Waukesha Water Utility

Report to the Commission

May 17, 2018

Presented By:

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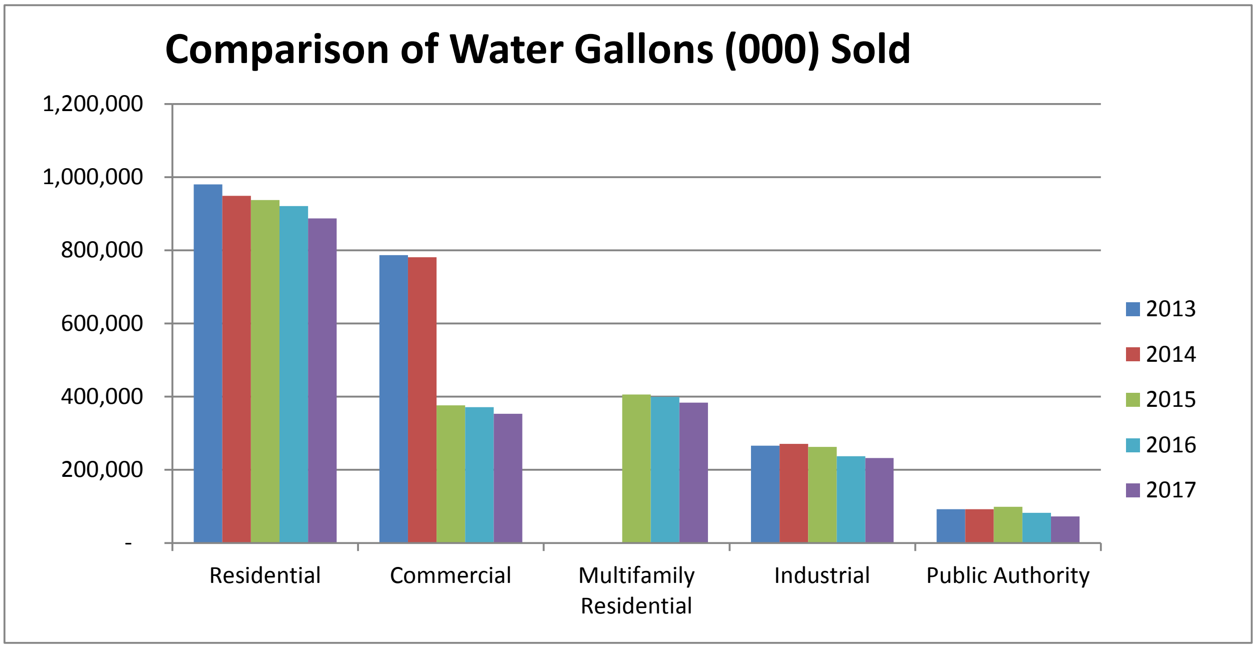
Note: Actual data was derived from current and prior years audited financial statements

Waukesha Water Utility



	2013		2014		2015	2016	2017
Residential	980,206		949,014		937,774	920,847	887,599
Commercial	786,721		780,973		376,763	371,322	353,351
Multifamily Residential	-	*	-	*	405,835	399,649	383,810
Industrial	266,539		270,877		262,477	237,070	232,669
Public Authority	92,507		92,618		99,076	83,041	72,385
Total	2,125,973		2,093,482		2,081,925	2,011,929	1,929,814

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

What it means….

The water utility's sales decreased 4.1% in 2017. The decrease in sales can be attributed to water conservation efforts.

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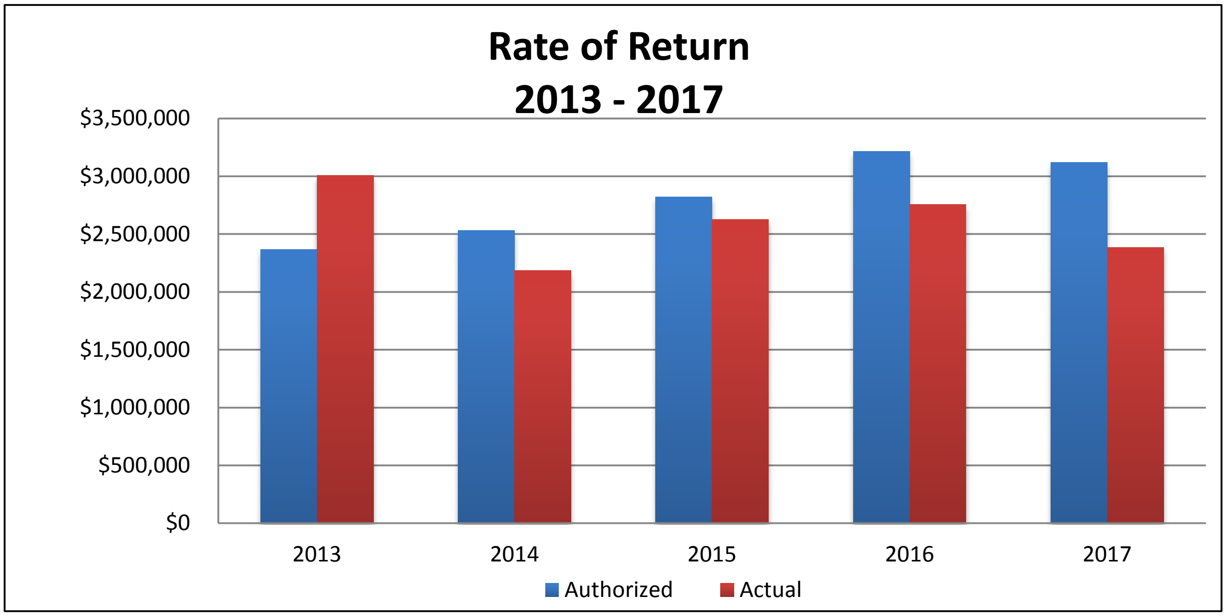

* Information obtained from PSCW annual report.

	2013	2014	2015	2016	2017
Net Investment Rate Base	$ 41,163,297	$ 44,027,203	$ 49,092,086	$ 55,919,408	$ 61,168,131
Authorized Return	5.75%	5.75%	5.75%	5.75%	5.10%
Authorized Operating Return	$ 2,366,890	$ 2,531,564	$ 2,822,795	$ 3,215,366	$ 3,119,575
Actual Operating Income	$ 3,007,165	$ 2,185,950	$ 2,627,118	$ 2,755,757	$ 2,385,521
Actual Return	7.31%	4.96%	5.35%	4.93%	3.90%
Difference	$ 640,275	$ (345,614)	$ (195,677)	$ (459,609)	$ (734,054)

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 decrease in the actual rate of return in 2017 is due to an increase in utility plant in service and a decrease 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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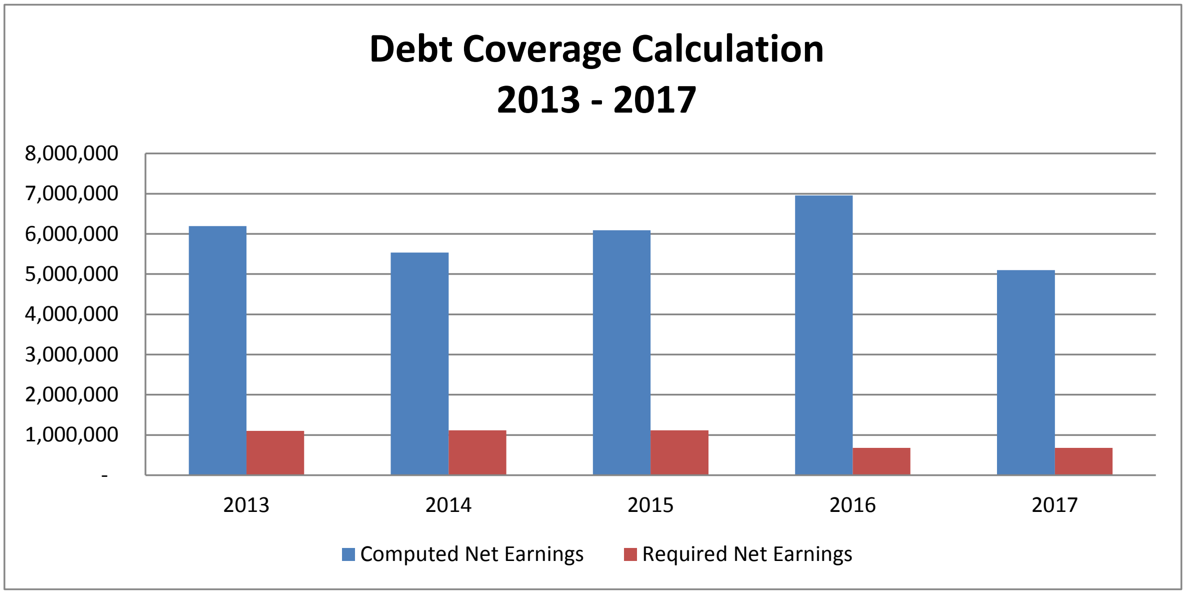

	2013	2014	2015	2016	2017
Operating Revenues	11,189,670	11,014,458	11,235,113	11,212,381	11,020,367
Investment Income	24,973	34,495	46,718	137,378	292,868
Less: O & M Expenses	(5,020,548)	(5,513,371)	(5,195,475)	(4,390,791)	(6,213,573)
Computed Net Earnings	$ 6,194,095	$ 5,535,582	$ 6,086,356	$ 6,958,968	$ 5,099,662
Subsequent Year					
Revenue Bond Debt Service	884,125	890,756	891,998	542,664	541,929
Coverage Factor	1.25	1.25	1.25	1.25	1.25
Required Net Earnings	$ 1,105,156	$ 1,113,445	$ 1,114,998	$ 678,330	$ 677,411
Difference	$ 5,088,938	$ 4,422,136	$ 4,971,358	$ 6,280,637	$ 4,422,250
Coverage	7.01	6.21	6.82	12.82	9.41
All Debt Service				2,069,923	2,499,108
PILOT				1,774,814	1,793,628
Coverage				2.50	1.32

What it means….

The bond resolutions require that earnings from the system be greater than 1.25 times the revenue bond annual debt service. The water utility has met the earning requirement for 2013-2017.

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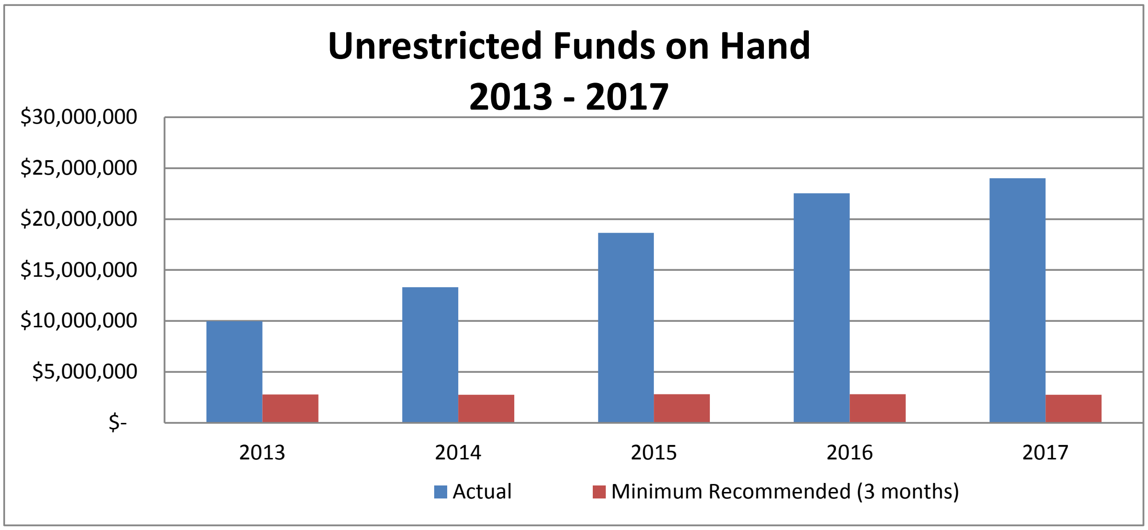

	2013	2014	2015	2016	2017
Funding Benchmark					
Estimated Monthly Revenues	$ 932,473	$ 917,872	$ 936,259	$ 934,365	$ 918,364
Actual Unrestricted Funds on Hand	$5,140,016	$8,320,515	$10,873,017	$11,356,851	$11,257,955
Other Special Funds on Hand	$4,846,094	$4,981,498	$ 7,766,421	$11,178,910	$12,756,134
Months Billings on Hand, unrestricted	5.51	9.07	11.61	12.15	12.26
Months Billings on Hand, including other special funds	10.71	14.49	19.91	24.12	26.15

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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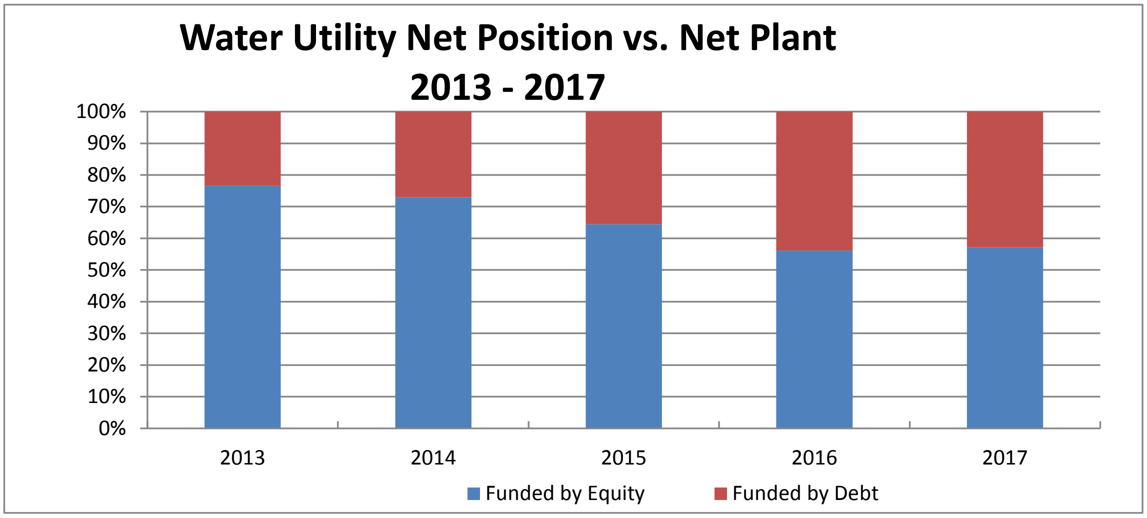

	2013	2014	2015	2016	2017
Net Investment in Capital Assets	$ 56,478,669	$ 55,083,546	$ 52,161,501	$ 51,916,484	$ 52,759,313
Net Property, Plant, and Equipment	$ 73,729,103	$ 75,525,584	$ 80,918,098	$ 92,483,851	$ 92,271,091
Percent of Net Plant Funded by Equity	77%	73%	64%	56%	57%
Percent of Net Plant Funded by Debt	23%	27%	36%	44%	43%

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.