,022	30,614	137,636
2020	117,484	27,136	144,600
2021	129,065	23,025	152,090
2022	141,536	19,850	161,386
2023	154,587	12,936	167,523
2024	168,801	6,752	175,553
Totals	\$ 915,926	\$ 152,315	\$ 1,068,241

(A) - No repayment schedule has been established for this advance. Accrued interest is added to the advance balance based on the municipality's pooled investment rate plus 0.25%.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

LOAN FROM MUNICIPALITY

On August 4, 2005, the Madison Common Council approved a loan from the municipality to the utility to be used as financing for capital and operating expenses with interest charged monthly at 0.25% higher than the monthly rate earned through the utility's other investment pool.

The following table shows the activity since the inception of this loan:

Year	Beginning Balance	Additions	Reductions	Ending Balance
2005	\$ -	\$ 4,573,000	\$ -	\$ 4,573,000
2006	4,573,000	1,877,000	5,235,000	1,215,000
2007	1,215,000	10,305,169	7,257,169	4,263,000
2008	4,263,000	1,830,000	688,000	5,405,000
2009	5,405,000	4,520,000	855,000	9,070,000
2010	9,070,000	1,220,000	2,045,000	8,245,000
2011	8,245,000	-	2,125,000	6,120,000
2012	6,120,000	-	765,000	5,355,000
2013	5,355,000	-	765,000	4,590,000
2014	4,590,000	-	765,000	3,825,000
2015	3,825,000	-	765,000	3,060,000
2016	3,060,000	-	765,000	2,295,000
2017	2,295,000	-	765,000	1,530,000

The utility anticipates making principal payments totaling \$765,000 in 2018. No formal schedule for repayment has been established. At December 31, 2017 and 2016, the outstanding balance pertains to operating activities.

LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended December 31, 2017, is as follows:

	1/1/17 Balance	Additions	Reductions	12/31/17 Balance	Due Within One Year
Revenue bonds	\$ 187,500,000	\$ -	\$ 8,825,000	\$ 178,675,000	\$ 6,890,000
Accrued compensated absences	1,757,251	426,027	375,063	1,808,215	-
Net pension liability	880,490	-	441,584	438,906	-
Other postemployment benefit obligation	636,434	289,818	152,872	773,380	-
Customer advances for construction	211,807	50,341	203,807	58,341	-
Advance from municipality	1,447,544	4,730	89,040	1,363,234	97,451
Loan from municipality - operating	2,295,000	-	765,000	1,530,000	765,000
Unamortized debt premium	10,186,093	-	1,170,206	9,015,887	-
Totals	\$ 204,914,619	\$ 770,916	\$ 12,022,572	\$ 193,662,963	\$ 7,752,451

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

COMPLIANCE WITH FUNDING REQUIREMENTS

The utility is required to comply with various debt covenants as a result of issuing revenue bonds. One such requirement states that net revenues earned must be at least 1.25 times the highest combined annual principal and interest requirements on outstanding revenue bonds. The utility met this requirement in 2016 but did not for 2017.

NUMBER OF CUSTOMERS

At December 31, 2017 and 2016, the utility served the following number of customers:

	2017	2016
Residential	58,421	57,997
Multifamily	4,253	4,200
Commercial	5,014	4,944
Industrial	50	48
Public Authority	490	483
Totals	68,228	67,672

WATER PUMPED AND BILLED

During the years ended December 31, 2017 and 2016, the following amounts of water were pumped and billed:

	(000 gallons)	
	2017	2016
Water pumped	9,418,562	9,948,137
Water billed	8,048,070	8,340,542

RISK MANAGEMENT

The utility is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY (cont.)

Long-term obligation activity for the year ended December 31, 2016, is as follows:

	1/1/16	Additions	Reductions	12/31/16	Due Within
	Balance			Balance	One Year
Revenue bonds	\$ 172,610,000	\$ 38,420,000	\$ 23,530,000	\$ 187,500,000	\$ 6,660,000
Accrued compensated absences	1,864,158	496,568	563,495	1,757,251	-
Net pension liability	-	1,401,613	521,123	880,490	-
Other postemployment benefit obligation	556,940	282,179	202,685	636,434	-
Customer advances for construction	601,935	156,272	546,400	211,807	-
Advance from municipality	1,525,457	3,587	81,500	1,447,544	89,040
Loan from municipality – operating	3,060,000	-	765,000	2,295,000	765,000
Unamortized debt premium	7,056,207	3,950,579	820,693	10,186,093	-
Totals	\$ 187,274,697	\$ 44,670,818	\$ 27,030,896	\$ 204,914,619	\$ 7,514,040

ADVANCE REFUNDING

On December 28, 2016, bonds in the amount of \$14,645,000 were issued with an average interest rate of 2.57% to advance refund \$17,410,000 of outstanding bonds with an average interest rate of 4.28%. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, that portion of the old bonds are considered defeased and the liability for that portion of the old bonds has been removed from the statement of net position.

The cash flow requirements on the old bonds prior to the advance refunding was \$22,363,569 from 2017 through 2028. The cash flow requirements on the new bonds are \$19,161,155 from 2017 through 2037. The advance refunding resulted in an economic gain of \$2,984,959.

The bonds are callable on January 1, 2028. At December 31, 2017, \$1,470,000 of bonds outstanding are considered defeased.

PRIOR YEAR DEFEASANCE OF DEBT

In 2009, the utility defeased \$38,745,000 of the 2001, 2002, 2003, 2005 and 2006 bonds by placing the proceeds of the 2009 A and 2009 B bonds in a irrevocable trust to provide for all future debt service payments on the 2001, 2002, 2003, 2005 and 2006 bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the utility's financial statements. The old bonds are callable as follows: 2001 bonds on January 1, 2010; 2002 bonds on January 1, 2012; 2003 and 2005 bonds on January 1, 2013; 2006 bonds on January 1, 2016.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 – NET POSITION

GASB No. 34 requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets; rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – The component of net position consisting of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the utility's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the net investment in capital assets:

	December 31,	
	2017	2016
Plant in Service	\$ 358,287,677	\$ 332,737,945
Accumulated Depreciation	(82,346,902)	(75,673,321)
Construction Work in Progress	10,538,547	9,645,941
Subtotals	286,479,322	266,710,565
Less: Capital Related Debt		
Current portion of capital related long-term debt	6,890,000	6,660,000
Long-term portion of capital related long-term debt	171,785,000	180,840,000
Unamortized debt premium	9,015,887	10,186,093
Unamortized loss on advance refunding	(1,675,129)	(1,973,323)
Subtotals	186,015,758	195,712,770
Add: Borrowed Funds on Hand		
Reserve fund	15,416,700	15,416,700
Construction fund	-	19,867,697
Subtotals	15,416,700	35,284,397
Total Net Investment in Capital Assets	\$ 115,880,264	\$ 106,282,192

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM

General Information About the Pension Plan

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

Vesting. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Benefits provided. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Postretirement adjustments. The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2007	3.0%	10%
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for General category employees and Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized \$521,123 and \$528,068 in contributions from the utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31 are:

	2017		2016	
	Employee	Employer	Employee	Employer
General (including Executives and Elected Officials)	6.8%	6.8%	6.6%	6.6%
Protective with Social Security	6.8%	10.6%	6.6%	9.4%
Protective without Social Security	6.8%	14.9%	6.6%	13.2%

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the utility reported a liability (asset) of \$438,906 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the City of Madison's proportion was 1.636%, which was an increase of 0.038% from its proportion measured as of December 31, 2015.

At December 31, 2016, the utility reported a liability of \$880,490 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net pension liability was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the City of Madison's proportion was 1.598%, which was an increase of 0.118% from its proportion measured as of December 31, 2014.

For the years ended December 31, 2017 and 2016, the utility recognized pension expense of \$516,618 and \$1,098,742, respectively.

At December 31, 2017, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 178,862	\$ 1,454,568
Changes in assumptions	483,575	-
Net differences between projected and actual earnings on pension plan investments	2,347,688	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	25,090
Employer contributions subsequent to the measurement date	562,396	-
Totals	\$ 3,572,521	\$ 1,479,658

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

At December 31, 2016, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 154,491	\$ 1,852,973
Changes in assumptions	616,028	-
Net differences between projected and actual earnings on pension plan investments	3,623,481	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	11,085
Employer contributions subsequent to the measurement date	521,123	-
Totals	\$ 4,915,123	\$ 1,864,058

Deferred outflows related to pension resulting from WRS Employer's contributions subsequent to the measurement date reported in the table above will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31:	Water Utility
2018	\$ 624,021
2019	624,021
2020	425,985
2021	(144,165)
2022	605
Total	\$ 1,530,467

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

Actuarial assumptions. The total pension liability in the actuarial valuation used in the current and prior year was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Actuarial valuation date	December 31, 2015	December 31, 2014
Measurement date of net pension liability	December 31, 2016	December 31, 2015
Actuarial cost method	Entry age	Entry age
Asset valuation method	Fair market value	Fair market value
Long-term expected rate of return	7.2%	7.2%
Discount rate	7.2%	7.2%
Salary increases	3.2%	3.2%
Initiation	0.2% - 5.6%	0.2% - 5.6%
Seniority/Merit	Wisconsin 2012 Mortality Table	Wisconsin 2012 Mortality Table
Mortality	2.1%	2.1%
Post-retirement adjustments		

* No postretirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the postretirement discount rate.

Actuarial assumptions used in the December 31, 2015 actuarial valuation are based upon an experience study conducted in 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

Actuarial assumptions used in the December 31, 2014 actuarial valuation are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

Long-term expected return on plan assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2017 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation	Destination Target Asset Allocation	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50.0%	45.0%	8.30%	5.4%
Fixed Income	24.5	37.0	4.24	1.4
Inflation Sensitive Assets	15.5	20.0	4.30	1.5
Real Estate	8.0	7.0	6.50	3.6
Private Equity/Debt	7.0	7.0	9.40	6.5
Multi-Asset	4.0	4.0	6.60	3.7
Total Core Fund	109.0	120.0	7.40	4.5
Variable Fund Asset Class				
US Equities	70.0	70.0	7.60	4.7
International Equities	30.0	30.0	8.50	5.6
Total Variable Fund	100.0	100.0	7.9	5.0

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2016 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation	Destination Target Asset Allocation	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
U.S. Equities	27.0%	23.0%	7.6%	4.7%
International Equities	24.5	22.0	8.5	5.6
Fixed Income	27.5	37.0	4.4	1.6
Inflation Sensitive Assets	10.0	20.0	4.2	1.4
Real Estate	7.0	7.0	6.5	3.6
Private Equity/Debt	7.0	7.0	9.4	6.5
Multi-Asset	4.0	4.0	6.7	3.8
Total Core Fund	107.0	120.0	7.4	4.5
Variable Fund Asset Class				
US Equities	70.0	70.0	7.6	4.7
International Equities	30.0	30.0	8.5	5.6
Total Variable Fund	100.0	100.0	7.9	5.0

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability as of December 31, 2017 and December 31, 2016. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.78% in 2017 and 3.56% in 2016. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

Sensitivity of the utility's proportionate share of the net pension liability to changes in the discount rate. The following presents the utility's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the utility's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

The sensitivity analysis as of December 31, 2017 is as follows:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
Utility's proportionate share of the net pension liability	\$ 5,854,746	\$ 438,906	\$ (3,720,684)

The sensitivity analysis as of December 31, 2016 is as follows:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
Utility's proportionate share of the net pension liability	\$ 6,175,769	\$ 880,490	\$ (3,255,219)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://efw.wi.gov/publications/cafr.htm>.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

The municipality administers a single-employer defined benefit healthcare plan, (the plan) in which the utility participates. The plan provides healthcare coverage to active and eligible retired municipal employees and their spouses. The plan is affiliated with the Wisconsin Public Employers Group Health Insurance – Dane County service area plan, a purchasing plan administered by the State of Wisconsin. The plan does not issue a publicly available financial report.

The plan provides eligible retirees with the opportunity to stay on the municipality's health insurance plan. Eligible retirees and spouses contribute the full amount of the premiums after age 55, except for AFSCME union members who contribute the difference between the rate paid by the municipality and the current year rate. As the eligibility requirements for different classes of employees vary, please see the audit report of the municipality for complete details of all benefits offered as well as the funding policy and required contribution rates.

The municipality's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year ended December 31:

	Municipality		Water Utility	
	2017	2016	2017	2016
Annual required contribution	\$ 7,833,432	\$ 7,922,687	\$ 261,178	\$ 257,117
Interest on net OPEB obligation	1,482,006	1,323,596	28,640	25,062
Adjustment to the ARC	(2,021,836)	(1,805,724)	(41,585)	(34,895)
Annual OPEB Cost	7,293,602	7,440,559	248,233	247,284
Contributions made	(2,625,538)	(3,920,348)	(111,287)	(167,790)
Net Change in OPEB obligation	4,668,064	3,520,211	136,946	79,494
Net OPEB Obligation – 1/1	32,933,461	29,413,249	636,434	556,940
Net OPEB Obligation – 12/31	\$ 37,601,525	\$ 32,933,461	\$ 773,380	\$ 636,434

The municipality's and utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and 2016, were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost		Net OPEB Obligation
			Contributed	Cost	
Municipality	2017	\$ 7,293,602	36.0%		\$ 37,601,525
Municipality	2016	7,440,559	52.7%		32,933,461
Municipality	2015	6,808,834	43.2%		29,413,249
Water Utility	2017	248,233	44.8%		773,380
Water Utility	2016	247,284	67.9%		636,434
Water Utility	2015	136,001	45.0%		556,940

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

The funded status of the plan (overall municipality) as of December 31, 2017, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 62,674,237
Actuarial value of plan assets	—
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 62,674,237</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 190,626,255
UAAL as a percentage of covered payroll	32.9%

Please see the required supplemental information for the entire plan included in the municipality audit report.

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the municipality's financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation, the projected unit credit with liner proration to decrement actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return and an annual healthcare cost trend rate of 8.0% for 2018, reduced by decrements to an ultimate rate of 4.5% for 2025 and beyond. Both rates include a 3% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at December 31, 2017, was 30 years.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 10 – COMMITMENTS AND CONTINGENCIES

CLAIMS AND JUDGMENTS

From time to time, the utility is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the utility's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the utility's financial position or results of operations.

OPEN CONTRACTS

The utility has construction contracts that continue into subsequent years. The value of service provided and the corresponding liability as of December 31, 2017 and 2016 has been accrued in these financial statements.

NOTE 11 – TRANSFER OF OPERATIONS

On August 15, 2017, the PSCW granted the dissolution of Waunona Sanitary District #2 (District) and the acquisition of its customers and assets by the utility. Prior to the decision, the District operated independently and purchased wholesale water from the utility. The District was experiencing difficulties in finding acceptable staffing levels necessary to operate the District and therefore requested that the utility take over operation of both the water and sewer functions. The utility agreed to take over the operations and began providing water and sewer service to the acquired customers after the effective date of transition.

As a result of the transfer of operations, the utility recognized the following assets and net assets from the District as follows:

Current Assets	\$ 21,919
Net Assets	54,749

NOTE 12 – SUBSEQUENT EVENTS

The utility evaluated subsequent events through the date that the financial statements were available to be issued for events requiring recording or disclosure in the financial statements.

CITY OF MADISON, WISCONSIN
MADISON WATER UTILITY
SCHEDULE OF INSURANCE IN FORCE
 December 31, 2017

MADISON WATER UTILITY
REVENUE BOND DEBT REPAYMENT SCHEDULES
 As of December 31, 2017

Year	2008A Refunding			2008C Bonds			2010 BAA's		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Federal Credit (1)
2018	1,676,000	1,251,408	2,927,408	350,000	370,388	720,388	685,000	433,114	(111,580)
2019	1,676,000	1,251,408	2,927,408	350,000	370,388	720,388	685,000	433,114	(111,580)
2020	2,110,000	1,079,370	3,189,370	415,000	323,901	738,901	620,000	384,718	(138,151)
2021	2,110,000	978,520	3,088,520	415,000	323,901	738,901	620,000	371,981	(130,186)
2022	2,110,000	877,670	2,987,670	415,000	298,528	713,528	620,000	301,419	(112,877)
2023	2,110,000	776,820	2,886,820	415,000	263,095	678,095	620,000	216,619	(102,287)
2024	2,000,000	675,970	2,675,970	350,000	227,662	577,662	620,000	151,719	(92,518)
2025	2,000,000	575,120	2,575,120	350,000	192,229	542,229	620,000	101,869	(82,688)
2026	2,000,000	474,270	2,474,270	350,000	156,796	506,796	620,000	52,020	(62,837)
2027	2,095,000	373,420	2,468,420	350,000	121,363	471,363	620,000	2,171	(42,986)
2028	2,095,000	272,570	2,367,570	350,000	85,930	435,930	620,000	(67,191)	(52,970)
2029	2,280,000	171,720	2,451,720	350,000	50,497	400,497	620,000	(132,220)	(62,900)
2030	2,280,000	70,870	2,350,870	350,000	15,064	365,064	620,000	(187,369)	(62,900)
2031	-	-	-	3,410,000	200,495	3,610,495	620,000	66,344	(2,250)
Totals	\$ 29,855,000	\$ 7,837,138	\$ 37,692,138	\$ 8,895,000	\$ 3,724,158	\$ 12,619,158	\$ 8,895,000	\$ 3,692,081	\$ (1,280,229)

Year	Principal	Interest	Total
2018	915,000	1,465,500	2,380,500
2019	915,000	1,465,500	2,380,500
2020	915,000	1,465,500	2,380,500
2021	915,000	1,465,500	2,380,500
2022	915,000	1,465,500	2,380,500
2023	915,000	1,465,500	2,380,500
2024	915,000	1,465,500	2,380,500
2025	915,000	1,465,500	2,380,500
2026	915,000	1,465,500	2,380,500
2027	915,000	1,465,500	2,380,500
2028	915,000	1,465,500	2,380,500
2029	915,000	1,465,500	2,380,500
2030	915,000	1,465,500	2,380,500
2031	915,000	1,465,500	2,380,500
2032	915,000	1,465,500	2,380,500
2033	915,000	1,465,500	2,380,500
2034	915,000	1,465,500	2,380,500
Totals	\$ 15,866,000	\$ 4,432,078	\$ 20,298,078

(1) The 2010 bonds are Build America Bonds. The amount disclosed is based on the originally approved 3% credit. During the federal fiscal year 2015 interest subsidies were reduced by 7.1% and during federal fiscal year 2016, the subsidy payments have been reduced by 7.1%. This amount may continue to change based on subsequent

Year	2011 Revenue Bonds			2012 Revenue Bonds			2013 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2018	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2019	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2020	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2021	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2022	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2023	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2024	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2025	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2026	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2027	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2028	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2029	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2030	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2031	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2032	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2033	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
2034	815,000	1,329,806	2,144,806	915,000	1,465,500	2,380,500	985,000	816,252	1,801,252
Totals	\$ 15,866,000	\$ 4,432,078	\$ 20,298,078	\$ 17,640,000	\$ 4,448,000	\$ 22,088,000	\$ 21,844,000	\$ 4,300,075	\$ 30,052,075

* The "Details of Coverage" for the indicated types of coverage apply to the City of Madison as a whole. It is normal policy for the City of Madison Insurance Fund to acquire insurance or provide self-insurance coverage for all of its related entities.

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES
For the Years Ended December 31, 2017 and 2016

Year	2018 Revenue Bonds			2016 Revenue Bonds			2017 Revenue Bonds			2018 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2016	1,670,000	1,407,654	3,077,654	780,000	1,026,750	1,786,750	1,415,000	628,000	2,043,000	1,415,000	628,000	2,043,000
2019	1,650,000	1,388,304	2,988,304	780,000	974,150	1,754,150	1,070,000	595,200	1,665,200	1,070,000	595,200	1,665,200
2020	1,635,000	1,307,329	2,942,329	820,000	941,350	1,761,350	1,120,000	546,400	1,666,400	1,120,000	546,400	1,666,400
2021	1,725,000	1,249,725	2,974,725	865,000	862,900	1,727,900	1,215,000	433,250	1,648,250	1,215,000	433,250	1,648,250
2022	1,785,000	1,051,079	2,836,079	930,000	816,400	1,746,400	1,270,000	399,750	1,669,750	1,270,000	399,750	1,669,750
2023	1,830,000	865,654	2,795,654	1,025,000	716,150	1,741,150	1,405,000	232,500	1,637,500	1,405,000	232,500	1,637,500
2024	2,005,000	797,129	2,782,129	1,080,000	682,150	1,762,150	1,475,000	198,750	1,673,750	1,475,000	198,750	1,673,750
2025	2,170,000	663,431	2,833,431	1,180,000	545,900	1,725,900	1,625,000	91,000	1,716,000	1,625,000	91,000	1,716,000
2026	2,225,000	598,983	2,823,983	1,250,000	483,400	1,733,400	1,625,000	-	1,625,000	1,625,000	-	1,625,000
2027	2,380,000	455,624	2,835,624	1,365,000	376,400	1,741,400	-	-	-	-	-	-
2028	2,490,000	379,409	2,839,409	1,420,000	318,600	1,738,600	-	-	-	-	-	-
2029	2,650,000	220,379	2,845,379	1,535,000	199,200	1,734,200	-	-	-	-	-	-
2030	2,715,000	135,444	2,850,444	1,595,000	138,400	1,733,400	-	-	-	-	-	-
2031	2,810,000	46,091	2,856,091	1,725,000	98,150	1,723,150	-	-	-	-	-	-
Total	\$ 40,123,000	\$ 15,246,404	\$ 55,371,404	\$ 23,025,000	\$ 10,073,590	\$ 34,854,300	\$ 13,220,000	\$ 3,187,850	\$ 18,410,850	\$ 13,220,000	\$ 3,187,850	\$ 18,410,850

Year	2018 Revenue Bonds			2016 Revenue Bonds			2017 Revenue Bonds			2018 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2016	6,890,000	7,172,893	14,062,893	13,911,403	15,913,464	29,824,867	13,911,403	15,913,464	29,824,867	13,911,403	15,913,464	29,824,867
2019	6,825,000	6,803,854	13,628,854	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318
2020	6,890,000	6,899,717	13,789,717	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318
2021	10,250,000	5,484,524	15,734,524	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318
2022	10,980,000	5,022,951	16,002,951	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318
2023	11,240,000	3,998,233	15,238,233	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318
2024	11,945,000	3,252,315	15,197,315	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318	15,813,464	16,803,854	32,617,318
2025	12,100,000	2,577,727	14,677,727	14,825,037	15,137,874	29,962,911	14,825,037	15,137,874	29,962,911	14,825,037	15,137,874	29,962,911
2026	13,460,000	2,119,399	15,579,399	14,825,037	15,137,874	29,962,911	14,825,037	15,137,874	29,962,911	14,825,037	15,137,874	29,962,911
2027	8,080,000	949,931	9,029,931	13,720,986	9,897,984	23,618,970	13,720,986	9,897,984	23,618,970	13,720,986	9,897,984	23,618,970
2028	8,080,000	849,931	8,929,931	13,720,986	9,897,984	23,618,970	13,720,986	9,897,984	23,618,970	13,720,986	9,897,984	23,618,970
2029	4,310,000	170,844	4,480,844	6,303,578	7,077,291	13,380,869	6,303,578	7,077,291	13,380,869	6,303,578	7,077,291	13,380,869
2030	5,850,000	483,578	6,333,578	4,584,861	1,725,000	6,309,861	4,584,861	1,725,000	6,309,861	4,584,861	1,725,000	6,309,861
2031	1,725,000	-	1,725,000	1,725,000	-	1,725,000	1,725,000	-	1,725,000	1,725,000	-	1,725,000
Total	\$ 108,875,000	\$ 61,957,893	\$ 170,832,893	\$ 178,875,000	\$ 198,372,163	\$ 377,247,163	\$ 178,875,000	\$ 198,372,163	\$ 377,247,163	\$ 178,875,000	\$ 198,372,163	\$ 377,247,163

OPERATING REVENUES

Unmetered Sales	\$ 169,131	\$ 174,588
Metered Sales		
Residential	11,290,566	12,376,966
Commercial	11,247,939	11,533,643
Industrial	666,621	1,059,706
Public authority	4,397,154	4,502,230
Sales for resale	356,906	261,632
Total Metered Sales	28,959,186	29,734,177
Private Fire Protection	588,913	585,190
Public Fire Protection	4,120,866	4,094,443
Total Sales of Water	33,838,096	34,588,398
Customer Late Payment Penalties	191,137	176,249
Miscellaneous	157,626	100,271
Rents from water property	277,211	214,107
Other	455,871	473,466
Total Operating Revenues	34,919,941	35,552,491

OPERATING EXPENSES

Source of Supply	11,214	12,158
Maintenance	88	60,251
Supervision and engineering	5,675	2,903
Collecting and impounding reservoirs	16,977	75,312
Wells and springs		
Total Source of Supply	16,977	75,312
Pumping		
Operation supervision and engineering	42,619	41,406
Power purchased for pumping	2,164,640	2,101,069
Pumping labor	416,998	384,262
Miscellaneous	410,166	381,362
Maintenance		
Supervision and engineering	156,358	102,356
Structures and improvements	155,122	246,504
Pumping equipment	414,394	327,166
Total Pumping	3,760,297	3,584,125
Water Treatment		
Operation supervision and engineering	85,860	82,882
Chemicals	154,129	154,448
Operation labor	253,306	224,656
Miscellaneous	118,811	149,037
Maintenance		
Supervision and engineering	11,214	12,005
Water treatment equipment	111,582	118,855
Total Water Treatment	734,902	741,883

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.)
For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 280,047	\$ 252,246
Storage facilities	85,502	92,172
Transmission and distribution lines	353,759	313,643
Meter	44,398	41,346
Customer installation	326,358	324,345
Miscellaneous	1,246,910	1,113,474
Maintenance		
Reservoirs	2,442,235	37,381
Mains	1,699,904	1,699,776
Services	1,066,095	1,147,856
Meters	153,272	144,788
Hydrants	368,563	292,996
Total Transmission and Distribution	<u>8,067,043</u>	<u>5,460,023</u>
Customer Accounts		
Supervision	21,693	20,055
Meter reading	42,997	37,736
Customer records and collection	511,721	485,068
Conservation	272,313	303,644
Total Customer Accounts	<u>848,724</u>	<u>846,503</u>
Administrative and General		
Salaries	865,905	809,790
Office, building, and supplies	523,229	486,143
Outside services employed	329,636	24,578
Property insurance	34,334	23,053
Injuries and damages	445,057	439,614
Employee pensions and benefits	2,193,777	2,143,113
Miscellaneous	106,714	243,033
Maintenance of general plant	2,951	2,965
Total Administrative and General	<u>4,501,603</u>	<u>4,172,289</u>
Total Operation and Maintenance	<u>17,929,546</u>	<u>14,880,135</u>
Depreciation	6,944,967	6,328,463
Taxes	502,015	476,502
Total Operating Expenses	<u>25,376,528</u>	<u>21,685,100</u>
OPERATING INCOME	\$ 9,543,413	\$ 13,867,391

MADISON WATER UTILITY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) - WISCONSIN RETIREMENT SYSTEM
For the Year Ended December 31, 2017

The required supplementary information presented below represents the proportionate information for the enterprise fund included in this report.

Fiscal Year Ending	City's		Utility's		Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll		Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	
	Proportion of Net Pension Liability (Asset)	Proportion of Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
12/31/17	1.63617%	\$ 438,906	\$ 7,895,803	5.56%	7,895,803	7,895,803	5.56%	99.12%
12/31/16	1.59818%	880,490	7,765,706	11.34%	7,765,706	7,765,706	11.34%	98.20%
12/31/15	1.58639%	(1,359,015)	7,847,129	-17.32%	7,847,129	7,847,129	-17.32%	102.74%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM
For the Year Ended December 31, 2017

Fiscal Year Ending	Contractually Required Contributions		Contributions in Relation to the Contractually Required Contributions		Contributions as a Percentage of Covered Payroll	
	Contractually Required Contributions	Contributions	Contractually Required Contributions	Contributions	Covered Payroll	Covered Payroll
12/31/17	\$ 562,396	\$ 562,396	\$ 562,396	\$ -	8,270,529	6.80%
12/31/16	521,123	521,123	521,123	-	7,895,803	6.60%
12/31/15	528,068	528,068	528,068	-	7,765,706	6.80%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2017

Changes of benefit terms. There were no changes of benefit terms for any participating employer in WRS.

Changes of assumptions. There were no changes in the assumptions.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

See independent auditors' report and accompanying notes to the required supplementary information.

City of Madison, Wisconsin
\$30,765,000* Water Utility Revenue Bonds, Series 2018A

For the Bonds of this Issue which shall mature and bear interest at the respective annual rates, as follow, we offer a price of \$_____ (which may not be less than \$31,182,856) plus accrued interest, if any, to the date of delivery.

<u>Year</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>Dollar Price</u>	<u>Year</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>Dollar Price</u>
2020	_____ %	_____ %	_____ %	2030	_____ %	_____ %	_____ %
2021	_____ %	_____ %	_____ %	2031	_____ %	_____ %	_____ %
2022	_____ %	_____ %	_____ %	2032	_____ %	_____ %	_____ %
2023	_____ %	_____ %	_____ %	2033	_____ %	_____ %	_____ %
2024	_____ %	_____ %	_____ %	2034	_____ %	_____ %	_____ %
2025	_____ %	_____ %	_____ %	2035	_____ %	_____ %	_____ %
2026	_____ %	_____ %	_____ %	2036	_____ %	_____ %	_____ %
2027	_____ %	_____ %	_____ %	2037	_____ %	_____ %	_____ %
2028	_____ %	_____ %	_____ %	2038	_____ %	_____ %	_____ %
2029	_____ %	_____ %	_____ %	2039	_____ %	_____ %	_____ %

Designation of Term Maturities

Years of Term Maturities _____

In making this offer on the sale date of December 4, 2018 we accept all of the terms and conditions of the Official Terms of Offering published in the Preliminary Official Statement dated November 16, 2018, including the City’s right to modify the principal amount of the Bonds. (See “Official Terms of Offering” herein.) In the event of failure to deliver these Bonds in accordance with said Official Terms of Offering, we reserve the right to withdraw our offer, whereupon the deposit accompanying it will be immediately returned. All blank spaces of this offer are intentional and are not to be construed as an omission.

By submitting this bid, we confirm that we have an established industry reputation for underwriting municipal bonds such as the Bonds. If the competitive sale requirements are not met, we elect to use (circle one): 10% test/hold-the-offering-price rule to determine the issue price of the Bonds.

Not as a part of our offer, the above quoted prices being controlling, but only as an aid for the verification of the offer, we have made the following computations:

NET INTEREST COST: \$_____

TRUE INTEREST RATE: _____ %

Account Members

Account Manager

By: _____

Phone: _____

.....
The foregoing bid has been accepted by the City.

Mayor: _____

Clerk: _____

* Preliminary; subject to change.

Phone: 651-223-3000

Fax: 651-223-3046

Email: bond_services@springsted.com



City of Madison, Wisconsin
\$9,605,000* Taxable Water Utility Revenue Notes, Series 2018B

For the Notes of this Issue which shall mature and bear interest at the respective annual rates, as follow, we offer a price of \$_____ (which may not be less than \$9,547,370) plus accrued interest, if any, to the date of delivery.

<u>Year</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>Dollar Price</u>	<u>Year</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>Dollar Price</u>
2020	_____ %	_____ %	_____ %	2025	_____ %	_____ %	_____ %
2021	_____ %	_____ %	_____ %	2026	_____ %	_____ %	_____ %
2022	_____ %	_____ %	_____ %	2027	_____ %	_____ %	_____ %
2023	_____ %	_____ %	_____ %	2028	_____ %	_____ %	_____ %
2024	_____ %	_____ %	_____ %				

Designation of Term Maturities

Years of Term Maturities _____

In making this offer on the sale date of December 4, 2018 we accept all of the terms and conditions of the Official Terms of Offering published in the Preliminary Official Statement dated November 16, 2018, including the City’s right to modify the principal amount of the Notes. (See “Official Terms of Offering” herein.) In the event of failure to deliver these Notes in accordance with said Official Terms of Offering, we reserve the right to withdraw our offer, whereupon the deposit accompanying it will be immediately returned. All blank spaces of this offer are intentional and are not to be construed as an omission.

Not as a part of our offer, the above quoted prices being controlling, but only as an aid for the verification of the offer, we have made the following computations:

NET INTEREST COST: \$_____

TRUE INTEREST RATE: _____ %

Account Members

Account Manager

By: _____

Phone: _____

.....
The foregoing bid has been accepted by the City.

Mayor: _____

Clerk: _____

.....
* Preliminary; subject to change.

Phone: 651-223-3000

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