

July 31, 2019

Mayor Satya Rhodes-Conway
210 MLK Jr Blvd, Room 403
City-County Building
Madison, WI 53703

Dear Mayor Rhodes-Conway,

Each year, the Madison Water Utility Board (WUB) conducts an annual review (February 1, 2018 - January 31, 2019) of the Water Utility General Manager Tom Heikkinen. This letter serves as a summary and is based upon internal and external monitoring reports that align with the executive policies contained in the WUB Policy Governance Manual.

Board members also contribute comments that add to the robustness of this annual review.

For background, the Water Utility Board's adopted mission is to ensure that Madison residents, businesses and visitors receive an adequate volume of high-quality water for consumption and fire protection, at a reasonable financial and environmental cost.

The Board reviews the General Managers's performance based upon 14 policies covering these topics:

- Water quality
- Water quantity
- Reliability of service
- Affordability
- Sustainability
- Treatment of consumers
- Treatment of staff
- Financial planning and budgeting
- Financial condition and activities
- Emergency succession
- Asset protection
- Infrastructure
- Communication and support to the board
- Quality and performance improvement

Of the 14 policies, the Board accepted (approved) monitoring reports from the general manager for 11 policy topics.

Mr. Heikkinen reported non-compliance for three, along with explanations for non-compliance and plans to achieve compliance. These policies include:

Water Quantity (O-2A) Progress is *underway* to assure adequate water delivered to hydrants at proper flow rates for fire protection; and water delivered to the customer tap at a pressure that meets industry-accepted low, high, and emergency operation criteria. Mitigation

projects for both deficiencies are identified and either are in progress or planned for. City residents and water utility customers are not endangered by this deficiency.

Affordability (O-2D) addresses both affordability for the customer, as well as securing timely PSC approval for rates that maintain identified levels of performance for the utility. Specifically, the non-compliance centers on not achieving a timely approval and implementation of a critical rate increase. The application began in 2017, took far longer than expected, and hampered timely application of much-needed revenue from the new rates. The goal was accomplished ultimately with a new rate order in effect as of November 2, 2018. The Board anticipates and expects a smoother and more timely rate increase process with the recent hiring of a Chief Financial Officer.

Financial Condition and Activities (EL-2D) contains language to seek to establish an unrestricted reserve equal to a typical three months' operating expenses. MWU is currently not funding its unrestricted reserve and likely will not do so until it completes the repayment of its loan from the City in 2019. Management is in the process of developing detailed cash reserve policies to address shortfalls in unrestricted cash reserves. The Board anticipates and expects considerable progress going forward.

In 2018, there were significant issues with financing related to the discovery of a \$6M shortfall in revenues. This was identified following the 2018 General Manager's review, and was discussed with former Mayor Soglin, and measures were put into place to both alleviate the financial stress and prevent it from re-occurring.

These measures included:

- Budgeting that reflects only meeting significant needs
- Achieving PSC approval of the rate increase request
- Moving financial documentation and reporting to the City's MUNIS system
- Implementing a forecasting system to better anticipate revenue and manage expenditures
- Staffing appropriately to document and forecast financial activity closer to real-time

2017 Audit Report

As is typical in municipal entity audits, the auditors routinely identify weaknesses in internal controls. The Water Utility is no exception, however; management took additional steps to address weaknesses through these actions:

The Utility filled a vacant position within the finance department on January 2, 2017, enabling the Utility to create quarterly financial statements for the Water Board. These statements are created by the Finance Supervisor and reviewed by the Chief Administrative Officer. The Finance Supervisor prepares month-end journal entries and a monthly trial balance report, which are reviewed and approved by the Chief Administrative Officer. During these reviews, staff highlight and discuss significant account variations between months and years in order to avoid material misstatements.

And, the Utility prepares the Management Discussion & Analysis (MD&A) for the financial report. The Utility intends to prepare its own financial statements for 2018.

The Board is pleased with progress made on issues noted in last year's audit.

Other highlights of Mr. Heikkinen's leadership during the year include:

- Advancing reporting, knowledge and MWU active leadership in addressing PFAS contamination in municipal wells and groundwater
- Hiring highly trained financial professional staff members to address last year's concerns and continue to set the Utility on a path that provides faster reporting, more accurate forecasting and aligned budgeting
- implementation of the asset management program to better budget and plan for needed expenditures.

ACCOLADES FROM BOARD MEMBERS:

- The Water Utility has handled the PFAS detections in the water supply system with forthrightness and tact, proactively deciding to take out of service well 15 as a precautionary measure, so that our customers feel heard, respected, and taken care of. This requires an admirable degree of diplomacy and professionalism on the part of the General Manager and Water Utility staff.
- The Board is pleased with Water Utility staff continued activity to promote water conservation.

CONCERNS FROM BOARD MEMBERS:

- The Utility has a significant borrowing debt - an on-going concern expressed in our annual audit. In December 2018, the Utility issued tax revenue notes exceeding nine million dollars, which is a loan with an annual repayment schedule. The City of Madison required the Utility to seek a loan from the private financial market at a rate higher than a loan rate previously obtained from the City of Madison. To maintain its financial viability, the Utility is dependent on the Public Service Commission granting continuing rate increases significantly in excess of the rate of inflation.

Overall, Mr. Heikkinen has had a successful year meeting the Outcomes Policies and keeping within the Executive Limitations Policies the Board uses to govern the Water Utility. Board members appreciate his efforts to achieve a financially sound platform for the utility to meet its objectives and keep water affordable for our changing city, and his work to grow the utility's influence in conservation by promulgating a "one water" philosophy so that we all work together to be stewards of this irreplaceable resource.

Please feel free to contact me if you have any questions about this review.

Sincerely,

Lauren Cnare
President, Madison Water Utility Board