

Internal Monitoring Report

Policy: EL-2D Financial Condition and Activities

Frequency: Three times a year

Date: November 24, 2020

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.
9. Fail to adjust spending related to revenue shortfalls in a budget deficit.

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.

MWU also has a multi-year Capital Improvement Plan in compliance with the board's Financial Planning/Budget Policy (EL-2C). The 2021 capital budget is complete and was approved by the Common Council on November 11, 2020.

The 2019 financial statements are complete and the Utility received a clean audit report from the external auditor.

The PSC approved an 8.9% revenue increase on June 22, 2020. New rates went into effect on July 2, 2020. The PSC requires the Utility to file another conventional rate case by August 1, 2021.

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 2021 operating budget has been finalized and the Utility is projecting a \$400,000 fund balance generated. Expenses will continue to be tightly controlled so that cash reserves may continue to increase. The 2021 operating budget was approved by the Common Council on November 11, 2020.

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 2019 and does not anticipate any exceedances in 2020.

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 was issued in December 2019 along with the refunding of prior issues. Significant savings were realized and current revenues are sufficient to service the debt.

I report compliance.

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

MWU completed the 2019 fiscal year with just over \$5M in unrestricted cash, exceeding the goal of 3 months operating expenses. As of October 31, 2020, MWU continues to exceed the goal of 3 months unrestricted cash.

I report compliance.

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

The Utility does not currently have a rate case in front of the PSC. Per rate order 3280-WR-115, MWU will be submitting a conventional rate case prior to August 1, 2021 for test year 2022.

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 financial update portion of the board's meeting agenda.

I report compliance.

9. Fail to adjust spending related to revenue shortfalls in a budget deficit.

MWU continues to monitor their financial position through various means (budget to actual reports, financial forecast model, revenue projections) and adjusts operational spending accordingly.

I report compliance.

Attachments:

Fund Balance Report
Budget to Actual Report Q3

FUND BALANCE REPORT

	October 31, 2020	Dec. 31, 2019
Reserves Required by Bond Ordinance:		
• Principal and Interest Account	\$11,050,000	\$10,364,736
• Reserve Account (Minimum \$16,010,398)	\$17,401,332	\$17,229,539
Depreciation Fund ⁽¹⁾	\$750,000	\$750,000
Construction Fund	\$15,619,752	\$19,258,872
Assessment Revolving Fund	\$634,259	\$634,259
Unrestricted Funds		
• PILOT Fund	\$6,750,000	\$0
• Unrestricted Cash	\$4,951,902	\$4,394,624
• Operations and Maintenance Reserve Account (Minimum \$150,000)	\$150,000	\$150,000
Debt to City of Madison		
• Short Term Loan from City of Madison	Paid Off as of 12/31/2019	Paid off as of 12/31/2019

(¹)Transfer of funds to Construction Fund approved as needed.

Reporting special fund balances as specified in 1978 Waterworks Bond Ordinance.

Refer any questions to Kathy Schwenn, Finance Supervisor, at (608) 266-4645.

Forecast Data Summary for 2020 - Quarter 3 2020

	<u>1/1 -9/30/2020</u>	<u>2020 YE Based on Q3</u>	<u>2020 Budget</u>	<u>Variance</u>	<u>2019 Actual</u>
Metered Retail Sales	32,322,704	43,466,786	43,261,780	(205,006)	42,356,015
Wholesale Sales	262,968	321,199	367,000	45,801	280,675
Public Fire	103,577	137,990	87,000	(50,990)	139,369
Other Revenue	495,761	770,001	562,300	(207,701)	1,168,830
Total Operating Revenue	<u>33,185,010</u>	<u>44,695,976</u>	<u>44,278,080</u>	<u>(417,896)</u>	<u>43,944,889</u>
Total O&M Expenses	<u>(11,709,325)</u>	<u>(15,296,783)</u>	<u>(16,993,226)</u>	<u>(1,696,443)</u>	<u>(16,702,226)</u>
Taxes	(475,183)	(662,223)	(617,925)	44,298	(583,014)
Depreciation	<u>(6,228,321)</u>	<u>(8,304,428)</u>	<u>(8,300,000)</u>	<u>4,428</u>	<u>(8,101,881)</u>
	<u>(6,703,504)</u>	<u>(8,966,651)</u>	<u>(8,917,925)</u>	<u>48,726</u>	<u>(8,684,895)</u>
Operating Income	<u>14,772,181</u>	<u>20,432,542</u>	<u>18,366,929</u>	<u>(2,065,613)</u>	<u>18,557,768</u>
Interest/Amort Expense	(3,201,795)	(7,012,037)	(7,012,037)	-	(7,712,703)
Non-Op Revenues - Interest Inc.	378,573	526,333	508,000	(18,333)	1,011,538
Non-Op Revenues - Merch&Job	(19,401)	(25,868)	(74,523)	(48,655)	(31,599)
Non-Op Revenues - Other	136,388	182,775	182,220	(555)	542,443
Non-Op Expenses	-	-	(175,000)	(175,000)	(180,750)
PILOT	(5,625,000)	(7,500,000)	(7,500,000)	-	(7,191,839)
CIAC	<u>2,250,000</u>	<u>3,000,000</u>	<u>3,000,000</u>	<u>-</u>	<u>3,600,060</u>
Total Non-Operating Inc(Exp)	<u>(6,081,236)</u>	<u>(10,828,797)</u>	<u>(11,071,340)</u>	<u>(242,543)</u>	<u>(9,962,850)</u>
Net Income	<u>8,690,945</u>	<u>9,603,745</u>	<u>7,295,589</u>	<u>(2,308,156)</u>	<u>8,594,918</u>