



Waukesha Water Utility

SERVING WAUKESHA SINCE 1886

115 DELAFIELD STREET
WAUKESHA, WI 53188-3615

Telephone: (262) 521-5272 • Fax: (262) 521-5265 • E-mail: contactus@waukesha-water.com

MEMORANDUM

DATE: May 16, 2019
TO: Dan Duchniak, General Manager
FROM: Joe Ciurro, Administrative Services Manager
RE: 2018 Audited Financial Statements

Jodi Dobson, from Baker Tilly, will be here on May 21st to present to the Commission the Audited Financial Statements and the Management Letter.

Again this year, the report states that the financial statements fairly represent the financial activities and position of the Utility.

I look forward to listening to their presentation and will be happy to address any questions that might arise.

Waukesha Water Utility

Report to the Commission

May 16, 2019

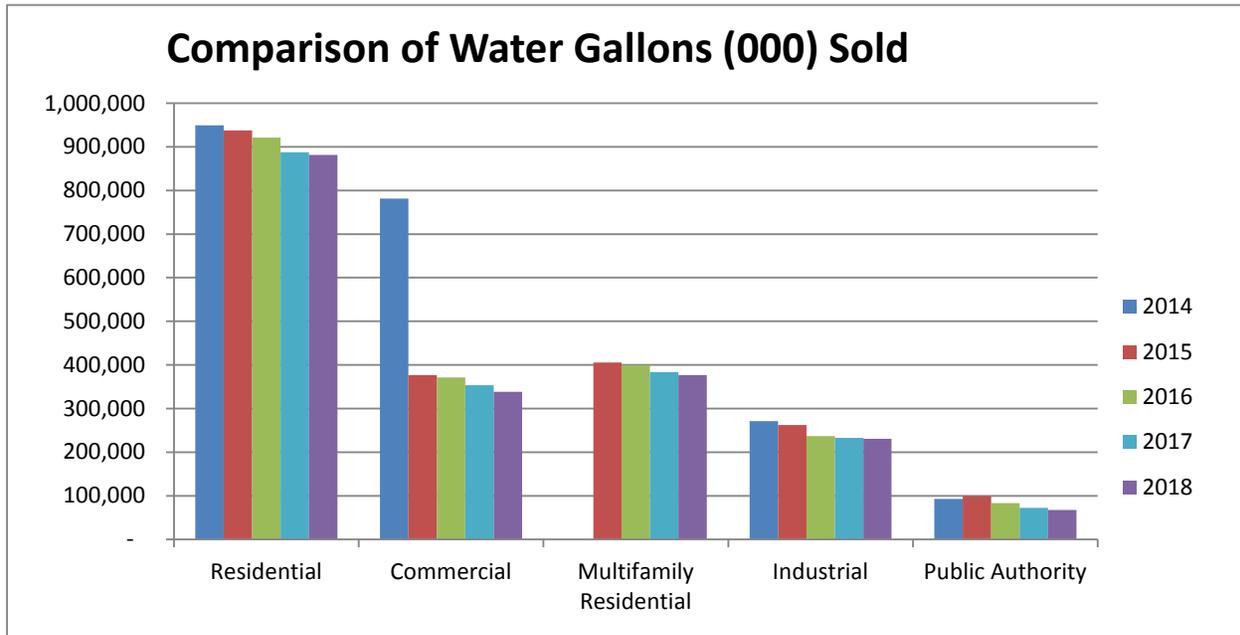
Presented By:

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707-7398
800 362 7301

Jodi Dobson, CPA, Partner

Note: Actual data was derived from current and prior years audited financial statements

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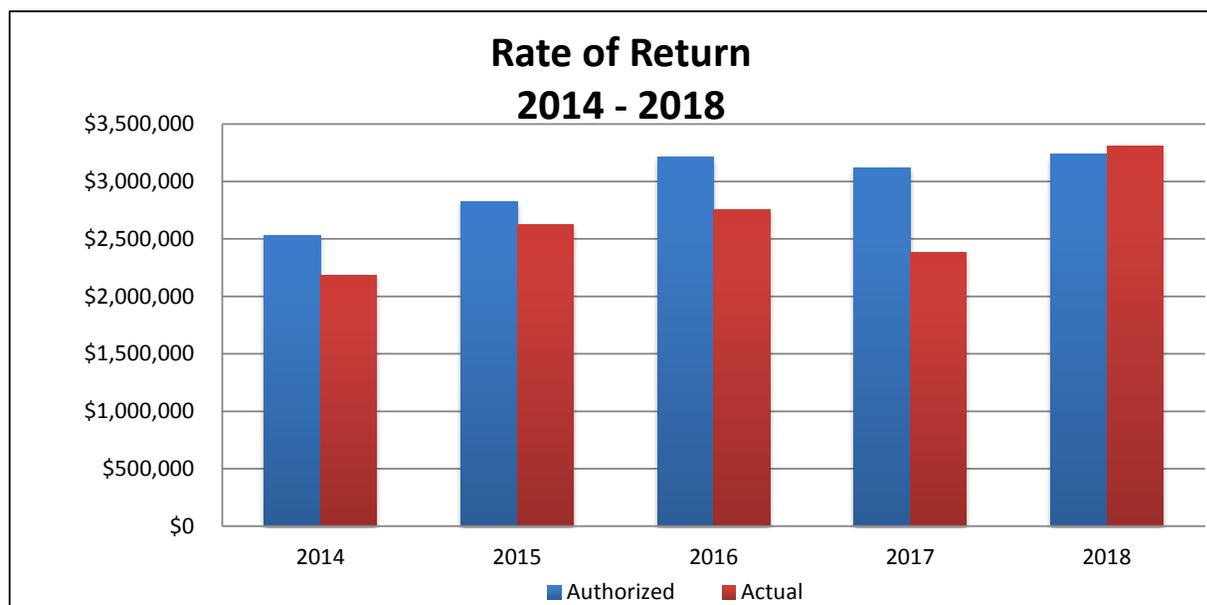
| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|-------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Residential | 949,014 | 937,774 | 920,847 | 887,599 | 881,451 |
| Commercial | 780,973 | 376,763 | 371,322 | 353,351 | 338,426 |
| Multifamily Residential | - * | 405,835 | 399,649 | 383,810 | 376,472 |
| Industrial | 270,877 | 262,477 | 237,070 | 232,669 | 230,557 |
| Public Authority | <u>92,618</u> | <u>99,076</u> | <u>83,041</u> | <u>72,385</u> | <u>67,339</u> |
| Total | <u><u>2,093,482</u></u> | <u><u>2,081,925</u></u> | <u><u>2,011,929</u></u> | <u><u>1,929,814</u></u> | <u><u>1,894,245</u></u> |

*Rate class was not tracked separately until 2015 reporting year.

What it means....

The water utility's sales decreased 1.8% in 2018. The decrease in sales can be attributed to water conservation efforts.

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* Information obtained from PSCW annual report.

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Investment Rate Base | \$ 44,027,203 | \$ 49,092,086 | \$ 55,919,408 | \$ 61,168,131 | \$ 63,461,035 |
| Authorized Return | 5.75% | 5.75% | 5.75% | 5.10% | 5.10% |
| Authorized Operating Return | \$ 2,531,564 | \$ 2,822,795 | \$ 3,215,366 | \$ 3,119,575 | \$ 3,236,513 |
| Actual Operating Income | \$ 2,185,950 | \$ 2,627,118 | \$ 2,755,757 | \$ 2,385,521 | \$ 3,312,831 |
| Actual Return | 4.96% | 5.35% | 4.93% | 3.90% | 5.22% |
| Difference | \$ 640,275 | \$ (345,614) | \$ (195,677) | \$ (734,054) | \$ 76,318 |

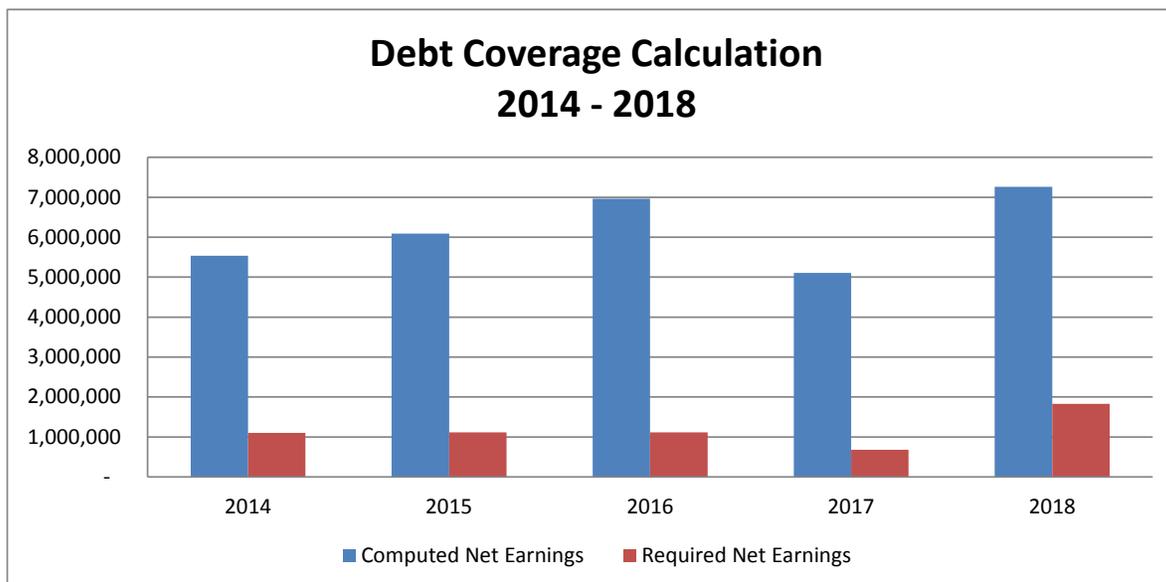
What it means...

Rate of return is a key indicator of financial results in any regulated utility like your water utility. Any growth in plant requires that rates cover the cost of providing service or the utility will weaken financially in the long run. Current rates were implemented in December 2017. Prior to that, the last rate increase was effective April 2015.

The increase in the actual rate of return in 2018 is due to an increase in utility plant in service and a increase in operating income.

It is important to point out that the operating income reported here will not match what is reported in the financial statements due to PSCW ratemaking rules.

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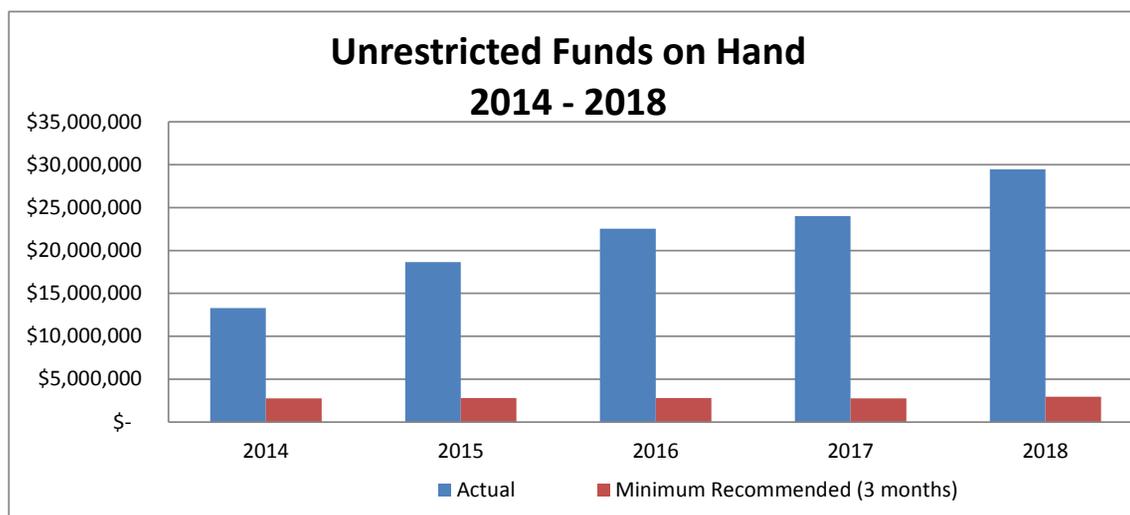


| | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Operating Revenues | 11,014,458 | 11,235,113 | 11,212,381 | 11,020,367 | 11,841,292 |
| Investment Income | 34,495 | 46,718 | 137,378 | 292,868 | 494,971 |
| Miscellaneous non-operating income | | | 2,115 | 3,542 | 6,330 |
| Less: O & M Expenses | <u>(5,513,371)</u> | <u>(5,195,475)</u> | <u>(4,390,791)</u> | <u>(6,213,573)</u> | <u>(5,084,030)</u> |
| Computed Net Earnings | <u>\$ 5,535,582</u> | <u>\$ 6,086,356</u> | <u>\$ 6,961,083</u> | <u>\$ 5,103,204</u> | <u>\$ 7,258,563</u> |
| Subsequent Year | | | | | |
| Revenue Bond Debt Service | 890,756 | 891,998 | 542,664 | 541,930 | 1,664,959 |
| Coverage Factor | <u>1.25</u> | <u>1.25</u> | <u>1.25</u> | <u>1.25</u> | <u>1.10</u> |
| Required Net Earnings | <u>\$ 1,105,156</u> | <u>\$ 1,113,445</u> | <u>\$ 1,114,998</u> | <u>\$ 677,413</u> | <u>\$ 1,831,455</u> |
| Difference | <u>\$ 5,088,938</u> | <u>\$ 4,422,136</u> | <u>\$ 4,971,358</u> | <u>\$ 4,425,791</u> | <u>\$ 5,427,107</u> |
| Coverage | <u>6.21</u> | <u>6.82</u> | <u>12.83</u> | <u>9.42</u> | <u>4.36</u> |
| All Debt Service | | | 2,069,923 | 2,499,108 | 2,810,731 |
| PILOT | | | 1,774,814 | 1,793,628 | 1,874,880 |
| Coverage | | | <u>2.51</u> | <u>1.32</u> | <u>1.92</u> |

What it means....

The bond resolutions require that earnings from the system be greater than 1.10 times the revenue bond annual debt service (1.25 prior to 2018). The water utility has met the earning requirement for 2014-2018.

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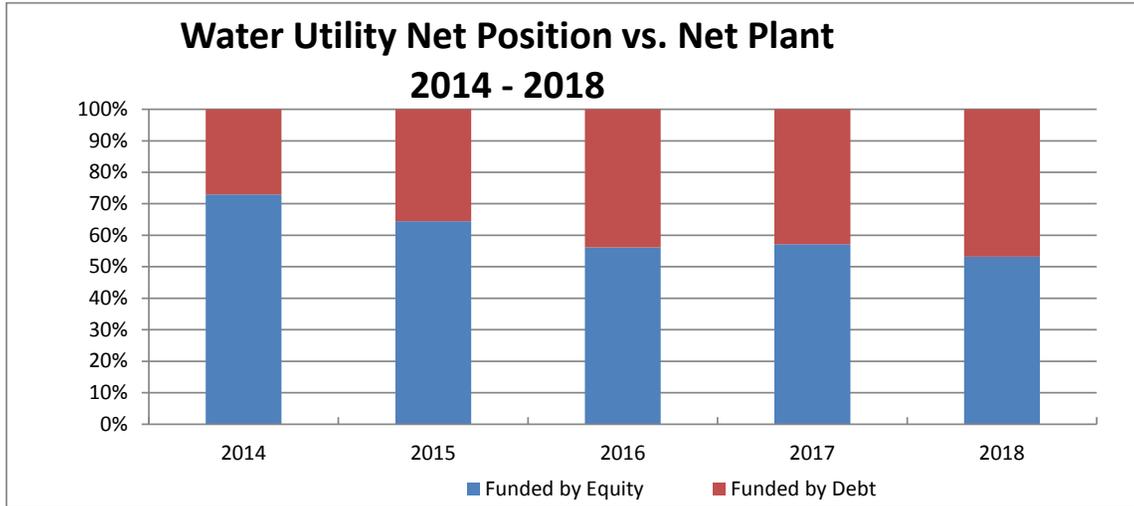
| | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------------------|----------------------|---------------------|---------------------|---------------------|
| Funding Benchmark | | | | | |
| Estimated Monthly Revenues | <u>\$ 917,872</u> | <u>\$ 936,259</u> | <u>\$ 934,365</u> | <u>\$ 918,364</u> | <u>\$ 986,774</u> |
| Actual Unrestricted Funds on Hand | <u>\$8,320,515</u> | <u>\$ 10,873,017</u> | <u>\$11,356,851</u> | <u>\$11,257,955</u> | <u>\$13,571,645</u> |
| Other Special Funds on Hand | <u>\$4,981,498</u> | <u>\$ 7,766,421</u> | <u>\$11,178,910</u> | <u>\$12,756,134</u> | <u>\$15,871,306</u> |
| Months Billings on Hand, unrestricted | <u>9.07</u> | <u>11.61</u> | <u>12.15</u> | <u>12.26</u> | <u>13.75</u> |
| Months Billings on Hand, including other special funds | <u>14.49</u> | <u>19.91</u> | <u>24.12</u> | <u>26.15</u> | <u>29.84</u> |

What it means....

A utility should maintain funds to cover its operations in a normal business operation cycle (i.e. quarterly, monthly) plus a contingency. In addition, utilities should have available an amount equal to one year's capital improvements. These funding levels facilitate budgeting since there will be less concern for business cycle fluctuations. The GFOA minimum recommended target is 3 months revenue in reserve.

This shows that the utility has historically had ample cash reserves for operations. The special funds on hand are funds set aside for capital improvements and the tax equivalent payment. Management has decided to maintain higher cash reserves in anticipation of a future water source project.

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| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Net Investment in Capital Assets | <u>\$ 55,083,546</u> | <u>\$ 52,161,501</u> | <u>\$ 51,916,484</u> | <u>\$ 52,759,313</u> | <u>\$ 50,252,462</u> |
| Net Property, Plant, and Equipment | <u>\$ 75,525,584</u> | <u>\$ 80,918,098</u> | <u>\$ 92,483,851</u> | <u>\$ 92,271,091</u> | <u>\$ 94,433,163</u> |
| Percent of Net Plant Funded by Equity | <u>73%</u> | <u>64%</u> | <u>56%</u> | <u>57%</u> | <u>53%</u> |
| Percent of Net Plant Funded by Debt | <u>27%</u> | <u>36%</u> | <u>44%</u> | <u>43%</u> | <u>47%</u> |

What it means....

Obtaining financing for capital improvements is normally a necessity for capital intensive utilities. Management should keep their related debt to a manageable level as this allows you to be less aggressive seeking rate relief and provides more options to address unanticipated expenses. A general target is 50% or more equity and 50% or less debt.