

**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, 2021**

**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, 2021**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Mara Humphrey ♦ Vice President: Nelsie Yang

Commissioners: ♦ Marylee Abrams ♦ Amy Brendmoen ♦ Alene Tchourumoff ♦ Chris Tolbert

December 16, 2022

TO: BOARD OF WATER COMMISSIONERS

Mara Humphrey, President

Nelsie Yang, Vice President

Commissioner Marylee Abrams

Commissioner Amy Brendmoen

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, 2021. 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, certain required supplementary information, and 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.

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 General Manager, Assistant General Manager, Business Improvement Unit (BIU), Public Relations, Safety and Security, and Human Resources (HR).

The COVID-19 Pandemic remained a focus of the Administrative Division in 2021. 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 and distributing sanitation stations, masks, gloves, and other personal protective equipment. The security officer managed and updated the COVID dashboard and represented SPRWS on a city-wide team evaluating appropriate next steps. The Human Resources team quickly responded to changes in policy and staffing needs in response to a significant increase in school closures and other COVID related absenteeism.

In addition to COVID, the Administration team spent a significant amount of time responding to summer drought conditions. As severe drought conditions impacted communities across the State, Saint Paul Regional Water Services (SPRWS) implemented voluntary and then required watering restrictions in July and August of 2021. The flow rates at our intake station on the Mississippi River greatly dictate the necessary actions to reduce customer demand. These moves were the first of their kind at SPRWS in over 30 years and were necessary to help encourage customers to restrict their lawn watering to odd or even days of the month based on address number. Our Public Relations Manager spent a great deal of time working to communicate water restrictions put in place due to the drought. The website, emails, press releases, and social media were used to contact our customers and inform them of the new watering rules. Our BIU and HR teams also worked to ensure internal staff were trained on the decisions being made and could help customers with their variety of drought related questions and concerns.

Another large project in 2021 was the renewal of many of the union contracts which our employees work under. Our Human Resources team helped to represent SPRWS in negotiations and make sure the decisions being made worked for our employees and organization. Unfortunately, Tri-Council, our largest bargaining group, was unable to come to a quick agreement and filed an intent to strike. This action resulted in the administration team working together to update/develop strike preparation plans that had not been needed in many years. Fortunately, the City and Tri-Council were able to come to an agreement and a strike was avoided.

While COVID, the drought, and possible strike took a bulk of time in 2021, a lot of other great work was occurring within the Administration Division throughout the year.

Safety and security coordination for the Water Treatment Plan Improvement Project aligned awareness and expectations between contractors and the utility. A new visitor registration system

HIGHLIGHTS IN SUMMARY (continued)

was rolled out to provide a more efficient visitor experience and accountability for personnel on site. Security control projects began to improve monitoring and access management. Safety training program overhaul began to ensure employees receive the appropriate training curriculums for their positions. The Business Improvement Unit team worked diligently on its initiatives; including the coordination and facilitation of the activities related to the SPRWS Strategic Plan update. This was an extensive process in which the Board of Water Commissioners and all employees were provided the opportunity to share their experiences, concerns, and innovative ideas for the future. Having these open and honest conversations at all levels of the organization has allowed us to gather diverse input that will guide our goals and initiatives. BIU has led the effort to document the requirements to select and purchase a new SPRWS Customer Portal to achieve the strategic goal of providing for an excellent customer experience. Also, BIU coordinates content and new user training for the internal monitor system (electronic billboards or EBB's) to improve information sharing across the organization. BIU driven asset management standards and protocol development continues in the Production division. As the utility continues to experience turnover due to retirements, BIU has played a crucial role in the efforts to transfer knowledge by documenting business processes and interviewing soon to be retirees.

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. Due to the pandemic, many community activities in the areas we serve were cancelled, including the utility's own open house and Highland tower open house. This significantly curtailed our community engagement and outreach efforts. We were able to participate virtually in some activities that were set up for that, including outreach to youth community gardeners whose meetings were all online and Water Fest.

Administration Division - Future Operations

The McCarrons Water Treatment Plant Improvement Project is ongoing. Approvals from permitting authorities (Minnesota Department of Health and City of Maplewood) were obtained in early 2022. Demolition work was completed in Summer of 2022 and construction work has begun in Fall of 2022. Supply chain issues and inflationary pressures have increased the cost of the project.

The Federal Infrastructure Investment and Jobs Act (IIJA) along with Federal dollars provided by the American Rescue Plan create an opportunity to address lead service lines within the SPRWS service area. The development of a short/long term plan to eliminate lead services will be an important discussion by the Board of Water Commissioners and staff at SPRWS.

The executive leadership team for SPRWS is comprised of the General Manager, Assistant General Manager, and four divisional managers (Business, Distribution, Engineering, and Production). It was projected in 2019 that the entire group would retire by the year 2024. Due to retirements, in 2021, a new General Manager, Assistant General Manager, and Distribution Division Manager were appointed to the executive team. The Production Manager and Engineering

HIGHLIGHTS IN SUMMARY (continued)

Manager retired in June of 2022, and both positions have been filled with new staff.

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 2021, the Customer Service unit issued approximately 32,500 bills per month or 1,300 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 2021, approximately 61 percent of transactions were processed electronically with nearly 34 percent of payments made via credit card and 21 percent via auto withdraw from a bank account.

The Customer Service call center received 146,942 calls in 2021. 63,651 calls, or 43 percent were handled by call center staff and 83,291, by the self-serve Interactive Voice Response unit (IVR). This equates to approximately 480 calls per business day of which approximately 229 calls were answered by call center staff. Due to the implementation of TEAMS phones, our metrics have been skewed or nonexistent. The abandoned call was 3.66 percent (due to multiple days of phone failures) and the wait time was unknown after the month of May. These are slightly higher than our goals, however, we found moving into Microsoft Teams it takes longer to transfer a customer from the Interactive Voice Response unit to the Customer Service staff. We continue to work with the City Office of Technology and Communication department for more detailed reporting.

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. Even though we were in a pandemic, we were able to test 100 percent of all meters 3 inch and larger in 2021. The High Usage Alert program started in December of 2017, we have reached out to over 14,000 customers. The goal is to not only notify the customer but also educate them to prevent them from having leaks in the future.

Financial Services staff completed and published the 2020 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

HIGHLIGHTS IN SUMMARY (continued)

(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.

Business Division - Future Operations

Technology continues to be a current and future focus for operations, maintenance and administration processes and functions. To fully understand the current needs and projected future opportunities, a comprehensive needs assessment and strategic plan was conducted in 2021. The assessment provided an opportunity to understand current systems, applications and business processes. The assessment also provided for input, feedback and requests from representatives across the organization for future technology opportunities. Working collaboratively, across divisions, project identification and prioritization of the identified opportunities will occur in early 2022. Work on projects will occur throughout the next five years.

SPRWS continues to partner with City of Saint Paul Public Works (PW) Department and the Department of Technology and Communication (OTC) in implementing a field mobile/data capture solution for processing work orders and service orders in the field. The solution will integrate with the shared CMMS system, Geographic Information Systems (GIS) and Regional Water's Customer Information Systems (CIS) system.

SPRWS partnered with City of Saint Paul Public Works (PW) Department and OTC to manage a comprehensive needs enterprise-wide asset management system assessment (EAMS). The EAMS assessment analyzed the current utilization, as well as identified future needs, ensuring future needs were focused on industry standards and best practices. A Request for Proposal (RFP) has been developed and advertised in early 2022. The proposals have been reviewed, the top-rated systems have been demonstrated to the enterprise EAMS team (approximate 90 people, representing all applicable work groups and divisions). The new system has been selected in the fall of 2022, with implementation to begin early 2023. The implementation will be in phases, with SPRWS being the first phase. The new EAMS solution will be enterprise-wide, provide integration with several existing systems (Geographic Information Systems (GIS) and Regional Water's Customer Information Systems (CIS)).

Improving the customer experience is part of our Strategic Plan. SPRWS is in need to replace the existing antiquated Customer Service Portal by the current AUS/CIS vendor with a modern on-line solution that enhances the customer experience, provides a variety of payment options and can serve as a communication tool. These enhancements to our CIS portal for customers are being currently explored.

HIGHLIGHTS IN SUMMARY (continued)

Distribution Division

The Distribution Division is responsible for the delivery of water from the water treatment plant to customers. This responsibility includes construction and maintenance of the water distribution system consisting 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 continued in 2021, recovering from the temporary reduction in 2020 due to COVID-19. Approximately 6.2 miles of water main were replaced in 2021, including one mile of open excavation pipe replacement, 2.2 miles of pipe bursting installation, and 1.2 mile of cleaning and mortar lining by Distribution staff. Approximately 1.8 miles of water main were replaced by contractors. Distribution staff completed 71 hydrant replacements, 212 hydrant repairs, and more than 100 water main valve replacements. Distribution staff also replaced 270 lead water services in 2021.

Preventative Maintenance – The Distribution Division achieved annual goals for maintaining the water distribution system in 2021 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 2021. The annual UDF program includes the operation of approximately 3,200 valves and 1,500 hydrants.

Reactive Maintenance - Regional Water performs emergency repairs on water mains and services, totaling 120 repair locations in 2021. The division also provides 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 2022 with three key water main projects consisting of pipe bursting & directional drilling, cement mortar lining, and open cut main replacement. Approximately eight miles of water main will be replaced or rehabilitated as part of these projects and contracted projects. Water system improvements will also include the replacement of 360 or more water services, including private lead services between the property line and water meter.

HIGHLIGHTS IN SUMMARY (continued)

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 geographic information system develops, maintains and analyzes the maps and records of the utility. Water permits and plumbing 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.

Some of the highlights related to our work in 2021 include:

Water Treatment Plant Project - Planning and design was well underway 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 which includes the construction of new solids contact clarifiers, new lime handling facilities, recarbonation and the addition of ozonation to the treatment process. Design progressed to the 60% milestone at year end 2022. This project is being delivered via the progressive design-build procurement method with Jacobs Engineering as the design-builder.

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 2021 resulting in the replacement and rehabilitation of 6.1 miles of water main. Water main construction is coordinated in collaboration with public works improvement projects. Main replacements are also prioritized on mains at the highest risk for failure following our water main prioritization methodology.

The utility continues to replace that portion of lead water service lines in the right-of-way. This work is being coordinated at locations where water main and public works construction is being performed. For the private property side of lead services, grants were provided in 2021 to selected properties to assist with the replacement of their portion of lead service. Grant dollars were provided by the State of Minnesota to make this possible.

Water Supply Conduit Improvements –Planning and design are underway for rehabilitation of the water supply conduits which provide water to the McCarrons Water treatment Plant. There are two conduit lines, a concrete line constructed in 1925 and a steel line constructed in the 1950's. A contract was let for repairs to a portion of the 60" concrete conduit. Work to repair the concrete conduits is scheduled over a 10-year period. In addition, a corrosion assessment was completed on the steel conduit line. Anode installation will be performed on the steel conduits over the next two years which will provide protection and extend the life of these critical assets.

Centerville Water Supply –De-commissioning the at-risk infrastructure of this historic water supply source has begun with the removal of intake structures at both Centerville Lake and Otter Lake.

HIGHLIGHTS IN SUMMARY (continued)

Highland Reservoir Demolition – The 18MG Highland water reservoir was demolished. The site will be utilized by the City of St Paul Parks and Recreation as a soccer field moving forward. The reservoir was originally constructed in 1924.

Plumbing Permits – a new on-line system for water permits was implemented this year.

Engineering Division - Future Operations

The design on the McCarron's Treatment Plant Project was completed in fall of 2022 and construction has started in fall of 2022. This significant project will help ensure quality water is provided to our customers long into the future. In addition, work on our distribution infrastructure will continue, making needed capital improvements on water main infrastructure. We look towards the development of a more robust LSLR program with anticipated federal dollars coming for the removal of lead in the water system.

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 2021 was higher than the previous three years, with a daily average of 40.9 million gallons per day. Precipitation was 1.21 inches below normal for the year in the Twin Cities metro area, and 3.06 inches below normal May through September. River levels were low for much of 2021, and drought was a concern for the metro area. Our total annual pumpage from the McCarrons plant was 14,935 million gallons. 12,267 million gallons originated from the Mississippi River source. Groundwater use totaled 31.6 million gallons in 2021. 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 2021. 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 8 complaints of taste or odor being logged into the Customer Information System for the year.

Chemical costs were up slightly, with a total chemical expenditure of \$3.4 million. Cost increases were due to increased water production as well as increases in chemical pricing. This corresponds to an increase of \$8.57 per million gallons of water treated from the previous year.

HIGHLIGHTS IN SUMMARY (continued)

Total electrical costs for all finished water pumping stations were \$1.078M. Costs per million gallons pumped were \$72.17 for finished water. Total electrical costs for raw water pumping were \$654,573, resulting in \$53.22 per million gallons pumped. Pumping cost for both categories were up in 2021 due to the drought conditions experienced during the summer months, resulting in more source water pumping from the Mississippi River as well as finished water pumping demands, including pumping during higher electrical rate periods during the day.

Several new capital projects were started in 2021. Electrical and pumping improvements to the West Side Pump Station went into the construction phase, with Municipal Builders as the general contractor. Construction also began on the Highland Park pump stations electrical improvements, with Premier Electric as the General Contractor. The design phase for the Plant Improvements Project is nearing completion and will result in the largest capital project ever undertaken by the utility and the Board of Water Commissioners.

Production Division – Future Operations

The Plant Improvements Project will demand a large part of staff time over the next three years as they coordinate with the construction efforts and maintain plant operations during the construction period. Capital improvement work will continue the remote pumping stations electrical systems. There is also a pump station master plan study that began in 2022 that will result in more capital improvements beyond electrical systems.

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) and the Uniform Guidance. 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,

A handwritten signature in blue ink, appearing to read 'Patrick Shea', written over a horizontal line.

Patrick Shea
General Manager

A handwritten signature in blue ink, appearing to read 'Dolly Ludden', written over a horizontal line.

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, 2021

PUBLIC MEMBERS

Term Expires

Mara Humphrey, President

August 31, 2022

Alene Tchourumoff

July 8, 2024

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

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, 2021

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 Falcon Heights, 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

Patrick Shea was appointed by the Board June 2021.

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Members of the Board of Water
Commissioners of the City of Saint Paul
d/b/a Saint Paul Regional Water Services
Saint Paul, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2021, 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.

In our opinion, the accompanying 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, 2021, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Saint Paul Regional Water Services, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Saint Paul Regional Water Services' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Saint Paul Regional Water Services' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, PERA retirement plan schedules, Schedule of Changes in the Total Other Postemployment Benefits Liability and Related Ratios, and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a 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.

Supplementary 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 Schedule of Expenditures of Federal Awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information as identified above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2022, 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

December 16, 2022

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2021**

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, 2021. 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 \$370,919,007 (Net Position). Of this amount, \$21,652,014 (unrestricted) may be used to meet the utility's ongoing obligations.
- Regional Water's total net position increased by \$15,504,871.

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, 2021**

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. This report also contains as supplementary information a Schedule of Expenditures of Federal Awards (SEFA) which includes the federal grant activity of Regional Water under programs of the federal government, and notes to the SEFA.

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 \$15.50 million to \$370.91 million in 2021, up from \$355.41 million in 2020. The increase is primarily due to the investment in capital assets in combination with changes in other assets, liabilities, deferred outflows of resources, and deferred inflows of resources.

Capital Assets

By the end of 2021, Regional Water had invested \$602.27 million in capital assets. There was a \$21.77 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 2021, principal on bonds payable were \$2.93 million and revenue notes payable were \$27.80 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, 2021**

Condensed Statement of Net Position (in thousands)

	Fiscal Year 2021	Fiscal Year 2020	Dollar Change	Total % Change
Assets				
Current and Other Assets	\$ 84,428	\$ 75,647	\$ 8,781	11.6
Capital Assets - net	\$ 368,670	\$ 355,357	\$ 13,313	3.7
Total Assets	<u>\$ 453,098</u>	<u>\$ 431,004</u>	<u>\$ 22,094</u>	<u>5.1</u>
Deferred Outflows of Resources	\$ 13,884	\$ 4,847	\$ 9,037	186.4
Liabilities				
Current Liabilities	\$ 20,061	\$ 14,794	\$ 5,267	35.6
Noncurrent Liabilities	\$ 60,875	\$ 63,077	\$ (2,202)	(3.5)
Total Liabilities	<u>\$ 80,936</u>	<u>\$ 77,871</u>	<u>\$ 3,065</u>	<u>3.9</u>
Deferred Inflows of Resources	\$ 15,127	\$ 2,566	\$ 12,561	489.5
Net Position				
Net Investment in Capital Assets	\$ 337,785	\$ 326,232	\$ 11,553	3.5
Restricted for Debt Service	\$ 11,482	\$ 9,738	\$ 1,744	17.9
Unrestricted	\$ 21,652	\$ 19,444	\$ 2,208	11.4
Total Net Position	<u>\$ 370,919</u>	<u>\$ 355,414</u>	<u>\$ 15,505</u>	<u>4.4</u>

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

	Fiscal Year 2021	Fiscal Year 2020	Dollar Change	Total % Change
Operating Revenues	\$ 69,096	\$ 64,284	\$ 4,812	7.5
Non-Operating Revenues (Expenses)	\$ (700)	\$ 1,979	\$ (2,679)	(135.4)
Total Revenues	<u>\$ 68,396</u>	<u>\$ 66,263</u>	<u>\$ 2,133</u>	<u>3.2</u>
Operating Expenses	\$ 54,070	\$ 51,266	\$ 2,804	5.5
Income (Loss) Before Capital Contributions	<u>\$ 14,326</u>	<u>\$ 14,997</u>	<u>\$ (671)</u>	<u>(4.5)</u>
Capital Contributions	\$ 1,179	\$ 2,543	\$ (1,364)	(53.6)
Change in Net Position	\$ 15,505	\$ 17,540	\$ (2,035)	(11.6)
Net Position - January 1	<u>\$ 355,414</u>	<u>\$ 337,874</u>	<u>\$ 17,540</u>	<u>5.2</u>
Net Position - December 31	<u>\$ 370,919</u>	<u>\$ 355,414</u>	<u>\$ 15,505</u>	<u>4.4</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2021**

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 \$4.81 million to \$69.09 million in 2021, from \$64.28 million in 2020.

In 2021 the winter/summer rates were set at \$3.03 and \$3.13 respectively; this is an increase of \$0.12 per 100 Cubic Feet (CCF) from the 2020 average winter/summer rate of \$2.96 CCF to \$3.08 CCF. Actual water consumption in 2021 was 17 million billing units up by 1.04 billing units from 15.98 million billing units (100 cubic feet) in 2020. 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 2.45% over 2020 water rates.

Non-Operating Revenues decreased by \$2.67 million, mainly due to a decrease in fair value of investments of \$1.32 million and a loss on retirement of capital assets of \$922 thousand.

Expenses

Regional Water's total operating expenses increased \$2.80 million to \$54.07 million in 2021, up from \$51.27 million in 2020. Salary expense in 2021 decreased by \$1.01 million compared to 2020. Fringe benefit expense increased by \$942 thousand in 2021, due to an increase in claims and other post-employment benefits. As a combined total, salary and fringe in 2021 is at the same level as 2020. Service expenses increased \$1.47 million. There were increases and decreases in multiple areas. The notable increases in service expenses were for general repair, sludge hauling, computer maintenance. Materials and supplies increased by \$1.06 million. This increase can be mainly attributed to electricity costs, natural gas costs, water chemicals. Miscellaneous expenses decreased by \$152 thousand compared to 2020. Depreciation increased by \$490 thousand.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2021**

Economic and Other Factors

The effects of conservation and cultural changes in our service area continue. Total consumption levels increased slightly. Precipitation was 1.21 inches below normal for the Twin Cities metro area, according to the National Weather Service. River Levels were low for much of 2021, and drought was a concern for the metro area.

Inflation contributed to an overall increase in materials, supplies and services costs.

The McCarron's Water Treatment Plant Improvement Project is a historic, multi-year effort aimed at replacing dated infrastructure and modernizing the water treatment plant. Upon project completion, approximately 2/3 of the existing treatment process will have been retired and replaced with new infrastructure. Design work on the new facility began in January of 2021 and has been completed in the fall of 2022. Preliminary construction work (site clearing, demolition, site access, and grading) has begun in the spring of 2022. In the fall of 2022, construction of the new facilities has started in earnest with the pouring of foundation slabs for the new facilities. \$20 million were retained in the budget for design-phase work, and our staff expects to finish that work well under the budget allocation. The construction phase of the project is expected to cost about \$235 million. Staff has successfully contracted for the first \$225 million of work at this point, with the remaining \$10 million of work (final site stabilization, landscaping, laboratory and office space, and other end-of-project work) expected to be added in 2025. To date all work is proceeding on schedule and on budget. The majority of the cost related risks for the project were passed to the Design-Build firm upon the signing of the contract for the design phase, reducing the overall risk profile for Regional Water and the Board of Water Commissioners. Debt has been issued to finance the design-phase work and most of the first-year construction work. Regional Water staff continues to collaborate closely with the City of Saint Paul - Office of Financial Services and the City's financial advisors to make plans for the issuance of additional debt. Presently we anticipate that all debt issued for the project will come in the form of Drinking Water Revolving Fund loans administered by the Public Facilities Authority or in the form of Water Revenue Bonds. All debt issued to date has had a 20-year maturity but taking on some 30-year debt has been considered as well and may be pursued.

Regional Water serves over 446,000 customers and has over 95,000 separate utility accounts. Each account has a water service line providing potable water to the property. Of these service lines, about 26,600 are comprised of lead (complete service line or some portion), about 17,000 run from the house to the property line (private property), the other 9,000 run all the way to the main (public and private). Since the late 1990s, Regional Water has treated its water using preventive measures to minimize lead from contaminating the water entering inside the property from these lead services. In addition, over the last 25 years, Regional Water has invested \$2-\$3 million per year to replace lead located on public property. As awareness of the health hazards associated with lead service has increased along with the potential for additional funding sources, Regional Water has worked diligently to develop a 10-year plan to eliminate all lead water service lines (public and private portion) in the utility's service area at no cost to property owners.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2021**

Economic and Other Factors (continued)

A pilot program is being conducted in 2022 with the comprehensive 10-year plan scheduled to begin in 2023. These efforts ensure that Regional Water is going above and beyond federal Safe Drinking standards and to protect public health. Regional Water has successfully obtained \$14.5 million of American Rescue Plan funding from the City of Saint Paul along with \$250 thousand from the Minnesota Department of Health. This support is critical to project success because spending revenue collected from utility customers on private property is not currently allowed. Regional Water is optimistic that additional funding will come from another federal source; the Infrastructure Investment and Jobs Act (IIJA). Minnesota will receive \$43 million in IIJA funding each year for the next five years, and Regional Water is hopeful to receive a significant portion of this funding to support its developed and piloted plan. Regional Water will continue to budget annually to remove lead on public property and these additional funding sources will help cover the expense of private side work and expedite the timeline to remove all lead in the public right of way. While an ambitious plan, we believe this project is possible with the hard work of our dedicated staff and deliberate allocation of significant federal funding.

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, 2021
(Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	10,380,971
Investments	47,205,020
Departmental Cash	12,739
Imprest Funds	2,000
Restricted Cash and Cash Equivalents	
Investments for Revenue Note Debt Service	3,175,392
Investments for Revenue Bond Debt Service	1,501,100
Receivables	
Accounts (Net of Allowance for Estimated Uncollectibles)	6,130,309
Assessments	
Current	2,233,625
Noncurrent	1,911,798
Delinquent	233,948
Accrued Interest	540,266
Due from Primary Government	90,754
Due from Other Governmental Units	949,702
Inventory - Materials and Supplies	2,697,143

Total Current Assets	<u>77,064,767</u>
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Noncurrent Assets

Restricted Assets

Investments for Revenue Bond Future Debt Service	4,807,013
Investments for Revenue Bond Operations and Maintenance	<u>2,040,230</u>

Total Restricted Assets	<u>6,847,243</u>
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Long-Term Loans Receivable	515,842
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Capital Assets

Land	4,061,766
Buildings and Structures	57,768,140
Less: Accumulated Depreciation	(29,845,443)
Public Improvements	432,535,046
Less: Accumulated Depreciation	(164,773,182)
Equipment	70,693,111
Less: Accumulated Depreciation	(38,983,822)
Construction in Progress	<u>37,215,318</u>

Total Capital Assets (Net of Accumulated Depreciation)	<u>368,670,934</u>
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Total Noncurrent Assets	<u>376,034,019</u>
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Total Assets	<u>453,098,786</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Outflows	7,072,405
Deferred Other Postemployment Benefits Outflows	<u>6,811,327</u>

Total Deferred Outflows of Resources	<u>13,883,732</u>
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continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2021
(Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)

Accrued Salaries Payable	778,328
Accounts Payable	5,871,136
Contract Retention Payable	289,916
Due to Primary Government	3,742,502
Due to Other Governmental Units	4,274,453
Unearned Revenue	117,551
Compensated Absences Payable	70,851
Claims and Judgments Payable	743,470

Total Current Liabilities (Payable from Current Assets)	<u>15,888,207</u>
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Current Liabilities (Payable from Restricted Assets)

Revenue Notes Payable	2,237,520
Revenue Bonds Payable	1,435,000
Accrued Interest Payable on Revenue Notes	36,285
Accrued Interest Payable on Revenue Bonds	5,508

Total Current Liabilities (Payable from Restricted Assets)	<u>3,174,313</u>
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Noncurrent Liabilities

Revenue Notes Payable	25,557,593
Revenue Bonds Payable	1,495,000
Premium on Revenue Bonds	160,770
Compensated Absences Payable	1,826,508
Claims and Judgments Payable	7,513,570
Other Postemployment Benefits Liability	14,771,289
Net Pension Liability	10,009,130

Total Noncurrent Liabilities	<u>61,333,860</u>
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Total Liabilities	<u>80,936,380</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred Pension Inflows	9,569,981
Deferred Other Postemployment Benefits Inflows	5,557,150

Total Deferred Inflows of Resources	<u>15,127,131</u>
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NET POSITION

Net Investment in Capital Assets	337,785,051
Restricted for Debt Service	11,481,942
Unrestricted	21,652,014

Total Net Position	<u><u>370,919,007</u></u>
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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, 2021
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	67,895,164
Rents and Leases	992,887
Miscellaneous	<u>207,979</u>
Total Operating Revenues	<u>69,096,030</u>
OPERATING EXPENSES	
Salaries	14,276,006
Employee Fringe Benefits	7,586,420
Services	12,970,437
Materials and Supplies	8,221,666
Depreciation	10,030,505
Miscellaneous	<u>984,567</u>
Total Operating Expenses	<u>54,069,601</u>
OPERATING INCOME (LOSS)	<u>15,026,429</u>
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	134,146
Gain on Sale of Assets	113,096
Loss on Retirement of Assets	(922,012)
Investment Income	
Interest Earned on Investments	1,489,756
Increase in Fair Value of Investments	(1,324,982)
Miscellaneous Other Revenue (Expenses)	287,024
Interest Expense on	
Revenue Notes	(427,834)
Revenue Bonds	<u>(49,479)</u>
Total Non-Operating Revenues (Expenses)	<u>(700,285)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>14,326,144</u>
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	<u>1,178,727</u>
CHANGE IN NET POSITION	15,504,871
NET POSITION, January 1	<u>355,414,136</u>
NET POSITION, December 31	<u><u>370,919,007</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, 2021
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	65,840,485
Other Operating Receipts	992,887
Other Receipts	207,979
Payments to Suppliers	(18,470,157)
Payments to Employees	(14,084,942)
Payment for Fringe Benefits and Payroll Taxes	(8,750,118)
Non-Operating Revenue Received	<u>289,604</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 26,025,738

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	109,484
Non-Operating Loans Repayment Received from Customers	<u>200,026</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 309,510

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:	
Revenue Notes	5,854,113
Cash Proceeds From Sale of Capital Assets:	
Equipment	123,321
Capital Contributions Received:	
From Outside Parties	1,201,260
Principal Paid on Debt Maturities:	
Revenue Bonds	(1,400,000)
Revenue Notes	(2,638,000)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(22,817,400)
Interest Paid On:	
Revenue Bonds	(108,100)
Revenue Notes	<u>(425,721)</u>

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES (20,210,527)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investment Securities	(28,148,901)
Decrease in Fair Value of Investments	(688,657)
Proceeds From Sale and Maturities of Investment Securities	5,000,000
Interest and Dividends on Investments Received	<u>1,758,259</u>

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES (22,079,299)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (15,954,578)

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

CASH AND CASH EQUIVALENTS AT END OF YEAR 15,072,202

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2021
(Amounts in dollars)

Exhibit C

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

Operating Income (Loss)	<u>15,026,429</u>
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Adjustments To Reconcile Operating Income To Net

Cash Provided (Used) by Operating Activities:

Depreciation	10,030,505
Increase (Decrease) in Allowance for Uncollectible Accounts	26,393
Nonoperating Miscellaneous Other Revenue Received	289,604
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(322,103)
(Increase) Decrease in Assessments Receivable	(949,756)
(Increase) Decrease in Due From Primary Government	(2,018)
(Increase) Decrease in Due From Other Governmental Units	(304,078)
(Increase) Decrease in Deferred Other Postemployment Benefits Outflows	(3,331,790)
(Increase) Decrease in Deferred Pension Outflows	(5,704,972)
(Increase) Decrease in Inventories	(270,421)
Increase (Decrease) in Accrued Salaries Payable	191,064
Increase (Decrease) in Accounts Payable	1,043,482
Increase (Decrease) in Due To Primary Government	144,205
Increase (Decrease) in Due To Other Governmental Units	1,223,439
Increase (Decrease) in Unearned Revenue	(503,117)
Increase (Decrease) in Compensated Absences Payable	(72,807)
Increase (Decrease) in Net Pension Liability	(4,490,230)
Increase (Decrease) in Deferred Pension Inflows	8,817,413
Increase (Decrease) in Other Postemployment Benefits Liability	(125,090)
Increase (Decrease) in Deferred Other Postemployment Benefits Inflows	3,743,778
Increase (Decrease) in Claims and Judgments Payable	<u>1,565,808</u>

Total Adjustments	<u>10,999,309</u>
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NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>26,025,738</u></u>
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DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	10,380,971
Departmental Cash	12,739
Imprest Funds	2,000
Cash for Revenue Note Debt Service	3,175,392
Cash for General Revenue Bond Debt Service	<u>1,501,100</u>

TOTAL CASH AND CASH EQUIVALENTS	<u><u>15,072,202</u></u>
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NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Loss on Retirement/Deletion of Capital Assets	(918,828)
Net Book Value of Traded Capital Assets	10,941
Decrease in Fair Value of Investments	(636,325)
Capital Assets Purchased on Account - Construction in Progress	4,492,698

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, 2021**

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

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 reporting entity and is shown in the City's Annual Comprehensive Financial Report for the fiscal year ended December 31, 2021, 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, 2021

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, 2021. 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 2021, Regional Water recorded a "decrease in fair value of investments" of \$1,324,982 as part of investment income. The non-pooled portion is \$688,657 and the pooled portion is \$636,325. 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, 2021**

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 2016 through 2020.

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, 2021**

Note 2. Summary of Significant Accounting Policies (continued)

5. Capital Assets

Land, buildings and structures, public improvements, equipment, and construction in progress 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:

	<u>Method</u>	<u>Years</u>
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, 2021**

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. 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, 2021**

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 assets 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 assets 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, 2021**

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, 2021**

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 2021, Regional Water is 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 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 2021. An auditor's report on consideration of Regional Water's internal control over financial reporting and on tests of Regional Water's compliance will be issued on a later date.

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, 2021**

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, 2021, 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 \$455,657 (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, 2021, the total imprest funds were \$2,000. Regional Water also had departmental cash on hand of \$12,739.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

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, 2021**

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, 2021, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody's	Aaa	\$41,928,883
Moody's	Aa2	2,049,580
Moody's	Mig1	<u>10,073,800</u>
		<u>\$54,052,263</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, 2021, 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, 2021**

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, 2021, 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, 2021, 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	\$ 41,928,883	\$ -	\$ 5,048,750	\$ 18,065,810	\$ 18,814,323
Municipal Bonds	12,123,380	10,073,800	2,049,580	-	-
	<u>\$ 54,052,263</u>	<u>\$ 10,073,800</u>	<u>\$ 7,098,330</u>	<u>\$ 18,065,810</u>	<u>\$ 18,814,323</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, 2021**

Note 4. A. Assets (continued)

At December 31, 2021, Regional Water had the following recurring fair value measurements.

	12/31/2021	Fair Value Measurements Using		
		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	\$ 41,928,883	\$ -	\$ 41,928,883	\$ -
Municipal Bonds	12,123,380	-	12,123,380	-
	<u>\$ 54,052,263</u>	<u>\$ -</u>	<u>\$ 54,052,263</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	\$ 10,380,971
Investments	47,205,020
Departmental Cash	12,739
Imprest Funds	2,000
Restricted Cash, Cash Equivalents and Investments:	
Revenue Note Debt Service	3,175,392
Revenue Bond Debt Service	1,501,100
Revenue Bond Future Debt Service	4,807,013
Revenue Bond Operations and Maintenance	<u>2,040,230</u>
Total	<u>\$ 69,124,465</u>
Deposits	\$ 455,657
Investments	54,052,263
Regional Water's Portion of City Cash Pool	14,601,806
Departmental Cash	12,739
Imprest Funds	<u>2,000</u>
Total	<u>\$ 69,124,465</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

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, 2021, is as follows:

Accounts Receivable - Invoices	\$ 211,361
Accounts Receivable - Water Billings	5,956,689
Accounts Receivable - Unbilled	106,134
Accounts Receivable - Miscellaneous	18,982
Allowance for Uncollectible Accounts	<u>(162,857)</u>
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 6,130,309</u>

3. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	01/01/2021	Additions	Deductions	12/31/2021
Capital Assets Not Being Depreciated:				
Land	\$ 4,061,766	\$ -	\$ -	\$ 4,061,766
Construction in Progress	29,756,582	24,511,103	(17,052,367)	37,215,318
Total Capital Assets Not Being Depreciated	<u>\$ 33,818,348</u>	<u>\$ 24,511,103</u>	<u>\$ (17,052,367)</u>	<u>\$ 41,277,084</u>
Capital Assets Being Depreciated:				
Buildings and Structures	\$ 57,596,290	\$ 171,850	\$ -	\$ 57,768,140
Public Improvements	418,515,154	15,548,868	(1,528,976)	432,535,046
Equipment	70,562,851	1,851,365	(1,721,105)	70,693,111
Total Capital Assets Being Depreciated	<u>\$ 546,674,295</u>	<u>\$ 17,572,083</u>	<u>\$ (3,250,081)</u>	<u>\$ 560,996,297</u>
Less Accumulated Depreciation for:				
Buildings and Structures	\$ (28,653,464)	\$ (1,191,979)	\$ -	\$ (29,845,443)
Public Improvements	(158,314,587)	(7,241,601)	783,006	(164,773,182)
Equipment	(38,167,280)	(2,351,379)	1,534,837	(38,983,822)
Total Accumulated Depreciation*	<u>\$ (225,135,331)</u>	<u>\$ (10,784,959)</u>	<u>\$ 2,317,843</u>	<u>\$ (233,602,447)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 321,538,964</u>	<u>\$ 6,787,124</u>	<u>\$ (932,238)</u>	<u>\$ 327,393,850</u>
Capital Assets, Net	<u>\$ 355,357,312</u>	<u>\$ 31,298,227</u>	<u>\$ (17,984,605)</u>	<u>\$ 368,670,934</u>

*Total Accumulated Depreciation is reduced by an allowance of \$754,454 for equipment used to construct capital assets; net depreciation reported is \$10,030,505 (\$10,784,959 - \$754,454).

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

Note 4. Detail Notes (continued)

B. Liabilities

1. Debt Obligations of Regional Water and Other Long-Term Liabilities

a. Current and Long-Term Debt Maturities

At December 31, 2021, long-term debt consisted of:

	Unpaid Balances December 31, 2021	Principal Less Current Maturities	Long-Term Maturities
Revenue Notes	\$ 27,795,113	\$ 2,237,520	\$ 25,557,593
Revenue Bonds	2,930,000	1,435,000	1,495,000
Compensated Absences	1,897,359	70,851	1,826,508
Claims and Judgments	8,257,040	743,470	7,513,570
Total	<u>\$ 40,879,512</u>	<u>\$ 4,486,841</u>	<u>\$ 36,392,671</u>

b. Changes in Long-Term Liabilities

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

	01/01/21	Additions	Deductions	12/31/21
Revenue Notes	\$ 24,579,000	\$ 5,854,113	\$ 2,638,000	\$ 27,795,113
Revenue Bonds	4,330,000	-	1,400,000	2,930,000
Compensated Absences	1,970,166	1,141,088	1,213,895	1,897,359
Claims and Judgments	6,691,232	2,565,132	999,324	8,257,040
Total	<u>\$ 37,570,398</u>	<u>\$ 9,560,333</u>	<u>\$ 6,251,219</u>	<u>\$ 40,879,512</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

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 \$30,725,113 and interest of \$2,685,891 on all Regional Water debt outstanding as of December 31, 2021, are as follows:

<u>YEAR</u>	<u>2013A REVENUE BONDS</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$1,435,000	\$66,100	\$1,501,100
2023	\$745,000	\$37,400	\$782,400
2024	\$750,000	\$22,500	\$772,500
	<u>\$2,930,000</u>	<u>\$126,000</u>	<u>\$3,056,000</u>

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021

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
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	\$12,335	\$124,335
2026	\$290,000	\$29,524	\$319,524	\$1,105,000	\$113,718	\$1,218,718	\$113,000	\$11,161	\$124,161
2027-31	\$1,214,000	\$60,087	\$1,274,087	\$4,691,000	\$232,575	\$4,923,575	\$586,000	\$37,728	\$623,728
2032-36	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$366,000	\$7,692	\$373,692
2037-41	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$3,139,000	\$292,409	\$3,431,409	\$12,171,000	\$1,131,073	\$13,302,073	\$1,507,000	\$112,858	\$1,619,858

YEAR	2016 DRINKING WATER REVENUE NOTE			2021N DRIKING WATER REVENUE NOTE			TOTAL REVENUE NOTES		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2022	\$361,000	\$60,193	\$421,193	\$247,520	\$51,511	\$299,031	\$2,237,520	\$427,911	\$2,665,431
2023	\$365,000	\$56,464	\$421,464	\$249,995	\$49,036	\$299,031	\$3,079,995	\$390,739	\$3,470,734
2024	\$369,000	\$52,693	\$421,693	\$252,495	\$46,536	\$299,031	\$2,372,495	\$337,105	\$2,709,600
2025	\$373,000	\$48,882	\$421,882	\$255,020	\$44,011	\$299,031	\$3,235,020	\$297,426	\$3,532,446
2026	\$376,000	\$45,028	\$421,028	\$257,570	\$41,461	\$299,031	\$2,141,570	\$240,892	\$2,382,462
2027-31	\$1,940,000	\$166,055	\$2,106,055	\$1,327,006	\$168,150	\$1,495,156	\$9,758,006	\$664,595	\$10,422,601
2032-36	\$2,043,000	\$63,757	\$2,106,757	\$1,394,698	\$100,459	\$1,495,157	\$3,803,698	\$171,908	\$3,975,606
2037-41	\$ -	\$ -	\$ -	\$1,166,809	\$29,315	\$1,196,124	\$1,166,809	\$29,315	\$1,196,124
	\$5,827,000	\$493,072	\$6,320,072	\$5,151,113	\$530,479	\$5,681,592	\$27,795,113	\$2,559,891	\$30,355,004

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

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 was in the amount of \$15,400,000. The proceeds of the note are for design costs for the new Water Treatment Plant. The total principal amount of the long-term portion of the loan at December 31, 2021, was \$5,151,113.

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, 2021, the claims and judgments liability was \$8,257,040.

iii. Compensated Absences

Included in Regional Water's Long-Term Liabilities are compensated absences for \$1,897,359.

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>\$2,930,000</u>
Total				<u>\$2,930,000</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

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	\$ 3,139,000
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	12,171,000
Drinking Water Revenue Note	1.05%; 06/01; 12/01	06/19/14	12/01/34	1,507,000
Drinking Water Revenue Note	1.03%; 06/01; 12/01	11/28/16	12/01/36	5,827,000
Drinking Water Revenue Note	1.00%; 06/01; 12/01	05/27/21	12/01/40	<u>5,151,113</u>
Total				<u>\$27,795,113</u>

C. Due From Primary Government

At December 31, 2021, 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	\$90,754

D. Due To Primary Government

At December 31, 2021, 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	\$3,742,502

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

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 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, 2021.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

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.

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, 2021**

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 2021.

In 2021, Regional Water was required to contribute 7.50 percent of annual covered salary for General Employees 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, 2021, was \$1,279,967. 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, 2021**

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

Pension Costs

At December 31, 2021, Regional Water reported a liability of \$10,009,130 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021, Regional Water's proportion was 0.2343 percent. It was 0.2418 percent measured as of June 30, 2020. Regional Water recognized pension expense of (\$54,586) for its proportionate share of the General Employees Plan's pension expense.

Regional Water also recognized \$24,661 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 until September 15, 2031.

Regional Water's proportionate share of the net pension liability	\$ 10,009,130
State of Minnesota's proportionate share of the net pension liability associated with Regional Water	<u>305,653</u>
Total	<u>\$ 10,314,783</u>

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	\$ 61,552	\$ 307,435
Changes in actuarial assumptions	6,111,366	226,280
Difference between projected and actual investment earnings	-	8,641,130
Changes in proportion	199,951	395,136
Contributions paid to PERA subsequent to the measurement date	699,536	-
	<u>\$ 7,072,405</u>	<u>\$ 9,569,981</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

Note 5. A. Defined Benefit Pension Plan

Pension Costs (continued)

The \$699,536 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, 2022. 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
2022	(499,603)
2023	(154,257)
2024	(178,946)
2025	(2,364,306)

Actuarial Assumptions

The total pension liability in the June 30, 2021, 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	6.50 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 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, 2021, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. A review of inflation and investment assumptions dated June 24, 2021, was utilized.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

Note 5. A. Defined Benefit Pension Plan

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments is 6.50 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	33.50%	5.10%
International equities	16.50%	5.30%
Fixed income	20.00%	0.75%
Private markets	25.00%	5.90%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 6.50 percent in 2021 which is a decrease of 1.00 percent from 2020. 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, 2021**

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

Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2021:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020

There were no changes in plan provisions since the previous valuation.

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 (5.50%)	Current Discount Rate (6.50%)	1% Increase in Discount Rate (7.50%)
Proportionate share of the General Employees Retirement Plan net pension liability	\$ 20,413,512	\$ 10,009,130	\$ 1,471,696

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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

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 (early retiree)</u>	<u>Over Age 65 (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, 2021**

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, 2020 valuation date, the employees covered by the benefit terms consisted of:

Active employees electing coverage	225
Active employees waiving coverage	4
Retired employees electing coverage	<u>113</u>
Total	<u>342</u>

Total OPEB Liability

Regional Water's total OPEB liability of \$14,771,289 was measured as of December 31, 2020. 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, 2020
b. Measurement date (assets and liabilities)	December 31, 2020
c. Measurement period	January 1 to December 31, 2020
d. Reporting date (fiscal year end)	December 31, 2021

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

Note 5. B. Postemployment Benefits Other than Pensions

Total OPEB Liability (continued)

The total OPEB liability in the fiscal year-end December 31, 2021, 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 2.00 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	2.25 percent
Mortality	
General Employees	From the July 1, 2021 PERA of Minnesota General Employees Retirement Plan actuarial valuation, mortality rates were based on the Pub-2010 mortality tables with projected mortality improvements based on scale MP-2020, and other adjustments.
Police and Fire	From the July 1, 2021 PERA of Minnesota General Employees Retirement Plan actuarial valuation, mortality rates were based on the Pub-2010 mortality tables with projected mortality improvements based on scale MP-2020, and other adjustments.
Health care cost trend rate	The health care cost trend rate is 6.7 percent for FY2021, gradually decreasing over several decades to an ultimate rate of 3.7 percent in FY2074 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, 2021**

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, 2020:

	<u>Total OPEB Liability</u>
OPEB Liability, January 1, 2021	<u>\$ 14,896,379</u>
Changes for the year:	
Service cost	\$ 454,794
Interest	527,686
Differences between expected and actual experience	(4,814,069)
Changes in assumptions	499,304
Change in benefit terms	(170,089)
Benefit payments	(936,791)
Change in Proportion	4,314,075
Net change	<u>\$ (125,090)</u>
Balance at December 31, 2021	<u><u>\$ 14,771,289</u></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, 2021**

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	1.00%	\$16,744,505
Current	2.00%	\$14,771,289
1% Increase	3.00%	\$13,134,633

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	5.7%	\$13,487,611
Current	6.7%	\$14,771,289
1% Increase	7.7%	\$16,051,379

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

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	\$ 875,396	\$ 4,080,017
Changes in actuarial assumptions	2,105,817	158,624
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,070,593	1,318,509
Contributions subsequent to the measurement date	759,521	-
Total	<u>\$ 6,811,327</u>	<u>\$ 5,557,150</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

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 \$759,521 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, 2022. 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>
2022	\$215,898
2023	215,898
2024	170,751
2025	(444)
2026	(59,785)
Thereafter	<u>(47,662)</u>
Total	<u>\$494,656</u>

Changes in Actuarial Assumptions

- The discount rate was changed from 2.75% to 2.00% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capital claims costs were updated to reflect recent experience.
- Withdrawal, retirement, mortality, disability, and salary increase rates were updated from the rates used in the 7/1/2019 PERA General Employees Plan valuations to the rates used in the 7/1/2021 valuations.
- The inflation assumption was changed from 2.50% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- The percent of future non-Medicare eligible retirees electing each medical plan changed to reflect recent plan experience.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

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 2020 and 2021:

	<u>Year Ended</u> <u>12/31/2020</u>	<u>Year Ended</u> <u>12/31/2021</u>
Beginning fiscal year liability	\$7,285,810	\$6,691,232
Current year claims and changes in estimates	1,542,411	2,565,132
Claim payments	<u>(2,136,989)</u>	<u>(999,324)</u>
End of year liability	<u>\$6,691,232</u>	<u>\$8,257,040</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, 2021**

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 2025. 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.

A Joint powers agreement between Regional Water, The City of Saint Paul and Saint Paul Public Schools was created to establish Saint Paul Public Schools as the designated provider for print and print related services for City of Saint Paul and Regional Water. The agreement is effective January 1, 2021 through January 1, 2026.

F. Subsequent Events

On 6/03/2022 SPRWS issued a \$46,000,000 Water Revenue Note, Series 2022 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. The interest rate is 2.428%. Principal and interest payments are due June and December with the first payment starting December 1, 2022.

During 2021 the City of St Paul was allocated \$166,641,623 from the American Rescue Plan Act. In May 2021, the City received \$83,320,812 of the total allocated. The balance of the funds were distributed in 2022. SPRWS received \$14,500,000 for work on the Lead Line Service Replacement program.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021**

Note 6. Future Change in Accounting Standard

Effective for financial statements for the year ending December 31, 2022, Regional Water will be implementing Governmental Accounting Standards Board (GASB) Statement No. 87.

GASB Statement No. 87 – *Leases* establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government’s leasing activities.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2021**

Schedule 1

Schedule of Proportionate Share of Net Pension Liability PERA General Employees Retirement Plan ⁽¹⁾ Last Ten Years ⁽²⁾							
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 ⁽³⁾	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
June 30, 2015	0.2403%	\$12,451,952	NA	\$12,451,952	\$14,126,414	88.15%	78.19%
June 30, 2016	0.2410%	\$19,343,663	\$255,613	\$19,599,276	\$14,941,525	129.46%	68.91%
June 30, 2017	0.2419%	\$15,439,693	\$194,141	\$15,633,834	\$15,569,391	99.17%	75.90%
June 30, 2018	0.2389%	\$13,254,123	\$434,744	\$13,688,867	\$16,059,160	82.53%	79.53%
June 30, 2019	0.2346%	\$12,970,841	\$403,136	\$13,373,977	\$16,601,488	78.13%	80.20%
June 30, 2020	0.2418%	\$14,499,360	\$447,109	\$14,946,469	\$17,247,170	84.07%	79.06%
June 30, 2021	0.2343%	\$10,009,130	\$305,653	\$10,314,783	\$16,857,526	59.37%	87.00%

⁽¹⁾ For information regarding the pension plan see Note 5.A. on pages 39 - 45.

⁽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 "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, 2021**

Schedule 2

Schedule of Pension Contributions PERA General Employees Retirement Plan ⁽¹⁾ Last Ten Years ⁽²⁾				
Fiscal Year Ending	Statutorily Required Contribution (a)	Actual Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (b-a)	Covered Payroll ⁽³⁾ (c)

	Statutorily Required Contribution (a)	Actual Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (b-a)	Covered Payroll ⁽³⁾ (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%
December 31, 2021	\$1,279,967	\$1,279,967	\$0	\$17,066,229	7.50%

⁽¹⁾For information regarding the pension plan see Note 5.A. on pages 39-45.

⁽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 "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, 2021**

Schedule 3

Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios ⁽¹⁾				
	Last Ten Years ⁽²⁾			
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability				
Service Cost	\$ 454,794	\$ 272,303	\$ 315,981	\$ 286,706
Interest	527,686	491,365	439,894	505,484
Difference between expected and actual experience	(4,814,069)	(11,341)	1,404,413	-
Change in actuarial assumptions	499,304	1,503,670	(254,483)	808,838
Change in benefit terms	(170,089)	-	-	-
Benefit payments	(936,791)	(663,908)	(632,548)	-
Change in Proportion	4,314,075	(1,259,204)	(942,542)	(687,667)
Net Change in Total OPEB Liability	\$ (125,090)	\$ 332,885	\$ 330,715	\$ 908,361
Total OPEB Liability-Beginning	\$ 14,896,379	\$ 14,563,494	\$ 14,232,779	\$ 13,324,418
Total OPEB Liability-Ending	\$ 14,771,289	\$ 14,896,379	\$ 14,563,494	\$ 14,232,779
Covered Payroll ⁽³⁾	\$ 17,368,816	\$ 15,963,694	\$ 15,597,740	\$ 12,836,507
Total OPEB liability as a percentage of covered employee payroll	85.04%	93.31%	93.37%	110.88%

- (1) For information regarding the plan see Note 5.B. on pages 46-51.
(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, 2021**

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

2021

- The investment return and single discount rates were changed from 7.50% to 6.50%.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

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 two to five 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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2021**

2020 (continued)

- 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 2.00% for the period July 1, 2020 through December 31, 2023 and 0.00% 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% per year through 2044 and 2.50% per year thereafter, to 1.25% 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% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, 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% per year with a provision to increase to 2.50% upon attainment of 90% funding to 50% of the Social Security cost of living adjustment, not less than 1.00% and not more than 1.50%, beginning January 1, 2019.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2021

2018 (continued)

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

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80% for active members and 60% for vested and non-vested deferred members (30% for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00% for active member liability, 15% for vested deferred member liability, and 3.00% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00% per year for all years to 1.00% per year through 2044 and 2.50% 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% per year through 2035 and 2.50% per year thereafter, to 1.00% for all future years.
- The assumed investment rate was changed from 7.90% to 7.50%. The single discount rate was also changed from 7.90% to 7.50%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25%. Payroll growth was reduced from 3.50% to 3.25%. Inflation was reduced from 2.75% to 2.50%.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2021

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:

2021

- The discount rate was changed from 2.75% to 2.00% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capital claims costs were updated to reflect recent experience.
- Withdrawal, retirement, mortality, disability, and salary increase rates were updated from the rates used in the 7/1/2019 PERA General Employees Plan valuations to the rates used in the 7/1/2021 valuations.
- The inflation assumption was changed from 2.50% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- The percent of future non-Medicare eligible retirees electing each medical plan changed to reflect recent plan experience.

2020

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

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2021

Note 2. Other Postemployment Benefits Plan (continued)

2019

- The discount rate was changed from 3.31% to 3.71% 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% to 2.50% based on updated historical analysis of inflation rates and forward-looking market expectations.

2018

- The discount rate used changed from 3.81% to 3.31%.
- 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).

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2021**

Schedule 4

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal ALN Number	Pass-Through Grant Number	Expenditures
U.S. Environmental Protection Agency Passed through Minnesota Public Facilities Authority			
Drinking Water State Revolving Fund Cluster			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-DWRF- L-042-FY21	\$8,592,961
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-DWRF- G-001-FY22	<u>\$238,000</u>
Total U.S Environmental Protection Agency			<u>\$8,830,961</u>
Totals by Cluster			
Total expenditures for Drinking Water State Revolving Fund Cluster			<u>\$8,830,961</u>

Regional Water did not pass any federal awards through to subrecipients for the year ended December 31, 2021.

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2021**

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Saint Paul Regional Water Services (Regional Water), a discretely presented component unit of the City of Saint Paul, Minnesota. Regional Water's reporting entity is defined in Note 2.A. to the basic financial statements.

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Regional Water under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of Regional Water, it is not intended to and does not present the net position, changes in net position, or cash flows of Regional Water.

Expenditures reported on the schedule are reported on the full accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2. De Minimis Cost Rate

Regional Water has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3. Reconciliation of Schedule of Expenditures of Federal Awards to Actual Reimbursements

Regional Water had expenditures under two federal awards in 2021. The first is a Capitalization Grant for Drinking Water State Revolving Funds, which is passed through the Minnesota Public Facilities Authority, a component unit of the State of Minnesota. This award is in the form of a Drinking Water Note Payable secured by Net Revenues of Regional Water. It will be repaid over a 20-year period.

The second federal award is a Principal Forgiveness Grant of \$250,000 to be disbursed by June 30, 2024, for approximately 128 lead service lines. The Principal Forgiveness Grant is not required to be repaid with Regional Water's adherence to the terms of the agreement dated July 7, 2021.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2021

Note 3. Reconciliation of Schedule of Expenditures of Federal Awards to Actual Reimbursements (Continued)

Expenditures for the Capitalization Grants for Drinking Water State Revolving Funds during the year ended December 31, 2021, totaled \$8,830,961. Reimbursements during fiscal year 2021 totaled \$5,928,113; \$103,540 was for 2020 expenditures; The remaining \$5,824,573 was for 2021 expenditures; \$74,000 for the forgivable lead line replacement grant and \$5,750,573 for the Drinking Water Note Payable.