

# Internal Monitoring Report

**Policy:** EL-2D Financial Condition and Activities

**Frequency:** Three times a year

**Date:** August 27, 2019

## Policy Language:

With respect to the actual, ongoing financial condition and activities of the Madison Water Utility, the General Manager shall not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in Outcomes policies.

Accordingly, the General Manager shall not cause or allow conditions, procedures, or decisions that:

1. Fail to ensure long-term financial health.
2. Fail to present a balanced annual operating budget and quarterly updates on actual expenditures and income.
3. Exceed total appropriations for the fiscal year, unless directed to do so by the board.
4. Use any dedicated reserves for purposes other than those for which they are designated, unless directed to do so by the board.
5. Undertake a debt without payoff schedule and identification of revenue stream.
6. Fail to establish an unrestricted reserve equal to a typical three months' operating expenses.
7. Fail to inform the board of where the utility stands with any current rate case in progress.
8. Fail to be able to provide a concise summary of the financial condition of the utility at any time.

## General Manager's interpretation and its justification:

This Executive Limitations Policy requires the utility to perform financial management without risk of jeopardy to the utility's financial health and that ensures actual expenditures do not deviate materially from board priorities established in Outcomes policies. The utility has the responsibility to establish, manage and plan for the necessary water rates and borrowings to fund all expenditures and to meet identified capital and operational requirements.

## Data directly addressing the General Manager's interpretation:

1. *Ensure the utility's long-term financial health.*

MWU has implemented and uses a financial planning model to evaluate and project funding required for financing infrastructure and operating needs. Through the use of this model, bond sales are planned and rate increases are developed. Additionally, a ten-year financial forecast has been created to analyze various financial paths for the utility to pursue to maintain its financial health for the future. This forecast was submitted to the PSCW on January 31, 2019 to comply with directives outlined in the utility's most

recent rate order. The water utility also has quarterly budget meetings with city finance to update projects for the current budget year. The last meeting was held on August 21, 2019.

The utility is also calculating Key Performance Metrics (KPI's) and developing a Dashboard within the financial software to monitor its financial condition on a routine basis. The financial statements for 2018 have been issued and KPI's updated, however, they have yet to be automated by the City's financial software.

MWU also has a multi-year budget in compliance with the board's Financial Planning/Budget Policy (EL-2C). The 2020 capital and operating budgets are complete and have been submitted to the Mayor for review. The final water budgets are anticipated to be approved in the late October and November timeframe.

The utility issued its 2018 financial statements in June and cleared all auditor comments and recommendations during the year. This was the first year the utility created their own financial statements without the assistance of the auditor or outside individuals. Our material weakness in financial reporting was removed from the 2018 management and we received a "clean" audit opinion.

The utility is in the process of evaluating its debt financing needs for the 2020 and 2021 fiscal years. We have the opportunity to refinance our 2009 revenue bonds and recognize significant savings due to favorable bond interest rates. We anticipate the issuance and refinancing should occur in the 4<sup>th</sup> quarter of 2018.

The utility submitted its 2019 water rate application with the PSCW on July 1, 2019 which forecasts an 8.00% increase over current rates. The increase is the result of the utility experiencing lower than forecasted revenues from designed rates due to water conservation and decreased consumption throughout 2019. Recent communications with the PSC suggest the utility should receive initial inquiries from the commission in early September 2019.

The General Manager is not aware of any past or present event or matter that would give rise to a future materially adverse condition affecting the long-term financial health of the utility.

I report compliance.

*2. Fail to present a balanced annual operating budget and quarterly updates on actual expenditures and income.*

The 2020 operating budget was presented to the mayor on August 12, 2019 and forecasts operating income for 2020 at current water rates. Final approval of this budget is anticipated in November 2019. The utility completed its 2<sup>nd</sup> quarter projections through June 2019 and the results are included in the attached hand-out to this report. The utility is projecting a modest surplus for 2019 which will contribute to building cash reserves and paying unexpected expenses.

I report compliance.

*3. Exceed total appropriations for the fiscal year, unless directed to do so by the board.*

Madison Water Utility did not exceed total appropriations in 2018 and does not anticipate any exceedances in 2019. The utility experienced a positive change in net position of \$550,000 despite lower than anticipated revenues in 2018. The 2<sup>nd</sup> quarter projections for 2019 forecasts lower than budgeted revenues and expenses as depicted in the attached hand-out, however, these deviations from budget do not result in any negative financial outcomes. These projections are based upon the most currently known information to the utility as of the end of July 2019.

I report compliance.

*4. Use any dedicated reserves for purposes other than those for which they are designated, unless directed to do so by the board.*

MWU's restricted reserves remain only accessible through the City Treasurer's office.

I report compliance.

*5. Undertake a debt without a payoff schedule and identification of revenue stream.*

MWU's debt repayment schedules are included in the utility's annual financial statements. New debt issued in December 2018 was accompanied by a water rate increase effective for December 2018 to cover repayment of the additional obligations. As noted previously, the utility is evaluating the need for new revenue bond funding in 2019 for the 2020 and 2021 fiscal periods. Additional bond funding would be supported by excess revenues generated with the 2018 rate increase, potential additional revenue generated from the 2019 rate application submitted to the PSCW and savings recognized from refinancing the 2009 bonds.

I report compliance.

*6. Fail to establish an unrestricted reserve equal to a typical three months' operating expenses.*

MWU completed the 2018 fiscal year with the equivalent of one and a half months' operating expenses on-hand in unrestricted cash. Management is in the process of developing detailed cash reserve policies to address short-falls in unrestricted cash reserves. Reserve balances are anticipated to increase during 2019 after final payments are made to the city for an inter-departmental loan.

I report non-compliance.

*7. Fail to inform the board of where the utility stands with any current rate case in progress.*

The 2019 rate application was submitted to the PSCW on July 1, 2019. Preliminary communications with PSCW staff indicate the utility could receive an initial round of inquiries during September 2019.

I report compliance.

*8. Fail to be able to provide a concise summary of the financial condition of the utility at any time.*

The General Manager is prepared to provide a summary of the financial condition of the utility during the informational 'items of general interest' portion of the board's meeting agenda.

I report compliance.

**Attachments:**

Water Q2 '19 Financial Projections – August '19 Mtg

2019 Risk Level

Low

Budget

	2016 Actual	2017 Actual	2018 Actual	2019 Revised Budget	2019 YTD	2019 Projected	Over / (Under) Budget
Revenue							
42 - INTERGOV REVENUES	-	-	-	135,000	9,767,548	135,000	-
43 - CHARGES FOR SERVICES	-	-	-	44,988,220	10,131,916	43,647,070	(1,341,150)
45 - FINE FORFEITURE ASMT	315,939	844,298	559,576	170,000	25,368	170,000	-
46 - INVEST OTHER CONTRIB	331,330	349,292	271,639	270,000	204,170	270,000	-
47 - MISC REVENUE	198,306	310,398	334,307	322,780	159,561	322,780	-
48 - OTHER FINANCE SOURCE	4,132,245	3,222,531	12,277,427	-	416,056	-	-
49 - TRANSFER IN	8,428	-	-	-	-	-	-
Revenue Total	4,986,249	4,726,519	13,442,949	45,886,000	20,704,619	44,544,850	(1,341,150)
51 - SALARIES	7,985,093	8,509,851	7,865,381	8,996,054	3,851,375	8,890,028	(106,026)
52 - BENEFITS	3,447,641	3,602,148	2,948,952	3,023,268	1,527,958	2,888,589	(134,679)
53 - SUPPLIES	3,018,371	2,615,767	2,555,772	1,896,230	680,007	1,891,859	(4,371)
54 - PURCHASED SERVICES	5,103,836	6,440,234	4,434,312	5,320,072	1,646,619	4,864,606	(455,466)
56 - DEBT OTHR FINANCING	14,371,650	13,400,078	16,337,292	27,428,469	4,162,820	25,673,947	(1,754,522)
57 - INTER DEPART CHARGES	827,076	751,316	590,692	866,009	243,768	866,009	-
58 - INTER DEPART BILLING	(2,678,821)	(2,669,323)	(2,738,483)	(2,916,500)	(24,821)	(2,904,057)	12,443
59 - TRANSFER OUT	6,431,680	6,923,928	7,399,750	1,469,000	-	1,469,000	-
Expense Total	38,506,525	39,573,998	39,393,668	46,082,602	12,087,726	43,639,981	(2,442,621)
	(33,520,276)	(34,847,479)	(25,950,719)	(196,602)	8,616,893	904,869	(1,101,471)

