

**BOARD OF WATER COMMISSIONERS  
OF THE  
CITY OF SAINT PAUL, MINNESOTA  
(Component Unit of the City of Saint Paul)**

**ANNUAL  
FINANCIAL REPORT**

**For the Fiscal Year Ended  
December 31, 2020**

**BOARD OF WATER COMMISSIONERS  
OF THE  
CITY OF SAINT PAUL, MINNESOTA  
(Component Unit of the City of Saint Paul)**

**ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended December 31, 2020**

**Table of Contents**

	<u>Item</u>	<u>Page</u>
<b>INTRODUCTORY SECTION</b>		
Transmittal Letter		iii
Board Members and Manager Terms of Office		xiii
 <b>FINANCIAL SECTION</b>		
Independent Auditor’s Report		1
Management’s Discussion and Analysis		5
Basic Financial Statements		
Statement of Net Position	Exhibit A	10
Statement of Revenues, Expenses and Changes in Net Position	Exhibit B	13
Statement of Cash Flows	Exhibit C	14
Notes to the Financial Statements		17
Required Supplementary Information		
PERA General Employees Retirement Plan		53
Schedule of Proportionate Share of Net Pension Liability	Schedule 1	
Schedule of Pension Contributions	Schedule 2	
Other Postemployment Benefit Plan		55
Schedule of Changes in the Total Other Postemployment Benefits Liability and Related Ratios	Schedule 3	
Notes to the Required Supplementary Information		56

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## INTRODUCTORY SECTION



# BOARD OF WATER COMMISSIONERS

*President: Mara Humphrey ♦ Vice President: Nelsie Yang*

*Commissioners: ♦ Marylee Abrams ♦ Amy Brendmoen ♦ James Bykowski ♦ Alene Tchourumoff ♦ Chris Tolbert*

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November 22, 2021

TO: BOARD OF WATER COMMISSIONERS  
Mara Humphrey, President  
Nelsie Yang, Vice President  
Commissioner Marylee Abrams  
Commissioner Amy Brendmoen  
Commissioner James Bykowski  
Commissioner Alene Tchourumoff  
Commissioner Chris Tolbert

Dear Board Members:

Saint Paul Regional Water Services (Regional Water) is proud to present its published Annual Financial Report of the Board of Water Commissioners for the fiscal year ended December 31, 2020. The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with Regional Water. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position, changes in financial position, and cash flows of Regional Water; and that all disclosures necessary to enable the reader to gain the maximum understanding of Regional Water's financial affairs have been included. This report has been prepared in accordance with generally accepted accounting principles. Regional Water's financial operations are also reported in the City of Saint Paul's Annual Comprehensive Financial Report as a discretely presented component unit.

The report is presented here in two sections:

1. The Introductory Section includes this letter of transmittal and a listing of the members of the Board of Water Commissioners and Manager.
2. The Financial Section includes the State Auditor's report, Management's Discussion and Analysis, the basic financial statements along with the related notes to these financial statements, and certain required supplementary information.

## REPORTING ENTITY AND SERVICES

The Board of Water Commissioners was set up pursuant to Minnesota Special Laws for 1885, Chapter 110, to operate a utility commonly known as Saint Paul Regional Water Services (SPRWS). Regional Water services an area including Saint Paul and all or parts of 12 suburbs on a retail or wholesale basis.

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## SAINT PAUL REGIONAL WATER SERVICES

Patrick Shea, General Manager

1900 Rice St. Saint Paul MN 55113-6810 ♦ TTY: 651-266-6299 ♦ Phone: 651-266-6350

*Saint Paul Regional Water Services provides quality water services to the following cities:*

Arden Hills · Falcon Heights · Lauderdale · Little Canada · Maplewood · Mendota · Mendota Heights · Roseville · Saint Paul · West St. Paul

AA-ADA-EEO Employer

## HIGHLIGHTS IN SUMMARY

### *Administration Division*

The Administration Division offers support services to all areas within the utility as well as direct contact with individual customers and communities at large. The Division includes the Business Improvement Unit, Public Relations and Information, Safety and Security, Training and Human Resources, and the General Manager and Assistant General Manager.

The development and promotion of knowledge management and transfer across the utility remains a focus of the division. In the five years 2012-2017, the average retirement age was 60 years old. At the end of 2019, nearly 28 percent of Regional Water's employees were 55 plus years of age. Based on current department trends, over 10 percent of the current workforce have the potential to retire at any time.

The COVID-19 Pandemic became the primary focus of the Administrative Division in March 2020. The SPRWS Board of Water Commissions provided direction that keeping people working and providing excellent services was paramount. A team consisting of the General Manager, Assistant General Manager, the four Division Managers, the Human Resources Consultant, and Safety and Security Officer began regular strategic planning meetings. In the early stages of the pandemic, meetings were held daily. As the situation changed, the meetings were reduced to three days a week. A COVID-19 Preparedness Plan was developed and updated to ensure those that were required to report to work could do so in a manner that met the State of Minnesota and City requirements. A second work product was the creation of a COVID-19 dashboard. The dashboard was updated weekly and provides a snapshot of SPRWS specific data.

Regional Water's work force history is of longevity and successfully retaining trained staff. Often pension, insurance and regular hours helped promote working at Regional Water more as a career. However, this is no longer assured. Employees may be looking for such things as regular new and stimulating assignments, more non-traditional work rules, flexibility in working off-site and flexibility in working hours, etc. Human Resources staff continues to track the voluntary turnover rate to evaluate current trends.

Along with the COVID-19 and civil unrest work, the emergency planning and security supervisor worked on preparedness related efforts. New mandates from the U.S. Environmental Protection Agency require updates to several security plans in 2019 and 2020. We anticipate devoting more time to drills and tabletop scenarios to better prepare the utility for any emergency. The position also serves as process safety management (PSM) program coordinator.

The safety officer was assigned sanitation and disinfection activities related to COVID-19. If an employee reported a potential exposure and/or positive test, the area was isolated, and a professional contractor sanitized the work areas. The position also was responsible for obtaining sanitation stations, masks, gloves, and other personal protective equipment. We continue to operate a management safety committee focusing on training, preventing workplace injury, inspection activities and OSHA compliance.

## HIGHLIGHTS IN SUMMARY (continued)

The Business Improvement Unit (BIU) team worked diligently on its initiatives; including enterprise level performance measures, document management improvements and evaluating the utility against industry wide effective utility management (EUM) practices and identifying areas of focus to consider including in the strategic plan. BIU also led the effort to evaluate the Customer Information System and the development and installation of an internal monitor system (electronic billboards or EBB's) to improve information sharing across the McCarrons. BIU driven asset management standards and protocol development continues in the Production Facility.

Public information efforts included publishing the water quality report, annual report, the quarterly customer newsletters, a newsletter specifically for our neighbors around Sandy Lake, and various informational brochures. Communications efforts around our construction projects continued with frequent website project updates. The utility participated in several community events, such as the Rice and Larpenteur summer block party, the Rice Street Fall Gardens Festival, the Water Bar at the Minnesota State Fair, and Water Fest at Phalen Lake. We represented the utility as a main speaker at the state-wide teacher's drinking water institute, and hosted a follow-up session at our facilities, which included a treatment plant tour. We hosted four elementary schools during Drinking Water Week, which capped off with an open house and tour of our treatment plant for the general public. Other efforts include hosting two Highland water tower open houses and promoting them on social and traditional media platforms.

In February 2018, the State of Minnesota settled a lawsuit against the 3M Company related to perfluoro chemicals. The outcome, about \$720 million will be invested in drinking water and natural resource projects in the Twin Cities east metropolitan region. Projects will be primarily focused on cities using wells and drawing ground water for drinking including the cities of Afton, Cottage Grove, Lake Elmo, Newport, Oakdale, St. Paul Park, and Woodbury and the townships of Grey Cloud Island and West Lakeland. Regional Water is actively recommending stakeholders include consideration of surface water as a long-term, sustainable supply, of drinking water and suggested the utility's supply system and treatment plant have capacity to meet the long-term water demands of these communities. Information was provided by SPRWS on the potential of serving the cities of Oakdale and/or Lake Elmo. This option was incorporated in to one of the options (not the preferred option).

### *Administration Division - Future Operations*

The \$160 million water treatment plant upgrade project is ongoing. After having obtained legislative approval for design-build procurement, Regional Water retained the services of an owner's agent, an engineering firm with experience developing contract documents, managing and directing design-build projects. After a detailed and effective proposal review and selection process, Jacobs Engineering was selected as the design-build firm. They have extensive experience in similar projects and have a successful history of working with SPRWS.

Process safety and emergency plans are being updated with the intent of ensuring ready access for all information employees may need and the security badging and access system is being analyzed

## HIGHLIGHTS IN SUMMARY (continued)

and enhancements to badge definitions, operating procedures and access controls are being considered.

Administration will continue directing efforts at the initiatives listed above. Comments related to the upcoming update of the Lead & Copper rule were submitted on behalf of Regional Water. Staff will continue to implement strategic plan initiatives, the changes possible with our water use as a result of the White Bear Lake lawsuit and/or our water supply should be part of a solution toward meeting the east metro water needs. As always, our goal is to be able to budget and finance the projects necessary to meet the mission and vision for Regional Water.

### ***Business Division***

The Business Division offers support services to other divisions within the utility as well as direct contact with individual customers and communities at large. The Business Division includes the four business units of Customer Service and Billing, Financial Services, Information Services, and Meter Operations.

During 2020, the Customer Service unit issued approximately 32,700 bills per month or 1,577 bills per business day. Throughout the year, meter reading and water billings continued to meet schedules. Customers' use of electronic payments has continued to expand. In 2020, approximately 59 percent of transactions were processed electronically with nearly 32 percent of payments made via credit card and 20 percent via auto withdraw from a bank account.

The Customer Service call center received 151,641 calls in 2020. About 67,033 calls, or 44 percent were handled by call center staff and 84,608, by the self-serve Interactive Voice Response unit (IVR). This equates to approximately 609 calls per business day of which approximately 269 calls were answered by call center staff. The abandoned call was 2.10 percent and the wait time was 26 seconds. These are slightly higher than our goals, however, staffing was down 20 percent, we transitioned to a work from home environment and experienced some technology challenges with answering delays compared to desk phones.

The radio meters are functioning very reliably. Accordingly, we have continued success basing water bills on actual usage and minimizing estimated bills. Meter Operations will continue to track, trend, and report the register mis-reads and failures in an effort to keep the capture rate at 100 percent.

We are in the process of configuring a meter testing data base in CIS to populate record historic test results back to 2013. With this data available, we will continue to create a comprehensive meter testing schedule with the goal of identifying the optimal interval or accumulated consumption for initiating meter testing and replacing meters by account. Due to the 2020 pandemic, we tested only 75% of all meters 3-inch and larger. The High Usage Alert program started in December of 2017, we have reached out to over 11,000 customers. The goal is to not only notify the customer but also educate them to prevent them from having leaks in the future.



## HIGHLIGHTS IN SUMMARY (continued)

Financial Services staff completed and published the 2019 Annual Financial Report; the report was well received by the State Auditor and reflected well on Regional Water. The team also published the annual budget that ensures long term financial stability and integrity.

Financial Services staff work with many systems including the Infor Cloud Suite, which includes financials and procurement/supply chain; Computerized Maintenance Management System (CMMS), Time, Attendance and Scheduling System (TASS) and Customer Information (and billing) System (CIS) applications and provided information necessary for Regional Water to manage its financial position by developing a budget, tracking revenues and expenses, processing accounts payable invoices, accounts receivable invoices, collecting and processing payments, providing monthly reports to managers and to the Board of Water Commissioners and ensuring appropriate internal controls.

The Information Services (IS) section implemented the Production Virtual Desktop Infrastructure (VDI) project to 130 of the 180 users. The project increases maintenance and support. Benefits from the VDI environment allowed the IS team to quickly and successfully equipped staff members to effectively work from home due to COVID-19.

### ***Business Division - Future Operations***

Technology continues to be a current and future focus. As realized through the need to work from home requirement, technology is essential to SPRWS. To fully understand the current needs and project future opportunities, a comprehensive needs assessment and strategic plan will be conducted in 2021. The assessment will provide best practices and industry standards as it relates to the various departments within SPRWS. A cross representation of staff will ensure that needs of all will be considered.

SPRWS continues to partner with City of Saint Paul Public Works Department in implementing a field mobile/data capture solution for processing work orders and service orders in the field. The solution will integrate with our shared CMMS system and Regional Water's CIS system.

Additionally, SPRWS has partnered with Public Works and the Office of Technology and Communication to manage a comprehensive needs enterprise asset management assessment. The assessment will analyze the current utilization, as well as understand future needs, based on industry standards and best practices. Upon completion of the needs assessment, an RFP will be developed, jointly, for the enterprise asset management solution. This collaborative effort utilizes the results from the assessment and steer PW, SPRWS and OTC in a direction that will enable the organization to provide asset management functionality.

Improving the customer experience is part of our Strategic Plan. An enhancement to our CIS portal and IVR phone line for customers is being explored. The enhanced software offers customers the ability to register on-line to have payments auto drawn from credit card or bank account, view past bills, and use mobile devices such as a cellular telephone, tablet and/or computer.

## HIGHLIGHTS IN SUMMARY (continued)

### ***Distribution Division***

The Distribution Division is responsible for the delivery of water from the water treatment plant to the customer. This includes the construction and maintenance of the water distribution system that consists of water mains, valves, service connections, hydrants and related underground piping infrastructure. The division also includes Dispatch that provides customer service and emergency response 24 hours a day seven days a week, a Garage that maintains all equipment and vehicles, and a Warehouse to provide materials required to construct and maintain the distribution system.

**Water Distribution Capital Program** – The annual program to replace and refurbish water main was temporarily reduced in 2020 due to challenges associated with COVID-19. Approximately two miles of water main were replaced using the pipe bursting and directional drilling methods. Division staff installed an estimated 900 temporary water service connections, including 500 temporary connections needed to maintain water service to customers located within the City of Maplewood and Griggs Scheffer street and utility reconstruction areas.

**Preventative Maintenance** – The Distribution Division achieved annual goals for maintaining the water distribution system in 2020 by completing Uni-Directional Flushing (UDF) and Large Valve Exercising programs for 20 percent of the distribution system. All 9,608 public hydrants were inspected and flushed in 2020. The annual UDF program includes the operation of approximately 3,200 valves and 1,400 hydrants, along with exercising 1,300 valves 12-inch and larger each year.

**Reactive Maintenance** - Regional Water performs emergency repairs on water mains and services. We also provide water main break repair services to other municipalities outside our service area, responding to main breaks in the City of Oakdale, White Bear Township and the City of Newport.

### ***Distribution Division - Future Operations***

The capital water main replacement program resumed in 2021 with three key water main projects consisting of pipe bursting & directional drilling, cement mortar lining, and open cut main replacement. Approximately 24,000 feet of water main will be replaced or rehabilitated as part of these projects. Water system improvements will also include the replacement of 225 or more water services during the 2021 construction season.

### ***Engineering Division***

The Engineering Division provides a variety of professional and technical support for the utility. Planning, design, construction administration and inspection are performed on a variety of water supply, treatment and distribution related improvement projects. Administratively, we manage water service agreements, land sales, permitting, and plan review. We assist customers, both large and small, on providing water service to properties. Our geographical information system develops, maintains and analyzes the maps and records of the utility. Water permits and plumbing

## HIGHLIGHTS IN SUMMARY (continued)

inspections are handled to ensure that private plumbing systems are constructed to proper standards. We are committed to providing high-quality asset management in the utility.

With revenue concerns due to COVID-19, some utility projects were put on hold early in the year. This primarily impacted our conduit rehabilitation project work.

Some of the highlights related to our work in 2020 include:

**Water Treatment Plant Project** - Planning and design has begun on one of the largest projects the utility has ever performed: a major renewal and upgrade to the McCarron's Water Treatment Plant. These renovations will include facility replacement of much of the front end of the water treatment plant processes including chemical feed, flocculators, clarifiers and recarbonation. The addition of ozonation to the treatment process is also proposed with the goal of providing flexibility to address emerging contaminants and to improve the aesthetic properties of the water. This project will be delivered via the progressive design-build procurement method. Jacobs Engineering was selected as the design builder for the project, working in collaboration with SPRWS's Engineering and Production Divisions.

**Water Main & Lead Service Programs** - Upgrading our aging distribution infrastructure is of utmost importance to provide reliable water to our customers into the future. \$10 million in water main construction was performed in 2020 resulting in the replacement and rehabilitation of 7.1 miles of water main. Water main construction is coordinated in collaboration with public works improvement projects. Replacement is performed on mains which are at highest risk for failure. Updating our water main prioritization model was completed to provide an extremely accurate risk-based decision model for system upgrades.

Regarding lead water service replacement, current funding allows for elimination of lead services in the right of way over a 30-year period.

**Water Supply Conduit Improvements** – A condition assessment for the utility's 26 miles of raw water supply conduits which extend from the Mississippi River to the water treatment plant was completed in 2018. Planning and design are underway for rehabilitation of these conduits. This will include repairs to the concrete conduits installed in the 1920's and implementing a corrosion protection system on the steel conduits which were installed in the 1950's. Specifications are being prepared for concrete conduit rehabilitation. Assessment of the Mississippi River conduit for corrosion control is underway.

**Centerville Water Supply** – Due to limitations in available water supply, water quality and cost, we are working towards de-commissioning at-risk infrastructure in this historic water supply source. Currently, we are preparing contract documents for the removal of intake structures in Centerville Lake and Otter Lake.

## HIGHLIGHTS IN SUMMARY (continued)

**Partnership for Safe Water Distribution** - The Partnership for Safe Water program developed through the American Water Works Association is designed with the goal to optimize utility operations within the distribution system. We are excited to announce that the Partnership has presented SPRWS with their Director's level award.

**Maps & Records Improvements** – Our focus has been on providing information to external users. A new version of the “service material map” was published for members of the public to look up their service material type. Work also progressed on how we provide user friendly map requests from outside parties.

### *Engineering Division - Future Operations*

The Engineering Division continues to provide high level asset management and infrastructure planning for the utility through its various projects and initiatives in order to best serve our customers well into the future. We look to more fully develop design on the McCarron's Treatment Plant Project in 2021. Work on our distribution infrastructure will continue, making needed capital improvements. We will continue to advance public outreach on our distribution related projects.

### *Production Division*

The Production Division is responsible for processing raw water into finished water, including all the equipment required in the process and the water supply chain to provide an adequate supply of high quality water to all customers in the service area. This includes the operation and maintenance of the supply system, wells, water treatment plant, pumping stations, water towers and reservoirs, and the water quality laboratory. The division is also responsible for regulatory reporting related to water quality, responding to water quality complaints, and public education, which involves giving tours and making presentations to the public.

Annual production of water for 2020 was comparable to the previous three years, with a daily average of 38.8 million gallons per day. Precipitation was 1.86 inches below normal in the Twin Cities area. River levels were normal for much of 2020, and drought was not a concern for the metro area. Our total annual pumpage from the McCarrons plant was 14,199 million gallons. 11,982 million gallons originated from the Mississippi River source. Groundwater was not utilized in 2020. The difference was made up from precipitation and runoff from the local watershed.

We had another excellent year of water quality. The McCarrons Treatment Plant continued the Partnership for Safe Water's Presidents Award in 2020. We are one of only 31 surface water plants in the country to achieve this level of award. This program ensures safe drinking water from its member systems by promoting optimized treatment plant operation and continuous improvement in the operation, maintenance, administration and design of the facility. The aesthetic quality of the water also continued to be excellent, with only 12 complaints of taste or odor being logged into the Customer Information System for the year.

## HIGHLIGHTS IN SUMMARY (continued)

Chemical costs were down slightly, with a total chemical expenditure of \$3.33 million. This corresponds to a decrease of \$11.84 per million gallons of water treated.

Total electrical costs for all finished water pumping stations was \$881,812. Costs per million gallons pumped were \$62.10 for finished water. Total electrical costs for raw water pumping was \$488,023, resulting in \$40.73 per million gallons pumped.

Several new capital projects were started in 2020. Electrical and pumping improvements to the West Side Pump Station went into design mode, with HR Green hired as the engineers. A contract was also let with EDI Engineers to begin design work for electrical improvements to the Highland Park Pump Stations. And the largest capital project underway is the continued design work for the Plant Improvements Project.

### ***Production Division – Future Operations***

Production staff have been heavily involved in the planning and design for the McCarrons Water Treatment Plant Project for new softening, settling and recarbonation processes to replace existing, aging processes, as previously mentioned.

The new 20 million gallons per day high service pump #10 will be used during winter months to help conserve energy.

The supply system conduit assessment project identified areas in need of repairs. We expect to budget approximately \$1 million a year for the next decade or more to complete these repairs.

## INDEPENDENT AUDIT

State law requires the State Auditor to perform an annual audit of the books of account, financial records, and transactions of the City of Saint Paul. The independent audit of the financial statements is part of a broader, federally mandated audit designed to meet the requirements of the Federal Single Audit Act. This requirement has been met, and the State Auditor's report has been included in this report.

## MANAGEMENT AND COMPLIANCE REPORT

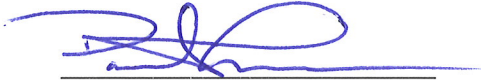
The State Auditor's audit was designed to meet the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* (the Yellow Book). The State Auditor will also issue a management and compliance report covering the review, made as part of its audit of Regional Water's system of internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. Special emphasis on internal controls and compliance requirements involving the administration of federal awards will also be made in the management and compliance report. The management and compliance

report will not modify or affect, in any way, this report. The State Auditor's report on Regional Water's financial statements is unmodified, which means that, in the auditor's opinion, the financial statements are fairly presented in conformity with generally accepted accounting principles.

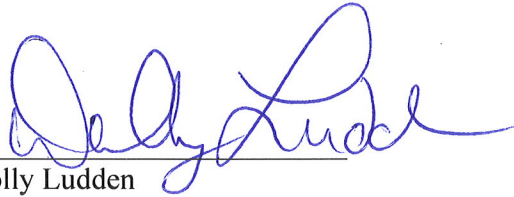
#### ACKNOWLEDGMENTS

Regional Water would like to note the contributions of our employees from all divisions in collecting, organizing, and reporting the vast amounts of data needed in the preparation of this Annual Financial Report. The assistance of the State Auditor's Office personnel has again exceeded our expectations. They have shared freely their insights and understanding of quality accounting methods and policies, which have benefited all levels of our accounting staff. Special recognition and thanks must be directed to the City's Office of Financial Services/Accounting staff, whose management and personnel have provided significant assistance to publish this Annual Financial Report.

Respectfully submitted,



Pat Shea  
General Manager



Dolly Ludden  
Business Division Manager

**BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL**  
**BOARD MEMBERS AND MANAGER TERMS OF OFFICE**

As of December 31, 2020

**PUBLIC MEMBERS**

Term Expires

Matt Anfang, President

June 30, 2020

Mara Humphrey, Commissioner/President

August 31, 2022

Public Members are appointed by the Mayor to terms of four years.

Mara Humphrey appointed President after Matt Anfang completed his term June 30,2020

**CITY COUNCIL MEMBERS**

Nelsie Yang, Vice President

December 31, 2023

Amy Brendmoen

December 31, 2023

Chris Tolbert

December 31, 2023

City Council Members are appointed by the Mayor to terms of four years, concurrent with their terms of office.

**SUBURBAN MEMBERS**

James Bykowski, City of Falcon Heights

December 31, 2023

Mayor Marylee Abrams, City of Maplewood

December 31, 2020

Suburban Members are appointed by the suburban City Councils. The City of Maplewood appoints one member annually. The other Suburban Member, currently appointed by the City of Lauderdale, serves a term of three years. The two Suburban Members must be resident citizens of a suburb served by the Board's water system.

**SECRETARY**

Mollie Gagnelius was appointed by the Board January 2008.

**GENERAL MANAGER**

Stephen P. Schneider appointed by the Board December 2003.

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## FINANCIAL SECTION



## INDEPENDENT AUDITOR'S REPORT

Members of the Board of Water Commissioners  
of the Saint Paul Regional Water Services  
Saint Paul, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the Board of Water Commissioners of the City of Saint Paul, d/b/a Saint Paul Regional Water Services, a component unit of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Saint Paul Regional Water Services' basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Saint Paul Regional Water Services' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Saint Paul Regional

Water Services' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Saint Paul Regional Water Services as of December 31, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

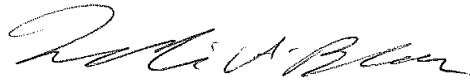
#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Saint Paul Regional Water Services' basic financial statements. The Introductory Section as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2021, on our consideration of the Saint Paul Regional Water Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and

the results of that testing, and not to provide an opinion on the effectiveness of the Saint Paul Regional Water Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Saint Paul Regional Water Services' internal control over financial reporting and compliance.



JULIE BLAHA  
STATE AUDITOR



DIANNE SYVERSON, CPA  
DEPUTY STATE AUDITOR

November 22, 2021

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2020**

This section presents management's analysis of the Saint Paul Regional Water Services' (Regional Water) financial condition and activities for the fiscal year ended December 31, 2020. This information should be read in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of resources of Regional Water exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$355,414,136 (Net Position). Of this amount, \$19,444,060 (unrestricted) may be used to meet the utility's ongoing obligations.
- Regional Water's total net position increased by \$17,539,870.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of Regional Water's financial condition and performance. Summary financial statement data, key financial and operational indicators used in Regional Water's operating budget, and other management tools were used for this analysis.

The financial statements report information about Regional Water using full accrual accounting methods as used by similar utilities.

The financial statements include: a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The Statement of Net Position presents assets, deferred outflows of resources, liabilities, deferred inflows of resources and the total net position, which is separated into net investment in capital assets, restricted for debt service and unrestricted. The Statement of Revenues, Expenses, and Changes in Net Position present the results of the business activities over the course of the fiscal year and also include depreciation of capital assets acquired by contributions. The Statement of Cash Flows presents the cash flows from operating activities, noncapital financing activities, capital and related financing activities, investing activities, and the net cash provided or used by all activities. The Statement of Cash Flows presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets. The Notes to the Financial Statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The Notes present information about Regional Water's accounting policies, significant account balances and activities, material risks, obligations, commitments, and contingencies.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2020**

Overview of Annual Financial Report (continued)

This report contains certain required supplementary information. This required supplementary information includes a Schedule of the Proportionate Share of Net Pension Liability, a Schedule of Pension Contributions, and a Schedule of Changes in the Total Other Postemployment Benefits Liability and Related Ratios. Also included are notes related to the required supplementary information.

Regional Water's staff prepared the financial statements from the detailed books and records of Regional Water. The financial statements were audited and adjusted, if material, during the independent external audit process.

Summary of Organization and Business

Regional Water is a discretely presented component unit of the City of Saint Paul (City) created pursuant to Minnesota Special Laws for 1885, Chapter 110, to provide safe potable drinking water to Saint Paul and surrounding communities at a reasonable price. The Mayor, with consent of the City Council, appoints five of the seven Water Board Commissioners. Three members of the Board are City Council members, and two are citizen members. The other two members are appointed by suburban city councils. The City Council approves Regional Water's water rates and the City has issued bonded debt on behalf of Regional Water.

Financial Analysis

The following financial information and other selected information serve as the key financial data and indicators for management, monitoring, and planning.

As can be seen from the following table, total net position increased \$17.54 million to \$355.41 million in 2020, up from \$337.87 million in 2019. The increase is primarily due to the investment in capital assets (\$8.3 million) and an increase in investment value (\$6.5 million), in addition to changes in other assets, liabilities, deferred outflows of resources, and deferred inflows of resources.

Capital Assets

By the end of 2020, Regional Water had invested \$580.50 million in capital assets. There was a \$17.96 million increase in capital assets for the past fiscal year primarily for water related improvements, equipment and public improvements such as mains, services and hydrants.

Long-Term Debt

At the end of 2020, principal on bonds payable were \$4.33 million and revenue notes payable were \$24.58 million. This debt will be repaid with revenue generated by Regional Water.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2020**

**Condensed Statement of Net Position (in thousands)**

	Fiscal Year 2020	Fiscal Year 2019	Dollar Change	Total % Change
<b>Assets</b>				
Current and Other Assets	\$ 75,647	\$ 71,862	\$ 3,785	5.3
Capital Assets - net	<u>\$ 355,357</u>	<u>\$ 347,059</u>	<u>\$ 8,298</u>	<u>2.4</u>
Total Assets	<u>\$ 431,004</u>	<u>\$ 418,921</u>	<u>\$ 12,083</u>	<u>2.9</u>
Deferred Outflows of Resources	<u>\$ 4,847</u>	<u>\$ 3,338</u>	<u>\$ 1,509</u>	<u>45.2</u>
<b>Liabilities</b>				
Current Liabilities	\$ 14,794	\$ 17,732	\$ (2,938)	( 16.6)
Noncurrent Liabilities	<u>\$ 63,077</u>	<u>\$ 62,935</u>	<u>\$ 142</u>	<u>0.2</u>
Total Liabilities	<u>\$ 77,871</u>	<u>\$ 80,667</u>	<u>\$ ( 2,796)</u>	<u>( 3.5)</u>
Deferred Inflows of Resources	<u>\$ 2,566</u>	<u>\$ 3,718</u>	<u>\$ (1,152)</u>	<u>(31.0)</u>
<b>Net Position</b>				
Net Investment in Capital Assets	\$ 326,232	\$ 314,341	\$ 11,891	3.8
Restricted for Debt Service	\$ 9,738	\$ 11,336	\$ (1,598)	( 14.1)
Unrestricted	<u>\$ 19,444</u>	<u>\$ 12,197</u>	<u>\$ 7,247</u>	<u>59.4</u>
Total Net Position	<u>\$ 355,414</u>	<u>\$ 337,874</u>	<u>\$ 17,540</u>	<u>5.2</u>

**Condensed Statement of Revenue, Expenses, and Changes in Net Position  
(in thousands)**

	Fiscal Year 2020	Fiscal Year 2019	Dollar Change	Total % Change
Operating Revenues	\$ 64,284	\$ 63,377	\$ 907	1.4
Non-Operating Revenues (Expenses)	<u>\$ 1,979</u>	<u>\$ 2,230</u>	<u>\$ (251)</u>	<u>( 11.3)</u>
Total Revenues	<u>\$ 66,263</u>	<u>\$ 65,607</u>	<u>\$ 656</u>	<u>1.0</u>
Operating Expenses	<u>\$ 51,266</u>	<u>\$ 53,251</u>	<u>\$ (1,985)</u>	<u>(3.7)</u>
Income (Loss) Before Capital Contributions	<u>\$ 14,997</u>	<u>\$ 12,356</u>	<u>\$ 2,641</u>	<u>21.4</u>
Capital Contributions	<u>\$ 2,543</u>	<u>\$ 854</u>	<u>\$ 1,689</u>	<u>197.8</u>
Change in Net Position	\$ 17,540	\$ 13,210	\$ 4,330	32.8
Net Position - January 1	<u>\$ 337,874</u>	<u>\$ 324,664</u>	<u>\$ 13,210</u>	<u>4.1</u>
Net Position - December 31	<u>\$ 355,414</u>	<u>\$ 337,874</u>	<u>\$ 17,540</u>	<u>5.2</u>



**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2020**

Revenues

Regional Water's operating revenues are derived mainly from the sale of water. Other sources include: services, fees, rents and leases. Operating revenues increased by \$907 thousand to \$64.28 million in 2020, from \$63.38 million in 2019.

In 2020 the winter/summer rates were set at \$2.92 to \$3.02; this is an increase of \$0.06 per 100 Cubic Feet (CCF) from the 2019 average winter/summer rate of \$2.86 CCF to \$2.96 CCF. Actual water consumption in 2020 was 15.98 million billing units up by 100 thousand billing units from 15.88 million billing units (100 cubic feet) in 2019. There was no change in the water service base fee; it remains at \$6.00. This is a monthly fee based on the size of the meter and increases as the meter size increases to reflect the increased cost of providing peak volume capacity. There was no change in the water main surcharge; it remains at a rate of \$0.20 per CCF. This surcharge is designed to fund main replacement in the service area. There was no change in the Right-of-Way Recovery Fee; it remains at \$1.50. This monthly fee is only charged to Saint Paul residents and is for a payment to the City of Saint Paul for the extra costs they incur due to Regional Water's facilities being located within the public right-of-way. This fee is structured in a similar manner to the water service base fee in that it varies by water meter size. The total impact of all rate changes on the typical single-family customer was an increase of 2.1% over 2019 water rates.

Non-Operating Revenues decreased by \$251 thousand, mainly due to a decrease in fair value of investments of \$232 thousand.

Expenses

Regional Water's total operating expenses decreased \$1.99 million to \$51.27 million in 2020, down from \$53.25 million in 2019. Salary expense in 2020 increased by \$1.53 million compared to 2019, however this was mainly due to a one-time correction of \$843 thousand between the two years. Fringe benefit expense decreased by \$1.81 million in 2020, due to a decrease in pension, claims and other post-employment benefits. As a combined total, salary and fringe in 2020 decreased by \$284 thousand compared to 2019. Service expenses decreased \$147 thousand. There were increases and decreases in multiple areas. The largest expense increase of \$556 thousand was in building repair services and is related to the one-time Highland Park Tower repair project. This was offset by a decrease in sludge hauling expenses of \$802 thousand in 2020 relative to 2019; the majority of this difference results from the cyclical nature of sludge-basin cleaning which cost \$637 thousand in 2019 but did not occur in 2020. Materials and supplies decreased by \$92 thousand. There was an increase of \$234 thousand in motor fuel offset by a decrease in water chemical expenses. Miscellaneous expenses decreased by \$1.09 million relative to 2019, in which a \$1.31 million settlement was recorded. Depreciation decreased \$372 thousand.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2020**

Economic and Other Factors

The effects of conservation and cultural changes in our service area continue. Total consumption levels remain stable at or near budgeted levels. Precipitation was 1.86 below normal for the Twin Cities metro area, according to the National Weather Service. Rain fell at regular intervals throughout the growing season. This led to very light demands on our system as there was minimal need to sprinkle lawns and gardens.

As noted above, overall water consumption in 2020 remained stable compared to 2019 at roughly 15.9 million units. The impact of COVID-19 on water consumption was mixed, with certain types of commercial customers such as educational institutions and beverage manufacturers seeing a decline in usage, while others such as hospitals and residential facilities saw an increase. There was a small increase in consumption seen among single-family home accounts in 2020, which may be a reflection of customers spending more time at home due to COVID-19 restrictions.

The impact of COVID-19 on operational and other expenses was minimal. Two notable expense increases include a \$151 thousand increase in computer hardware and software to support staff remote-work capability and a \$144 thousand increase in compensated absences salary expense to account for the organization's decision to allow employees to carry-over 180 hours of accumulated vacation time at year-end as opposed to the customary 120 hours.

Financial Contact

This financial report is designed to provide our customers and creditors with a general overview of Regional Water's finances and to demonstrate Regional Water's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, Saint Paul Regional Water Services, 1900 Rice Street, Saint Paul, Minnesota 55113.

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BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA  
STATEMENT OF NET POSITION  
December 31, 2020  
(Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	26,862,092
Investments	25,664,348
Departmental Cash	309,524
Imprest Funds	2,000
Restricted Cash and Cash Equivalents	
Investments for Revenue Note Debt Service	2,345,064
Investments for Revenue Bond Debt Service	1,508,100
Receivables	
Accounts (Net of Allowance for Estimated Uncollectibles)	5,815,539
Assessments	
Current	1,552,656
Noncurrent	1,799,314
Delinquent	77,645
Accrued Interest	271,763
Due from Primary Government	88,736
Due from Other Governmental Units	679,416
Inventory - Materials and Supplies	2,426,722

Total Current Assets 69,402,919

Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	3,954,103
Investments for Revenue Bond Operations and Maintenance	1,973,568

Total Restricted Assets 5,927,671

Long-Term Loans Receivable 315,816

Capital Assets

Land	4,061,766
Buildings and Structures	57,596,290
Less: Accumulated Depreciation	(28,653,464)
Public Improvements	418,515,154
Less: Accumulated Depreciation	(158,314,587)
Equipment	70,562,851
Less: Accumulated Depreciation	(38,167,280)
Construction in Progress	29,756,582

Total Capital Assets (Net of Accumulated Depreciation) 355,357,312

Total Noncurrent Assets 361,600,799

Total Assets 431,003,718

DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Outflows	1,367,433
Deferred Other Postemployment Benefits Outflows	3,479,537
Total Deferred Outflows of Resources	<u>4,846,970</u>

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA  
STATEMENT OF NET POSITION  
December 31, 2020  
(Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)

Accrued Salaries Payable	590,239
Accounts Payable	2,142,053
Contract Retention Payable	80,611
Due to Primary Government	3,598,297
Due to Other Governmental Units	3,623,916
Unearned Revenue	610,288
Compensated Absences Payable	38,024
Claims and Judgments Payable	732,346

Total Current Liabilities (Payable from Current Assets) 11,415,774

Current Liabilities (Payable from Restricted Assets)

Revenue Notes Payable	1,935,000
Revenue Bonds Payable	1,400,000
Accrued Interest Payable on Revenue Notes	34,172
Accrued Interest Payable on Revenue Bonds	9,008

Total Current Liabilities (Payable from Restricted Assets) 3,378,180

Noncurrent Liabilities

Revenue Notes Payable	22,644,000
Revenue Bonds Payable	2,930,000
Premium on Revenue Bonds	215,891
Compensated Absences Payable	1,932,142
Claims and Judgments Payable	5,958,886
Other Postemployment Benefits Liability	14,896,379
Net Pension Liability	14,499,360

Total Noncurrent Liabilities 63,076,658

Total Liabilities 77,870,612

DEFERRED INFLOWS OF RESOURCES

Deferred Pension Inflows	752,568
Deferred Other Postemployment Benefits Inflows	1,813,372

Total Deferred Inflows of Resources 2,565,940

NET POSITION

Net Investment in Capital Assets	326,232,421
Restricted for Debt Service	9,737,655
Unrestricted	19,444,060

Total Net Position 355,414,136

The notes to the financial statements are an integral part of this statement.

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BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
For the Fiscal Year Ended December 31, 2020  
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	63,029,816
Rents and Leases	981,234
Miscellaneous	<u>272,877</u>
Total Operating Revenues	<u>64,283,927</u>
OPERATING EXPENSES	
Salaries	15,289,274
Employee Fringe Benefits	6,644,506
Services	11,498,559
Materials and Supplies	7,156,738
Depreciation	9,540,462
Miscellaneous	<u>1,136,717</u>
Total Operating Expenses	<u>51,266,256</u>
OPERATING INCOME (LOSS)	<u>13,017,671</u>
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	232,629
Gain on Sale of Assets	23,096
Loss on Retirement of Assets	(36,465)
Investment Income	
Interest Earned on Investments	1,240,253
Increase in Fair Value of Investments	948,997
Miscellaneous Other Revenue (Expenses)	102,298
Interest Expense on	
Revenue Notes	(453,804)
Revenue Bonds	<u>(78,004)</u>
Total Non-Operating Revenues (Expenses)	<u>1,979,000</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>14,996,671</u>
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	<u>2,543,199</u>
CHANGE IN NET POSITION	17,539,870
NET POSITION, January 1	<u>337,874,266</u>
NET POSITION, December 31	<u><u>355,414,136</u></u>

The notes to the financial statements are an integral part of this statement.

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended December 31, 2020  
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	62,693,966
Other Operating Receipts	981,234
Other Receipts	272,877
Payments to Suppliers	(20,471,751)
Payments to Employees	(15,753,230)
Payment for Fringe Benefits and Payroll Taxes	(7,252,488)
Non-Operating Revenue Received	<u>99,718</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 20,570,326

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	193,717
Non-Operating Loans Repayment Received from Customers	<u>104,409</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 298,126

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:	
Revenue Notes	610,967
Cash Proceeds From Sale of Capital Assets:	
Equipment	20,399
Capital Contributions Received:	
From Outside Parties	2,552,528
Principal Paid on Debt Maturities:	
Revenue Bonds	(1,365,000)
Revenue Notes	(2,784,000)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(17,555,519)
Interest Paid On:	
Revenue Bonds	(135,400)
Revenue Notes	<u>(457,597)</u>

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES (19,113,623)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investment Securities	(16,998,987)
Increase in Fair Value of Investments	426,930
Proceeds From Sale and Maturities of Investment Securities	10,937,222
Interest and Dividends on Investments Received	<u>1,176,449</u>

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES (4,458,386)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (2,703,556)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 33,730,336

CASH AND CASH EQUIVALENTS AT END OF YEAR 31,026,780

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended December 31, 2020  
(Amounts in dollars)

Exhibit C

RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss) 13,017,671

Adjustments To Reconcile Operating Income To Net

Cash Provided (Used) by Operating Activities:

Depreciation	9,540,462
Increase (Decrease) in Allowance for Uncollectible Accounts	20
Nonoperating Miscellaneous Other Revenue Received	99,718
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	404,133
(Increase) Decrease in Assessments Receivable	(888,071)
(Increase) Decrease in Due From Primary Government	(2,102)
(Increase) Decrease in Due From Other Governmental Units	(36,477)
(Increase) Decrease in Deferred Other Postemployment Benefits Outflows	(1,162,946)
(Increase) Decrease in Deferred Pension Outflows	(345,685)
(Increase) Decrease in Inventories	(146,537)
Increase (Decrease) in Accrued Salaries Payable	(463,956)
Increase (Decrease) in Accounts Payable	149,757
Increase (Decrease) in Due To Primary Government	(169,603)
Increase (Decrease) in Due To Other Governmental Units	81,224
Increase (Decrease) in Unearned Revenue	186,647
Increase (Decrease) in Compensated Absences Payable	191,252
Increase (Decrease) in Net Pension Liability	1,528,519
Increase (Decrease) in Deferred Pension Inflows	(1,911,223)
Increase (Decrease) in Other Postemployment Benefits Liability	332,885
Increase (Decrease) in Deferred Other Postemployment Benefits Inflows	759,216
Increase (Decrease) in Claims and Judgments Payable	<u>(594,578)</u>

Total Adjustments 7,552,655

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 20,570,326

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	26,862,092
Departmental Cash	309,524
Imprest Funds	2,000
Cash for Revenue Note Debt Service	2,345,064
Cash for General Revenue Bond Debt Service	<u>1,508,100</u>

TOTAL CASH AND CASH EQUIVALENTS 31,026,780

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Loss on Retirement/Deletion of Capital Assets	(36,436)
Increase in Fair Value of Investments	522,068
Capital Assets Purchased on Account - Construction in Progress	2,173,669

The notes to the financial statements are an integral part of this statement.



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**SAINT PAUL REGIONAL WATER SERVICES**  
**SAINT PAUL, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended December 31, 2020**

Index to Notes to the Financial Statements

Note 1	Board of Water Commissioners
Note 2	Summary of Significant Accounting Policies
	A. Financial Reporting Entity
	B. Business-Type Activities
	C. Basis of Accounting/Measurement Focus
	D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position
	1. Cash and Investments
	2. Receivables
	3. Material and Supplies Inventory
	4. Restricted Assets
	5. Capital Assets
	6. Bond Premiums and Issuance Costs
	7. Compensated Absences
	8. Defined Benefit Pension Plan
	9. Deferred Outflows/Inflows of Resources
	10. Equity Classifications
	11. Capital Contributions
	12. Operating and Non-Operating Revenues and Expenses
	13. Use of Estimates
Note 3	Stewardship, Compliance and Accountability
	A. Federal Audit Requirements
Note 4	Detail Notes
	A. Assets
	1. Deposits and Investments
	2. Summary of Accounts Receivable
	3. Summary of Changes in Capital Assets
	B. Liabilities
	1. Debt Obligations of Regional Water
	a. Current and Long-Term Debt Maturities
	b. Changes in Debt Obligations
	c. Principal and Interest Requirements on Debt Obligations
	2. Bonds Payable by Issue
	3. Notes Payable by Issue
	C. Due from Primary Government
	D. Due to Primary Government
Note 5	Other Information
	A. Defined Benefit Pension Plan
	B. Postemployment Benefits Other than Pensions
	C. Risk Management
	D. Contingent Liabilities
	E. Joint Powers
	F. Subsequent Events

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 1. Board of Water Commissioners**

The Board of Water Commissioners of the City of Saint Paul, d/b/a Saint Paul Regional Water Services, hereinafter referred to as Regional Water, is an agency of the City of Saint Paul (City) created pursuant to Minnesota Special Laws for 1885, Chapter 110, to provide safe potable drinking water to Saint Paul and surrounding communities at a reasonable price. The Mayor, with consent of the City Council, appoints five of the seven members of the Board of Water Commissioners. Three members of the Board are City Council members, and two are Citizen members. The other two members are appointed by suburban city councils. The Saint Paul City Council approves Regional Water's water rates and the City has issued bonded debt on behalf of Regional Water.

**Note 2. Summary of Significant Accounting Policies**

The Governmental Accounting Standards Board (GASB) is responsible for establishing accounting principles generally accepted in the United States of America (GAAP) for government units through its pronouncements (statements and interpretations).

The financial statements of Regional Water have been prepared in conformity with GAAP as applied to government units. A summary of the more significant accounting policies established in GAAP and used by Regional Water are provided on the following pages.

**A. Financial Reporting Entity**

In conformance with the application of the criteria set forth in GAAP, Regional Water is part of the City of Saint Paul (the primary government) reporting entity and is shown in the City's Annual Comprehensive Financial Report for the fiscal year ended December 31, 2020, as a discretely presented component unit.

**B. Business-Type Activities**

Regional Water includes business-type activities as an enterprise fund. Business-type activities account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges, and the determination of net income is necessary or useful for sound financial administration.

**SAINT PAUL REGIONAL WATER SERVICES**  
**SAINT PAUL, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended December 31, 2020**

**Note 2. Summary of Significant Accounting Policies (continued)**

**C. Basis of Accounting/Measurement Focus**

The financial statements of Regional Water are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of related cash flows. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation are included on the Statement of Net Position. When both restricted and unrestricted resources are available for use, it is Regional Water's policy to use restricted resources first, and then unrestricted resources, as they are noted.

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position**

**1. Cash and Investments**

For its funds the City maintains a general portfolio, which is a pool of investments covering pooled cash and cash equivalents. This pool is also available for use by Regional Water. In addition, the City invests non-pooled Regional Water investments. These investments are reported at fair value on the Statement of Net Position with recognition of the corresponding changes in fair value of investments reported in the operating statement in the year in which the change occurred. Accordingly, investments are stated at their fair value at December 31, 2020. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value or fair value per share. Investments in nonparticipating interest-earning contracts, such as savings accounts and nonnegotiable certificates of deposit, are reported at cost. Money market investments and participating interest-earning investment contracts (negotiable certificates of deposit), are reported at amortized cost since these investments have a remaining maturity of one year or less at the time of purchase. Money market investments are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations. See Note 4.A.1 for more information.

In 2020, Regional Water recorded a "increase in fair value of investments" of \$948,997 as part of investment income. The non-pooled portion is \$426,930 and the pooled portion is \$522,067. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been included as part of the change in the fair value of investments reported in the prior year.

For purposes of the Statement of Cash Flows, cash equivalents are cash on-hand, cash in banks, and highly liquid investments having original maturities (time span from purchase date to maturity date) of three months or less. Included in the classification of cash equivalents are cash and investments with treasurer, departmental cash, imprest funds, and restricted grants and other contributions.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 2. Summary of Significant Accounting Policies (continued)**

**2. Receivables**

The Accounts Receivable presented on the Statement of Net Position consists of five accounts: Invoices, which is comprised of billable work for damages to infrastructure, such as a hydrant, main break repairs for other municipalities, the installation of a new water service or the inspection of antennas on water towers; Unbilled, which is comprised of work listed above, which is not completed and therefore not billed; Water Billings, which are for the sale and use of water and related billings; Miscellaneous; and the Allowance for Uncollectible Accounts.

The Assessments Receivable consist of Current, Noncurrent, and Delinquent accounts. Current assessments consist of water mains constructed, lead service replacements, and unpaid water bills assessed for the current year. Noncurrent assessments are made up of water main and lead service replacements to be assessed over ten to twenty years. Delinquent assessments are levied assessments that have not been paid from 2015 through 2019.

**3. Material and Supplies Inventory**

Inventories are valued at cost, which approximates market, using the average cost method. Inventory is either expensed or capitalized as part of infrastructure as the materials and supplies are consumed.

**4. Restricted Assets**

Mandatory segregations of assets are presented as restricted assets. Bond agreements or other external parties require such segregations. Current liabilities payable from these restricted assets are so classified.

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 2. Summary of Significant Accounting Policies (continued)**

**5. Capital Assets**

Land, buildings and structures, public improvements, and equipment, are recorded as capital assets on the Statement of Net Position. Regional Water defines capital assets as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of at least three years. Purchased capital assets and capital assets constructed by Regional Water are stated at original cost. Original cost includes material, labor, overhead, an allowance for depreciation for equipment used and an allowance for the cost of funds used during construction when significant. Major outlays for capital assets and improvements are capitalized as projects are constructed. Contributed water systems for which actual costs are not available have been valued by means that estimate their historical value.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

Depreciation of all exhaustible capital assets used by Regional Water is charged as an expense. Accumulated depreciation is offset against the original cost of the capital assets on the Statement of Net Position. Depreciation has been provided over the estimated useful lives using the following methods:

	Method	Years
Building and Structures	Straight Line	15 - 60
Public Improvements	Straight Line	25 - 100
Equipment	Straight Line	3 - 40

**6. Bond Premiums and Issuance Costs**

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, bond issuance costs are expensed in the period incurred.

Bond premiums are deferred and amortized using the straight-line method over the term of the related issue and are presented as an addition of the face amount of bonds payable.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 2. Summary of Significant Accounting Policies (continued)**

**7. Compensated Absences**

The liability for compensated absences includes earned but unpaid vacation and compensatory time, vested sick leave, unvested sick leave expected to vest, and salary-related payments (fringe benefits) associated with the payment of vacation, compensatory time and sick leave balances.

Employees earn vacation based on years of service and their bargaining unit. Vacation must be used in the year it is earned, except for 15 days, which may be carried over to the following year. In 2020, due to the impact of the COVID-19 pandemic and civil unrest, an additional 7.5 days of unused earned vacation days were allowed to be carried to June 30, 2021. Employees are paid 100 percent of their accumulated vacation pay when they terminate their employment. Some bargaining units have amounts paid to a Postemployment Health Plan (PEHP).

Sick leave is earned based on bargaining unit up to a maximum of 15 days per year and may be accumulated indefinitely. Terminated employees receive severance pay based upon unused sick leave. All severance pay is paid to a PEHP in the year following termination. Eligibility requirements and maximum allowable amounts vary, depending upon an employee's bargaining unit. The accrued liability for compensated absences is reported in the financial statements since the compensated absences are considered expenses when incurred. Sick leave which is not expected to vest is not reported in the financial statements. The current portion consists of severance payments made in the subsequent year.

**8. Defined Benefit Pension Plan**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employers Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 2. Summary of Significant Accounting Policies (continued)**

**9. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Regional Water has two items, deferred pension outflows and deferred other postemployment benefits outflows, that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Regional Water has two items, deferred pension inflows and deferred other postemployment benefit inflows, that qualifies for reporting in this category.

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 2. Summary of Significant Accounting Policies (continued)**

**10. Equity Classifications**

Equity is classified as net position and displayed in three components:

- (a) Net Investment in Capital Assets – Consists of capital assets including infrastructure, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. It includes deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt.
- (b) Restricted – Consists of assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation. Such assets are reduced by liabilities and deferred inflows of resources related to those assets.
- (c) Unrestricted – The net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Regional Water first utilizes restricted resources to finance qualifying activities.

**11. Capital Contributions**

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, capital contributions received from developers, customers, other funds of the City of Saint Paul (external or “outside” sources) or water systems acquired from other cities are reported as a separate item and an increase in the net position on the operating statement.

**12. Operating and Non-Operating Revenues and Expenses**

Business-type activities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with business-type activities principal ongoing operations. The principal operating revenues of Regional Water are charges to customers for goods and services. Operating expenses for business-type activities include the cost of goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 2. Summary of Significant Accounting Policies (continued)**

**13. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 3. Stewardship, Compliance and Accountability**

**A. Federal Audit Requirements**

As a recipient of federal, state and local financial assistance, Regional Water is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management.

For 2020, Regional Water is not required to undergo a separate single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The federal award programs expended by Regional Water are presented in the Schedule of Expenditures of Federal Awards in the City of St Paul's Annual Comprehensive Financial Report for the year ended December 31, 2020.

The Uniform Guidance sets forth the audit requirements for local governments receiving federal awards. It provides for a single independent audit of the financial operations, including compliance with certain provision of federal laws and regulations. The requirements have been established to ensure that audits are made on an organization-wide basis rather than a grant-by-grant basis. This audit requirement was complied with for 2020 for the City of Saint Paul.

Grant amounts received or receivable from the federal government are subject to adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of Regional Water. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time, however, Regional Water expects such amounts if any to be immaterial.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 4. Detail Notes**

**A. Assets**

**1. Deposits and Investments**

The City's Treasury Division manages Regional Water's deposit and investment functions.

**Deposits**

Regional Water's deposit functions are managed and maintained by the City of Saint Paul by use of a general portfolio, which is a pool of investments. In accordance with Minnesota Statutes §§ 118A.02 and 118A.03, the City maintains deposits at financial institutions authorized by the City Council, all of which are members of the Federal Reserve System. The Statutes also require that all City deposits be protected by insurance, surety bond, collateral, or an irrevocable letter of credit issued by Federal Home Loan Banks. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. As of December 31, 2020, the City's deposits were not exposed to custodial credit risk. All pledged collateral is held in the City's name at third party institutions, pledged at 110 percent of deposits not covered by insurance or bonds.

Regional Water's deposits of \$3,357,859 (carrying amount) are entirely insured or collateralized with securities held by the City of Saint Paul or by its agent in the City's name.

***Other Funds on Hand***

At December 31, 2020, the total imprest funds were \$2,000. Regional Water also had departmental cash on hand of \$309,524.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 4. A. Assets (continued)**

**Investments**

The City's Investment Policy Statement governs the investment portfolio of the City of Saint Paul. Regional Water adopted the City's Investment Policy Statement. The goals of the City for the portfolio are to preserve financial assets for future operating expenses, maintain reserves to fund unplanned shortfalls and generate income to support the activities of the City. The portfolio is managed in three components as follows:

- (a) **Daily Portfolio:** The daily component represents current operating funds on which draws are made frequently, requiring daily liquidity and preservation of principal. The time horizon on the Daily Portfolio is within a 12-month period.
- (b) **Short-Term Portfolio:** A short-term component serves as a cushion to provide liquidity for possible shortfalls in the Daily Portfolio. Draws against the Short-Term Portfolio are expected to be infrequent. The time horizon on the Short-Term Portfolio is between one and three years.
- (c) **Intermediate-Term Portfolio:** The balance of the Portfolio represents the intermediate-term component, which serves as a reserve for unplanned shortfalls. In general, the Intermediate-Term Portfolio is not expected to experience withdrawals and the time horizon on the Intermediate Portfolio is longer than three years. A portion of the Intermediate-Term Portfolio is managed internally, and the balance is managed by external managers.

Minnesota Statutes §§ 118A.04 and 118A.05, authorize the following types of investments for local governments:

- (a) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Statutes Section 118A.04, Subd. 6;
- (b) in shares of an investment company registered under the Federal Investment Company Act of 1940 provided the mutual fund receives certain ratings depending on its investments;
- (c) general obligations of the State of Minnesota and its municipalities and in any security, which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
- (d) in bankers' acceptances of United States banks; or
- (e) in commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 4. A. Assets (continued)**

(f) Repurchase agreements may be entered into with:

- 1) a bank qualified as a depository;
- 2) any national or state bank in the United States, which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000;
- 3) a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- 4) a securities broker-dealer licensed pursuant to Chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.

(g) Securities lending agreements; and

(h) Guaranteed investment contracts.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City's policy to invest only in securities that meet the ratings requirements set by state statute.

Regional Water's exposure to credit risk as of December 31, 2020, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody's	Aaa	\$29,456,720
Moody's	Aa2	<u>2,135,300</u>
		<u>\$31,592,020</u>

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2020, all investment securities were in the City's name and were held in the custody of US Bank under the City's name and therefore are not subject to custodial credit risk.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 4. A. Assets (continued)**

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the City’s investment in a single issuer. It is the City’s policy that U.S. Treasury securities, U.S. Agency Securities, and obligations backed by U.S. Treasury and/or U.S. Agency securities, may be held without limit. At December 31, 2020, the City does not have investments in any one issuer that represent 5 percent or more of the City’s total investments portfolio and therefore, also not subject to concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City’s internal portfolio has a shorter overall weighted duration than the benchmarks established for each component portfolio. All else being equal, this would be expected to reduce the risk to adverse effects from rising interest rates.

At December 31, 2020, Regional Water had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>1 Year or Less</u>	<u>2 to 5 Years</u>	<u>6 to 10 Years</u>	<u>Greater than 10 Years</u>
U.S. Agencies	\$ 29,456,720	\$ -	\$ -	\$ 18,289,580	\$ 11,167,440
Municipal Bonds	2,135,300	-	-	2,135,000	-
	<u>\$ 31,592,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,424,580</u>	<u>\$ 11,167,440</u>

Fair Value Measurements

Regional Water measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 4. A. Assets (continued)**

At December 31, 2020, Regional Water had the following recurring fair value measurements.

	Fair Value Measurements Using			
	12/31/2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt Securities				
U.S. Agencies	\$ 29,456,720	\$ -	\$ 29,456,720	\$ -
Municipal Bonds	2,135,300	-	2,135,300	-
	<u>\$ 31,592,020</u>	<u>\$ -</u>	<u>\$ 31,592,020</u>	<u>\$ -</u>

Debt securities classified in Level 2 are valued using a market approach by utilizing quoted prices for identical securities in markets that are not active.

Regional Water invests funds in the City of Saint Paul's investment pool. The fair value of the investment is the fair value per share of the underlying portfolio. Regional Water invests in this pool for the purpose of joint investment with the City in order to enhance investment earnings. There are no redemption limitations.

**Recap**

The deposits and investments as described above are recorded in the financial statements as:

Cash and Investments with Treasurer	\$ 26,862,092
Investments	25,664,348
Departmental Cash	309,524
Imprest Funds	2,000
Restricted Cash, Cash Equivalents and Investments:	
Revenue Note Debt Service	2,345,064
Revenue Bond Debt Service	1,508,100
Revenue Bond Future Debt Service	3,954,103
Revenue Bond Operations and Maintenance	1,973,568
Total	<u>\$ 62,618,799</u>
Deposits	\$ 3,357,859
Investments	31,592,020
Regional Water's Portion of City Cash Pool	27,357,396
Departmental Cash	309,524
Imprest Funds	2,000
Total	<u>\$ 62,618,799</u>

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 4. A. Assets (continued)**

**2. Summary of Accounts Receivable**

The receivables account presented on the Statement of Net Position consists of five accounts. The balance of those accounts as of December 31, 2020, is as follows:

Accounts Receivable - Invoices	\$ 146,126
Accounts Receivable - Water Billings	5,681,070
Accounts Receivable - Unbilled	110,618
Accounts Receivable - Miscellaneous	14,188
Allowance for Uncollectible Accounts	<u>(136,463)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 5,815,539</u>

**3. Summary of Changes in Capital Assets**

A summary of changes in capital assets follows:

	01/01/2020	Additions	Deductions	12/31/2020
Capital Assets Not Being Depreciated:				
Land	\$ 4,061,766	\$ -	\$ -	\$ 4,061,766
Construction in Progress	24,770,244	16,611,629	(11,625,291)	29,756,582
Total Capital Assets Not Being Depreciated	<u>\$ 28,832,010</u>	<u>\$ 16,611,629</u>	<u>\$ (11,625,291)</u>	<u>\$ 33,818,348</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 57,605,699	\$ -	\$ (9,409)	\$ 57,596,290
Public Improvements	415,173,249	3,872,733	(530,828)	418,515,154
Equipment	60,925,397	9,741,646	(104,192)	70,562,851
Total Capital Assets Being Depreciated	<u>\$ 533,704,345</u>	<u>\$ 13,614,379</u>	<u>\$ (644,429)</u>	<u>\$ 546,674,295</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (27,470,343)	\$ (1,192,530)	\$ 9,409	\$ (28,653,464)
Public Improvements	(151,934,464)	(6,899,900)	519,777	(158,314,587)
Equipment	(36,072,509)	(2,173,588)	78,817	(38,167,280)
Total Accumulated Depreciation*	<u>\$ (215,477,316)</u>	<u>\$ (10,266,018)</u>	<u>\$ 608,003</u>	<u>\$ (225,135,331)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 318,227,029</u>	<u>\$ 3,348,361</u>	<u>\$ (36,426)</u>	<u>\$ 321,538,964</u>
Capital Assets, Net	<u>\$ 347,059,039</u>	<u>\$ 19,959,990</u>	<u>\$ (11,661,717)</u>	<u>\$ 355,357,312</u>

\*Total Accumulated Depreciation is reduced by an allowance of \$725,556 for equipment used to construct capital assets; net depreciation reported is \$9,540,462 (\$10,266,018 - \$725,556).



**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 4. Detail Notes (continued)**

**B. Liabilities**

**1. Debt Obligations of Regional Water**

**a. Current and Long-Term Debt Maturities**

At December 31, 2020, long-term debt consisted of:

	Principal		
	Unpaid Balances December 31, 2020	Less Current Maturities	Long-Term Maturities
Revenue Notes	\$ 24,579,000	\$ 1,935,000	\$ 22,644,000
Revenue Bonds	4,330,000	1,400,000	2,930,000
Compensated Absences	1,970,166	38,024	1,932,142
Claims and Judgments	6,691,232	732,346	5,958,886
<b>Total</b>	<b>\$ 37,570,398</b>	<b>\$ 4,105,370</b>	<b>\$ 33,465,028</b>

**b. Changes in Debt Obligations**

The following table displays the changes in Regional Water's debt obligations:

	01/01/20	Additions	Deductions	12/31/20
Revenue Notes	\$ 26,752,033	\$ 610,967	\$ 2,784,000	\$ 24,579,000
Revenue Bonds	5,695,000	-	1,365,000	4,330,000
Compensated Absences	1,778,914	1,140,165	948,913	1,970,166
Claims and Judgments	7,285,810	1,542,411	2,136,989	6,691,232
<b>Total</b>	<b>\$ 41,511,757</b>	<b>\$ 3,293,543</b>	<b>\$ 7,234,902</b>	<b>\$ 37,570,398</b>

**SAINT PAUL REGIONAL WATER SERVICES  
 SAINT PAUL, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Fiscal Year Ended December 31, 2020**

**Note 4. B. Liabilities (continued)**

**c. Principal and Interest Requirements on Debt Obligations**

i. All Debt

Aside from Compensated Absences and Claims and Judgments, the annual requirements to pay the principal of \$28,909,000 and interest of \$2,673,577 on all Regional Water debt outstanding as of December 31, 2020, are as follows:

<u>YEAR</u>	<u>2013A REVENUE BONDS</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$1,400,000	\$108,100	\$1,508,100
2022	\$1,435,000	\$66,100	\$1,501,100
2023	\$745,000	\$37,400	\$782,400
2024	\$750,000	\$22,500	\$772,500
	<u>\$4,330,000</u>	<u>\$234,100</u>	<u>\$4,564,100</u>

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 4. B. Liabilities (continued)**

YEAR	2010A DRINKING WATER REVENUE NOTE			2010B DRINKING WATER REVENUE NOTE			2014 DRINKING WATER REVENUE NOTE		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2021	\$300,000	\$67,508	\$367,508	\$1,170,000	\$261,750	\$1,431,750	\$108,000	\$16,925	\$124,925
2022	\$310,000	\$61,619	\$371,619	\$1,210,000	\$238,795	\$1,448,795	\$109,000	\$15,793	\$124,793
2023	\$480,000	\$55,533	\$535,533	\$1,875,000	\$215,055	\$2,090,055	\$110,000	\$14,651	\$124,651
2024	\$335,000	\$46,111	\$381,111	\$1,305,000	\$178,267	\$1,483,267	\$111,000	\$13,498	\$124,498
2025	\$510,000	\$39,535	\$549,535	\$1,985,000	\$152,663	\$2,137,663	\$112,000	\$49,801	\$124,335
2026-30	\$1,504,000	\$89,611	\$1,593,611	\$5,796,000	\$346,293	\$6,142,293	\$579,000	\$19,116	\$622,795
2031-35	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$486,000	\$12,787	\$498,787
2036	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$3,439,000	\$393,386	\$3,798,917	\$13,341,000	\$1,392,823	\$14,733,823	\$1,615,000	\$129,784	\$1,744,784

YEAR	2016 DRINKING WATER REVENUE NOTE			TOTAL REVENUE NOTES		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$357,000	\$63,881	\$420,881	\$1,935,000	\$410,064	\$2,345,064
2022	\$361,000	\$60,193	\$421,193	\$1,990,000	\$376,400	\$2,366,400
2023	\$365,000	\$56,464	\$421,464	\$2,830,000	\$341,703	\$3,171,703
2024	\$369,000	\$52,693	\$421,693	\$2,120,000	\$290,569	\$2,410,569
2025	\$373,000	\$48,882	\$421,882	\$2,980,000	\$253,415	\$3,233,415
2026-30	\$1,920,000	\$185,887	\$2,105,887	\$9,799,000	\$665,586	\$10,464,586
2031-35	\$2,022,000	\$84,644	\$2,106,644	\$2,508,000	\$97,431	\$2,605,431
2036	\$417,000	\$4,309	\$421,309	\$417,000	\$4,309	\$421,309
	\$6,184,000	\$556,953	\$6,740,953	\$24,579,000	\$2,439,477	\$27,018,477

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 4. B. Liabilities**

i. All Debt (continued)

Regional Water entered into a loan agreement for a long-term note with the Minnesota Public Facilities Authority (MNPFA), a component unit of the State of Minnesota. This is a reimbursement note; interest accrues only on the aggregate amount of the note which has been disbursed.

The note originally was in the amount of \$7,564,417. The note was reduced to \$7,404,662 in June 2020. The proceeds of the note were for the purchase and installation of the McCarron’s electrical switchgear and related electrical appurtenances. The total principal amount of the long-term portion of the loan at December 31, 2020, was \$5,827,000.

ii. Claims and Judgments

Claims and judgment expenses and liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. These liabilities include an estimate of claims furnished by the City Attorney’s Office and City’s Risk Management Division that have been incurred but not reported. At December 31, 2020, the claims and judgments liability was \$6,691,232.

iii. Compensated Absences

Included in Regional Water’s debt are compensated absences for \$1,970,166.

**2. Bonds Payable by Issue**

<u>Issue</u>	<u>Interest Rate and Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Revenue	1.52%; 06/01; 12/01	03/18/13	12/01/24	<u>\$4,330,000</u>
Total				<u>\$4,330,000</u>

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 4. B. Liabilities (continued)**

**3. Notes Payable by Issue**

<u>Issue</u>	<u>Interest Rate and Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	\$ 3,439,000
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	13,341,000
Drinking Water Revenue Note	1.05%; 06/01; 12/01	06/19/14	12/01/34	1,615,000
Drinking Water Revenue Note	1.03%; 06/01; 12/01	11/28/16	12/01/36	<u>6,184,000</u>
Total				<u>\$24,579,000</u>

**C. Due From Primary Government**

At December 31, 2020, Regional Water reported the following receivable from the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Sewer Utility	Enterprise Fund	\$88,736

**D. Due To Primary Government**

At December 31, 2020, Regional Water reported the following payable to the City of Saint Paul:

<u>City Fund Title</u>	<u>City Fund Type</u>	<u>Amount</u>
Sewer Utility	Enterprise Fund	\$3,598,297

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. Other Information**

**A. Defined Benefit Pension Plan**

**Plan Description**

All full-time and certain part-time employees of Regional Water are employees of the City of Saint Paul and are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees Plan), which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minnesota Statutes Chapters 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. Regional Water is not required to make any contributions to the Basic Plan or the Minneapolis Employees Retirement Fund, and no Regional Water employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. Information on the City Employee Pension Plan is contained in the City's Annual Comprehensive Financial Report for the Fiscal Year Ended December 31, 2020.

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. A. Defined Benefit Pension Plan**

**Benefits Provided**

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

Beginning January 1, 2019, General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase.

For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

The benefit provisions stated in the following paragraph of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits, but are not yet receiving them, are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. A. Defined Benefit Pension Plan**

**Contributions**

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minnesota Statutes Chapter 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in 2020.

In 2020, Regional Water was required to contribute 7.50 percent of annual covered salary for General Employees Retirement Plan Coordinated Plan members. The employee and employer contribution rates did not change from the previous year.

Regional Water's contributions for the General Employees Plan for the year ended December 31, 2020, was \$1,336,785. The contributions are equal to the contractually required contributions as set by state statute.

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. A. Defined Benefit Pension Plan (continued)**

**Pension Costs**

At December 31, 2020, Regional Water reported a liability of \$14,499,360 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Regional Water's proportion of the net pension liability was based on Regional Water's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, Regional Water's proportion was 0.2418 percent. It was 0.2346 percent measured as of June 30, 2019. Regional Water recognized pension expense of \$635,830 for its proportionate share of the General Employees Plan's pension expense.

Regional Water also recognized \$38,912 as revenue, which results in a reduction of the net pension liability for its proportionate share of the State of Minnesota's contributions to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually.

Regional Water's proportionate share of the net pension liability	\$ 14,499,360
State of Minnesota's proportionate share of the net pension liability associated with Regional Water	447,109
Total	\$ 14,946,469

Regional Water reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 128,338	\$ 54,859
Changes in actuarial assumptions	-	531,286
Difference between projected and actual investment earnings	255,286	-
Changes in proportion	299,926	166,423
Contributions paid to PERA subsequent to the measurement date	683,883	-
	\$ 1,367,433	\$ 752,568

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. A. Defined Benefit Pension Plan**

**Pension Costs (continued)**

The \$683,883 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2021	(823,977)
2022	29,652
2023	374,999
2024	350,308

**Actuarial Assumptions**

The total pension liability in the June 30, 2020, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.25 percent per year
Active member payroll growth	3.00 percent per year
Investment rate of return	7.50 percent per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on Pub-2010 General Employee Mortality Table, with slight adjustments. The cost of living benefit increases for retirees are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was dated June 27, 2019. Inflation and investment assumptions were reviewed in the experience study report for the General Employees Plan.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. A. Defined Benefit Pension Plan**

**Actuarial Assumptions (continued)**

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equities	35.50%	5.10%
Bond international stock pool	17.50%	5.30%
Bond pool	20.00%	0.75%
Alternatives	25.00%	5.90%
Cash equivalents	2.00%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50 percent in 2020, which remained consistent with 2019. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. A. Defined Benefit Pension Plan (continued)**

**Changes in Actuarial Assumptions and Plan Provisions**

The following changes in actuarial assumptions occurred in 2020:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality Table to the Pub-2010 General/Teacher Disabled Retiree Annuitant Mortality Table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2% for the period July 1, 2020 through December 31, 2023 and 0% thereafter. Augmentation was eliminated for privatizations occurring June 30, 2020.

**SAINT PAUL REGIONAL WATER SERVICES  
 SAINT PAUL, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Fiscal Year Ended December 31, 2020**

**Pension Liability Sensitivity**

The following presents Regional Water’s proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what Regional Water’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Proportionate share of the General Employees Retirement Plan net pension liability	\$ 23,237,444	\$ 14,499,360	\$ 7,291,142

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. B. Postemployment Benefits Other than Pensions**

**Plan Description**

In addition to the pension benefits described in Note 5.A., Regional Water, through the City of Saint Paul (City) provides other postemployment health care and life insurance benefits (OPEB) for retired employees through a cost-sharing multiple employer defined benefit plan. The authority to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2a. The benefit levels, employee contributions and employer contributions are governed by the City and can be amended by the City through the City’s collective bargaining agreements with employee groups. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a separate report.

**Benefits Provided**

Regional Water provides postemployment health care and life insurance benefits to its retirees. To be eligible for benefits, an employee must be collecting a state retirement pension and have been employed by the City for a minimum of 20 years. This coverage may also extend to the retiree’s family. Benefits include general inpatient and outpatient medical services; mental and substance abuse care; vision care; preventative dental; and prescriptions.

Life insurance in the amount of \$5,000 to \$20,000 is provided to some retirees under age 65 (early retirees), depending upon collective bargaining agreements. A few over age 65 retirees have varying amounts of life insurance that had been continued due to disability.

The majority of employee benefit amounts have been capped. The benefit amount varies depending upon employment date and bargaining unit agreement as indicated below:

**Health Care Benefit**

	<u>Under Age 65</u> <u>(early retiree)</u>	<u>Over Age 65</u> <u>(regular retiree)</u>
Employees who retired before January 1, 1996	\$250 per month	100%
Employees hired before January 1, 1996 and retiring after January 1, 1996	\$350 per month	\$550 per month
Employees hired after January 1, 1996	\$300 per month	\$300 per month

This benefit has been discontinued for Tri-Council employees hired after January 1, 1996.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. B. Postemployment Benefits Other than Pensions**

**Benefits Provided (continued)**

Life Insurance Benefit

Retirees are eligible to continue on the City’s life insurance program until age 65 in amounts that range from \$5,000 - \$20,000.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB 75. The OPEB plan does not issue a stand-alone financial report.

**Employees Covered by Benefit Terms**

As of the December 31, 2018 valuation date, the employees covered by the benefit terms consisted of:

Active employees electing coverage	221
Active employees waiving coverage	3
Retired employees electing coverage	<u>148</u>
Total	<u>372</u>

**Total OPEB Liability**

Regional Water’s total OPEB liability of \$14,896,379 was measured as of December 31, 2019. Regional Water has elected to use the GASB 75 “lookback” method where liabilities are measured as of the prior fiscal year-end, but applied to the current fiscal year. The valuation, measurement, and reporting dates are:

- |  |                                |
|--|--------------------------------|
| a. Valuation date (census)                   | December 31, 2018              |
| b. Measurement date (assets and liabilities) | December 31, 2019              |
| c. Measurement period                        | January 1 to December 31, 2019 |
| d. Reporting date (fiscal year end)          | December 31, 2020              |

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. B. Postemployment Benefits Other than Pensions**

**Total OPEB Liability (continued)**

The total OPEB liability in the fiscal year-end December 31, 2020, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Discount rate	The current discount rate is 2.75 percent. The discount rate was selected from an index rate for 20-year, tax-exempt municipal bonds. (Fidelity 20-year Municipal GO AA Index)
Inflation rate	2.50 percent
Mortality	
General Employees	From the July 1, 2019 PERA of Minnesota General Employees Retirement Plan actuarial valuation, mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2018, and other adjustments.
Police and Fire	From the July 1, 2019 PERA of Minnesota Public Employees Police and Fire Retirement Plan actuarial valuation, mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2018, and other adjustments.
Health care cost trend rate	The health care cost trend rate is 6.4% for FY2019, gradually decreasing over several decades to an ultimate rate of 4.0% in FY2075 and later years.
Actuarial Cost Method	Entry Age Normal level percent of pay.

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. B. Postemployment Benefits Other than Pensions (continued)**

**Changes in the Total OPEB Liability**

The actuarial assumptions are currently based on a combination of historical data and the most recent actuarial valuation for OPEB as of December 31, 2019:

	<u>Total OPEB Liability</u>
OPEB Liability, January 1, 2020	\$ 14,563,494
Changes for the year:	
Service cost	\$ 272,303
Interest	491,365
Differences between expected and actual experience	(11,341)
Changes in assumptions	1,503,670
Benefit payments	(663,908)
Change in proportion	(1,259,204)
Net change	<u>\$ 332,885</u>
Balance at December 31, 2020	<u>\$ 14,896,379</u>

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. B. Postemployment Benefits Other than Pensions (continued)**

**OPEB Liability Sensitivity**

The following presents the total OPEB liability of Regional Water, calculated using the discount rate previously disclosed, as well as what Regional Water's total OPEB liability would be if it were calculated using a discount rate that is 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	1.75%	\$16,757,340
Current	2.75%	\$14,896,379
1% Increase	3.75%	\$13,335,219

The following presents the total OPEB liability of Regional Water, calculated using the health care cost trend previously disclosed, as well as what Regional Water's total OPEB liability would be if it were calculated using health care cost trend rates that are 1.0 percentage point lower or 1.0 percentage point higher than the current health care cost trend rate:

	<u>Health Care Trend Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	5.4%	\$13,979,428
Current	6.4%	\$14,896,379
1% Increase	7.4%	\$15,861,973

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended December 31, 2020, Regional Water recognized a credit to the OPEB expense of \$70,846 due to the correction in the proportionate share of the fiscal 2019 OPEB expense. Regional Water reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual liability	\$ 880,122	\$ 9,562
Changes in actuarial assumptions	1,644,422	159,480
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,644,330
Contributions subsequent to the measurement date	954,993	-
Total	<u>\$ 3,479,537</u>	<u>\$ 1,813,372</u>

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. B. Postemployment Benefits Other than Pensions**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)**

The \$954,993 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of OPEB liability in the year ended December 31, 2021. The remaining amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31</u>	<u>OPEB Expense Amount</u>
2021	\$176,313
2022	176,313
2023	176,313
2024	141,309
2025	19,909
Thereafter	<u>21,015</u>
Total	<u>\$711,172</u>

**Changes in Actuarial Assumptions**

The benefits and actuarial assumptions are based on the same plan provisions and assumptions described in the 2019 annual report with the exception of the discount rate. The discount rate was changed from 3.71 percent to 2.75 percent based on 20-year municipal bond rates.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. Other Information (continued)**

**C. Risk Management**

Regional Water is exposed to various risks of losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Regional Water utilizes the services of the City Attorney’s Office and the City’s Risk Management Division to manage its risks. Regional Water is self-insured for general liability obligations and unemployment compensation benefits. Commercial insurance or surety bonds are carried for employee faithful performance, fire and all-risk property coverage, and workers’ compensation reinsurance. There have been no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for any of the past three fiscal years.

A complete audit and actuarial analysis is conducted to ensure proper premium, retention, and administrative charges. The following discloses the change in the balance of the claims liability during fiscal years 2019 and 2020:

	Year Ended <u>12/31/2019</u>	Year Ended <u>12/31/2020</u>
Beginning fiscal year liability	\$4,857,531	\$7,285,810
Current year claims and changes in estimates	3,252,186	1,542,411
Claim payments	<u>(823,907)</u>	<u>(2,136,989)</u>
End of year liability	<u>\$7,285,810</u>	<u>\$6,691,232</u>

Minnesota Statutes § 466.04 limit Regional Water’s financial exposure for tort claims arising from general liability or vehicle liability exposures. The limits are \$300,000 per individual and \$750,000 per accident for any number of claims arising out of a single occurrence for claims arising on or after January 1, 1998, and before January 1, 2000. For claims arising on or after January 1, 2000, and before January 1, 2008, the limit per accident for any number of claims arising out of a single occurrence is \$1,000,000 and \$300,000 per individual. For claims arising on or after January 1, 2008 and before July 1, 2009, the limit per accident for any number of claims arising out of a single occurrence is \$1,200,000 and \$400,000 per individual. For claims arising on or after July 1, 2009, the limit per accident for any number of claims arising out of a single occurrence is \$1,500,000 and \$500,000 per individual. The limits double when the claim arises out of the release or threatened release of a hazardous substance. Regional Water does not carry commercial liability and collision insurance for the vehicles it owns.

**D. Contingent Liabilities**

Regional Water, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigations; it is expected that the final settlement of these matters will not materially affect the financial statements of Regional Water.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2020**

**Note 5. Other Information (continued)**

**E. Joint Powers**

The Ramsey County Geographic Information Systems (GIS) Users Group (Users Group) was established in 1995 by a joint powers agreement among public agencies interested in using GIS and data created and maintained by Ramsey County. The agreement was to enable those parties who are part of the Users Group to be represented by the Users Group for the purposes of undertaking negotiations and transactions with Ramsey County and any other body politic. Joining this group provides Regional Water staff the ability to share costs and information with over 23 cities, school districts, watersheds, utilities and other agencies within Ramsey County. Regional Water became part of the Users Group in January 2006. The current agreement is effective through 2020. Regional Water was not assessed \$2,791 for 2020. Financial information can be obtained from the City of Maplewood located at 1830 County Road B East, Maplewood, Minnesota 55109.

The joint powers agreement between Regional Water, the City of Minneapolis, and the City of Saint Cloud was renewed August 11, 2020, it was created to collaboratively implement the Upper Mississippi River Source Water Protection Project (Project). The parties agree to make cash contributions to the Project of up to \$10,000 annually. The agreement is effective through 2030. The City of Saint Cloud administers all aspects of the Project. Financial information can be obtained from the City of St. Cloud, 400 Second Street South, St. Cloud, Minnesota 56301.

**G. Subsequent Events**

Regional Water has been approved to issue and sell Water Revenue Bonds, Series 2021 up to \$71,000,000. The proceeds will be used to fund Water Capital Improvement Plan 2020-2022 projects. These include the McCarron's Treatment Plan Improvements Phase I and first year of Phase II.

On 3/24/2021 SPRWS issued a \$15,400,000 Water Revenue Note, Series 2021 through the Minnesota Public Facilities Authority Drinking Water Revolving Fund. This a reimbursement note, interest accrues only on the aggregate amount of the note which has been disbursed. The proceeds of the note will fund the McCarron's Treatment Plan Improvements Phase I Design. The interest rate is 1%. Principal and interest payments are due June and December with the first payment starting December 1, 2021.

## REQUIRED SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Fiscal Year Ended December 31, 2020**

**Schedule 1**

<b>Schedule of Proportionate Share of Net Pension Liability PERA General Employees Retirement Plan <sup>(1)</sup> Last Ten Years <sup>(2)</sup></b>									
Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share of the Net Pension Liability Associated with Regional Water	Employer's Proportionate Share of the Net Pension Liability and State's Related Share of the Net Pension Liability (Asset)	Covered Payroll <sup>(3)</sup>	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		
	(a)	(b)	(a + b)	(c)	(a/c)				
June 30, 2015	0.2403%	NA	\$12,451,952	\$14,126,414	88.15%	78.19%			
June 30, 2016	0.2410%	\$255,613	\$19,599,276	\$14,941,525	129.46%	68.91%			
June 30, 2017	0.2419%	\$194,141	\$15,633,834	\$15,569,391	99.17%	75.90%			
June 30, 2018	0.2389%	\$434,744	\$13,688,867	\$16,059,160	82.53%	79.53%			
June 30, 2019	0.2346%	\$403,136	\$13,373,977	\$16,601,488	78.13%	80.20%			
June 30, 2020	0.2418%	\$447,109	\$14,946,469	\$17,247,170	84.07%	79.06%			

<sup>(1)</sup> For information regarding the pension plan see Note 5.A. on pages 37 - 44.

<sup>(2)</sup> This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

<sup>(3)</sup> For purposes of this schedule, covered payroll is defined as "pensionable wages".

NA – Not Applicable.

The notes to the required supplementary information are an integral part of this schedule.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Fiscal Year Ended December 31, 2020**

**Schedule 2**

<b>Schedule of Pension Contributions PERA General Employees Retirement Plan <sup>(1)</sup> Last Ten Years <sup>(2)</sup></b>					
Fiscal Year Ending	Statutorily Required Contribution (a)	Actual Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (b-a)	Covered Payroll <sup>(3)</sup> (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
December 31, 2015	\$1,069,877	\$1,069,877	\$0	\$14,265,031	7.50%
December 31, 2016	\$1,145,685	\$1,145,685	\$0	\$15,275,800	7.50%
December 31, 2017	\$1,184,859	\$1,184,859	\$0	\$15,798,124	7.50%
December 31, 2018	\$1,219,883	\$1,219,883	\$0	\$16,265,107	7.50%
December 31, 2019	\$1,268,599	\$1,268,599	\$0	\$16,914,659	7.50%
December 31, 2020	\$1,336,785	\$1,336,785	\$0	\$17,823,800	7.50%

<sup>(1)</sup>For information regarding the pension plan see Note 5.A. on pages 37 - 44.

<sup>(2)</sup> This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

<sup>(3)</sup>For purposes of this schedule, covered payroll is defined as "pensionable wages".

The notes to the required supplementary information are an integral part of this schedule.



**SAINT PAUL REGIONAL WATER SERVICES**  
**SAINT PAUL, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Fiscal Year Ended December 31, 2020**

**Schedule 3**

**Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios <sup>(1)</sup>**  
**Last Ten Years <sup>(2)</sup>**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service Cost	\$ 272,303	\$ 315,981	\$ 286,706
Interest	491,365	439,894	505,484
Difference between expected and actual experience	(11,341)	1,404,413	-
Change in actuarial assumptions	1,503,670	(254,483)	808,838
Benefit payments	(663,908)	(632,548)	-
Change in Proportion	(1,259,204)	(942,542)	(687,667)
Net Change in Total OPEB Liability	<u>\$ 332,885</u>	<u>\$ 330,715</u>	<u>\$ 908,361</u>
Total OPEB Liability-Beginning	<u>\$ 14,563,494</u>	<u>\$ 14,332,779</u>	<u>\$ 13,324,418</u>
Total OPEB Liability-Ending	<u>\$ 14,896,379</u>	<u>\$ 14,563,494</u>	<u>\$ 14,232,779</u>
Covered Payroll <sup>(3)</sup>	\$ 15,963,694	\$ 15,597,740	\$ 12,836,507
Total OPEB liability as a percentage of covered employee payroll	93.31%	93.37%	110.88%

(1) For information regarding the plan see Note 5.B. on pages 45 - 50.

(2) This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

(3) For purposes of this schedule, covered payroll is defined as "OPEB eligible payroll".

The notes to the required supplementary information are an integral part of this schedule.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
For Fiscal Year Ended December 31, 2020**

**Note 1. Defined Benefit Pension Plan**

**A. Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions**

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

General Employees Retirement Plan

2020

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality Table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.

**SAINT PAUL REGIONAL WATER SERVICES**  
**SAINT PAUL, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For Fiscal Year Ended December 31, 2020**

2020 (continued)

- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018

- The mortality projection (MP) scale was changed from MP-2015 to MP-2017.
- The assumed benefit rate increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.

**SAINT PAUL REGIONAL WATER SERVICES**  
**SAINT PAUL, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For Fiscal Year Ended December 31, 2020**

2018 (continued)

- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**SAINT PAUL REGIONAL WATER SERVICES**  
**SAINT PAUL, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For Fiscal Year Ended December 31, 2020**

**Note 2. Other Postemployment Benefits Plan**

In 2018, Regional Water implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 5.B. in the notes to the financial statements for additional information regarding Regional Water's other postemployment benefits.

**A. Employer Contributions to Postemployment Benefits Plan**

Assets have not been accumulated in a trust that meets the criteria in paragraph four of the GASB Statement No. 75 to pay related benefits.

**B. Changes Affecting the Total Other Postemployment Benefits Liability**

The following changes in the actuarial assumptions occurred:

2020

- The discount rate was changed from 3.71% to 2.75% based on updated 20-year municipal bond rates

2019

- The discount rate was changed from 3.31 percent to 3.71 percent based on 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including the repeal of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal, retirement, mortality, and salary increase rates were updated from the rates used in the 7/1/2016 PERA General Employees Retirement Plan and 7/1/2016 PERA Public Employees Police & Fire Plan valuations to the rates used in the 7/1/2019 valuations.
- The percent of future Medicare eligible retirees electing each medical plan changed to reflect recent plan experience and new plan offerings. (Health Partners Retiree National Choice Plan at 90% and Journey Plan at 10%).
- The inflation assumption was changed from 2.75 percent to 2.50 percent based on updated historical analysis of inflation rates and forward-looking market expectations.

**SAINT PAUL REGIONAL WATER SERVICES**  
**SAINT PAUL, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For Fiscal Year Ended December 31, 2020**

**Note 2. Other Postemployment Benefits Plan (continued)**

2018

- The discount rate used changed from 3.81 percent to 3.31 percent.
- Regional Water has elected to use the GASB 75 “lookback” method where assets and liabilities are measured as of the prior fiscal year end but applied to the current fiscal year.
- The amortization method changed from amortizing the entire Unfunded Actuarial Accrued Liability as a level dollar amount over a 30-year open period to straight-line amortization over a closed 5-year period for Investment Gains and Losses and over a closed period equal to the average of the expected remaining service lives of all members that are provided with OPEB through the plan.
- Regional Water is considered a cost-sharing multiple employer plan under GASB 75 rules. GASB 75 mandated that the plan’s costs are calculated for the entire plan and then allocated proportionately to each participating employer (City of Saint Paul and Regional Water).

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