

**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, 2023**

**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, 2023**

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INTRODUCTORY SECTION



BOARD OF WATER COMMISSIONERS

President: Mara Humphrey ♦ Vice President: Nelsie Yang

Commissioners: ♦ Anika Bowie ♦ Rebecca Cave ♦ Saura Jost ♦ John Larkin ♦ Chris Tolbert

December 20, 2024

TO: BOARD OF WATER COMMISSIONERS

Mara Humphrey, President
Nelsie Yang, Vice President
Commissioner Anika Bowie
Commissioner Rebecca Cave
Commissioner Saura Jost
Commissioner John Larkin
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, 2023. 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

Racquel Vaske, General Manager

1900 Rice St. Saint Paul MN 55113-6810 ♦ 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). Here are some highlights from 2023:

The Business Improvement Unit team worked on a variety of projects to push initiatives related to the strategic plan forward. Significant progress was made on an internal SharePoint site for employees to utilize, store and access information. The team also assisted with different areas in creating position checklists which help highlight the competencies necessary for different roles and how new employees will be trained in each. Two other significant projects include the purchase of a water wagon for future community engagement events and the launch of an in-depth analysis of how we utilize additive costs at SPRWS.

The Human Resources team continued to provide daily support to our team of nearly 300 employees, over 60 of which had less than a year of work with the city. With the significant amount of hiring occurring, they took the opportunity to update the onboarding process to include a wider variety of information for new employees. The HR team also worked to successfully negotiate multiple union contracts and apply results.

Public information efforts included publishing the water quality report, annual report, the quarterly customer newsletters, and various informational brochures. Communications efforts around our construction projects continued with frequent website project updates. In 2023, SPRWS launched a multifaceted community engagement and public relations initiative aimed at promoting better relations with the community it serves. The strategy incorporated the development of a new branding guide, graphic marketing wraps on vehicles, promotional branding for community drinking fountains, project specific logos, and the introduction of a revitalized mascot, Willy Water. The initiative extends beyond traditional marketing, with active participation in 19 local events, showcasing the utility's commitment to community involvement. The integration of bilingual staff in the Lead Free SPRWS program emphasizes inclusivity and effective communication. This holistic approach seeks to strengthen the ties between SPRWS and the community it serves, fostering a sense of shared responsibility for safe and sustainable water resources.

Safety and security made strides in improving the safety and security of our employees with projects such as the encrypted badge system, installation of additional security cameras, multi-discipline cyber-security exercise, and hardening of the SPRWS facility. SPRWS requested two OSHA consultations in an effort to improve our workplace safety throughout the regional service.

HIGHLIGHTS IN SUMMARY (continued)

Administration Division - Future Operations

The SPRWS admin team will continue working to advocate for additional funding to support the Lead Free SPRWS program in 2024 and we are hopeful the Federal Infrastructure Investment and Jobs Act (IIJA) along with potential state funding sources will allow SPRWS to continue the progress related to lead service line replacement.

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.

Information Services:

Information Services has been working on a range of key projects aimed at enhancing operational efficiency and technological capabilities that was identified and prioritized in the information technology roadmap. Projects being deployed in accordance with this guiding document include the implementation of a modern payment portal for customers to make secure and efficient payments; the implementation of an integrated work and asset management system to optimize workflows and improve resource management; a water meter software upgrade; and conversion of customer accounts to an advanced metering infrastructure for accurate and real-time water usage data.

Information Services also introduced data integration platforms to consolidate information from various sources, enabling better decision-making through the development of dashboards for key performance indicators. Recognizing the critical importance of cybersecurity, IS staff has proactively addressed concerns related to the security of critical infrastructure, collaborating closely with the Production Division's SCADA team and the City of Saint Paul's Office of Technology and Communications to establish robust cybersecurity measures that safeguard SPRWS systems, data, and customers from potential cyber threats.

Customer Service:

The Customer Service and billing unit issued approximately 37,500 bills per month or 1,500 bills per business day for year 2023. In addition, the Customer Service Call Center received 82,557 calls in 2023 where 43,749 calls, or 53 percent were handled by call center staff and 38,808, by the self-serve Interactive Voice Response unit (IVR). This equates to approximately 333 calls per business day of which approximately 215 calls were answered by call center staff. Abandoned calls were 3.15% for year 2023. While the transition to a Teams phone system was a success, a challenge we experience is the lack of reliable customer service metrics that can be derived from the new application. We look to rectify this for the next coming year to support benchmarking and KPIs for customer service. Finally, customers' use of electronic payments has continued to expand. Further expansion of electronic payments is anticipated with the implementation of the modern payment portal.

HIGHLIGHTS IN SUMMARY (continued)

Meter Operations:

Meter Operations have commenced several pilot projects in year 2023 including a register replacement project to increase water meter lifespans as well as implementing AMI technology to increase the level of service we can deliver to our customers. Both pilot projects will end in 2024, where results will assist in long term plans for both projects. As of today, we continue to have accurate readings based on actual usage minimizing estimated bills. Meter Operations will continue to track, trend, and evaluate failure data to gauge system health. The implementation of AMI will be a major achievement by allowing SPRWS to collect frequent and accurate water usage data to improve billing, leak detection and water resource management.

Finance:

Financial Services worked diligently in 2023 to assemble the 2022 Annual Financial Report. Results illustrated the diligence of the Finance team to ensure fiscal responsibility of the utility for future generations by supporting several large capital projects in 2023. This included a large bond issue and maintaining of the AAA bond rating held by the utility. In 2023 operating revenue trended up 12.1% and operating expenses also trended upward 12.4%. With inflationary pressure on many operating expenses and increasing debt service loads in the future due to the treatment plant project, the goal is to continue our diligent work to maintain reasonable and affordable rates for the utility's customers. The team also launched an improved and collaborative budget process in 2023 for the 2024 budget creation. This process will continue to push budget planning to look through a strategic lens to meet the short and long-term requirements of the utility's operations.

Financial Services experienced several long-term employees retire in 2023. The Finance team has focused on heavily on knowledge transfer and cross training while adding several new members to the team in 2023 to ensure financial security is continued into the future.

Business Division - Future Operations

Technology continues to be a current and future focus for operations, maintenance and administration processes and functions. Information Services will continue to work on items identified in the technology roadmap in addition to new opportunities and challenges such as leveraging artificial intelligence into our business operations. Implementation of AMI will lead to a multitude of options for reinventing the relationship with SPRWS and the customer. These options will be evaluated to ensure the best level of service we can be delivered to the customer. Finance will be involved in several important initiatives in 2024. As large capital improvement projects continue to progress, financial oversight and management remains a focus. This will include securing an updated rate study to confirm our current trajectory is in line with the strategic goals of the utility. Finance is also focusing on displaying of several key performance indicators (KPI's) that will be used as measuring devices for health of the utility's financial status.

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, operation, and maintenance of the water distribution system consisting of water mains, valves, service connections, hydrants, pump stations, storage facilities, and related underground piping infrastructure. The division also includes the Dispatch Office providing 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 mains continued in 2023. Approximately eight miles of water mains were replaced or rehabilitated in 2023, including 5,300 feet of pipe bursting installation, 700 feet of directional drilling, and 10,300 feet of cleaning and mortar lining by Division staff. Distribution staff also completed 54 hydrant replacements, 116 hydrant repairs, and more than 35 water main valve replacements. Division staff completed 426 lead water service replacements in 2023.

System Maintenance – The Distribution Division performed inspections and repairs for more than 9,700 hydrants within the system in 2023. Unidirectional water main flushing was performed on 44 routes, representing approximately 150% of flushing work typically completed during an average year. The division also performed emergency repairs on 110 water mains and services during 2023.

Distribution Division - Future Operations

The capital water main replacement program resumed in 2024 with key water main projects consisting of 20,000 feet of water main replacement, 5,000 feet of pipe bursting, 8,000 feet cement mortar lining, and 4,000 feet of directional boring main replacement. Water system improvements will also include the replacement of approximately 600 lead water services during the 2024 construction season, including private lead services between the property line and water meter.

Engineering Division

The Engineering Division provides a variety of professional and technical support for the utility. Planning, design, construction management and inspection are performed on a variety of water supply, treatment and distribution related capital improvement projects. Engineering staff also manage water service agreements, plumbing permits, and private development plan reviews. GIS staff develops, updates, and maintains robust mapping applications and asset information databases. The plumbing inspections team ensures private plumbing systems are constructed to proper standards and that backflow preventers in the system are tested annually. Some of the highlights related to our work in 2023 include:

HIGHLIGHTS IN SUMMARY (continued)

Lead Service Line Replacement (Lead Free SPRWS) – After implementing a successful grant program in 2021 to assist and encourage property owners to replace their private lead service lines, we transitioned in 2022 to a new initiative to replace private lead service lines at no cost to the property owner. This program, called Lead Free SPRWS, endeavors to replace all lead service lines (approximately 25,000) in the SPRWS service area by 2032. With funding through the City of St. Paul from the American Rescue Plan, we planned, scheduled, and coordinated replacement of over 300 lead service lines on private property in 2022. In 2023 the program was expanded and over 600 lead service lines were replaced. Continuing with this growth pattern, we have set a goal of 1,200 lead service replacements in 2024. We have been successful in securing funding from the Minnesota Public Facilities Authority that will fund the program for the next few years.

Water Main Replacement - Upgrading our aging water distribution infrastructure is of utmost importance to provide reliable water to our customers into the future. Nearly \$14 million in water main construction was performed in 2023 resulting in the replacement and rehabilitation of nearly eight miles of water main including two miles of water main that was cleaned and relined to improve fire flow. Water main construction is coordinated in collaboration with municipal roadway improvement projects and also independent of other projects selected based on our water main risk prioritization methodology.

Engineering Service Desk – The Engineering Service Desk processed 108 new water service contracts, issued 138 hydrant use permits, and approved 1,522 plumbing permits. 79 private development projects were also approved through the site plan review process.

Damage Prevention Unit – Staff provided coordination and construction inspection for over 15,000 feet of water main installation. Over 11,000 Gopher State One Call tickets were marked and over 900 right-of-way utility construction permits were reviewed. This work is all critical to ensure the longevity and security of distribution system infrastructure.

Maps & Records Unit - Maps & Records continues to support the Lead Free SPRWS program in the form of multiple web maps and applications, dashboarding, and reporting, both for internal staff and our contractor partners. We continue to keep our infrastructure records updated in GIS to accurately report changes in the field due to replacements and new installations, amounting to thousands of records changes each year.

Engineering Division – Future Operations

Lead Free SPRWS ramps up in 2024 with a goal of replacing over 1,000 lead service lines. A 10-year capital improvement plan is also in development for all divisions that will require substantial investments and increases to the capital budget to right-size our investments in critical infrastructure.

HIGHLIGHTS IN SUMMARY (continued)

Production Division

The Production Division is responsible for processing raw water into finished water including maintaining all the equipment required in the process and the water supply chain to provide an adequate supply of high-quality drinking water to all customers in the service area. This includes the operation and maintenance of the supply system, wells, water treatment plant, raw water pumping station at Fridley, reservoirs, and the water quality laboratory. The division is also responsible for regulatory reporting related to water quality and wastewater discharge, responding to water quality complaints, and public education, which involves giving tours and making presentations to the public. The distribution system pumping stations' maintenance of pumps and valves was transferred from the Production Division to the Distribution Division on November 1, 2022.

The annual production of water for 2023 was higher than the previous three years, with a daily average of 43.7 million gallons per day. Precipitation was 0.92 inches below normal for the year in Twin Cities, and 5.90 inches below normal from May through September. The annual mean of Mississippi River stream flow was lower for the year and dropped below 2000 cubic feet per second in early September. Drought was a concern for the metro area with voluntary sprinkling reduction notice issued to customers on September 6, 2023. Our total annual pumpage from the McCarrons plant was 15,956 million gallons. 10,590 million gallons originated from the Mississippi River source. Groundwater use totaled 0.91 million gallons in 2023. 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 to participate in the Partnership for Safe Water's Treatment Program in 2023. We are one of only 31 surface water plants in the country to achieve this President Award since 2012. 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. Taking two secondary settling basins and one clarifier out of service permanently for construction of the new plant, had a minor impact on the aesthetic quality of the water. It was noted that the taste and odor complaints logged into the Customer Information System for the year was 7 which dropped significantly from 18 in 2022.

Chemical costs were increased by \$0.95 million, with a total chemical expenditure of \$5.24 million. Cost increases were due to increased water production as well as increases in chemical pricing because of a higher inflation rate in 2023. This corresponds to an increase of approximately \$35.93 per million gallons of water treated from the previous year.

Total electrical costs for all finished water pumping stations were approximately \$1.29 million. Total electrical costs for raw water pumping were \$690,278. Pumping costs for finished water was up in 2023 due to the higher water demand during the summer months. However, source water pumping cost from the Mississippi River was lower in 2023 due to an increase in watershed contribution from watershed runoff and precipitation. The watershed contribution was increased by 12.71% in 2023.

HIGHLIGHTS IN SUMMARY (continued)

The infrastructure telemetry/coaxial communications improvement project was completed on September 1, 2023. Components of this project included installation of Comcast ethernet lines with AT&T failover capability, replacement of the existing CenturyLink DSL modem at McCarrons Water Treatment Plant and Cradlepoint Verizon communication equipment with ethernet communication services for all 22 pump stations and storage facilities located within the distribution system. Older Programmable Logic Controller (PLCs) and routers were also being replaced as part of the project. The addition of Comcast ethernet communication substantially improved Supervisory Control and Data Acquisition (SCADA) connection reliability and data transfer speed with remote facilities and significantly reduced communication failures. The SCADA cybersecurity improvement project to configure and build the SCADA disaster recovery center at Vadnais will be launched in 2024 which will serve as a redundant SCADA backup system to McCarron's SCADA center in the event of cyber physical security breach.

The new corrosion control treatment project of adding orthophosphate was launched in 2023. The project included the purchase and installation of pump skids with three chemical feed pumps equipped with calibration columns, two phosphoric acid storage tanks, one day tank, one transfer pump for the day tank, three tank level transmitters, chemical delivery panel, eyewash and shower station, chemical drain system, PLC wiring and SCADA programming, existing HVAC modification and chemical storage room roof vent installation. The project is expected to be completed in January of 2024 to begin dosing 1.5 parts per million of orthophosphate in finished water.

Several capital construction projects continued through 2023. The electrical and pumping improvements to the West Side pump station continued in 2023, with Municipal Builders as the general contractor, which is expected to be completed in February of 2024. Construction at the Highland Park pump stations for electrical improvements was completed in 2023, with Premier Electric as the General Contractor. The construction phase for the Plant Improvements Project continued through 2023 with 40% completed as scheduled, this 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 two years as they coordinate with the construction efforts and maintain plant operations during the construction period. An Asset Management Plan needs to be developed to strategize structured asset management configurations for assets that cover the water supply system and the McCarrons Water Treatment Plant, for successful implementation of the new Enterprise Asset Management System. The Enterprise Asset Management System will be configured in 2024. This will allow preventative maintenance work orders to be generated to conduct preventive maintenance for McCarrons Water Treatment Plant's assets. This includes, a valve exercising program, a pump maintenance program, an electrical motor control system and switchgears, pump stations and storage facilities' maintenance.

HIGHLIGHTS IN SUMMARY (continued)

Capital improvement work will continue on the remote pumping stations electrical systems. Based on the pump station master plan study, more capital improvements at the Mississippi River Pumping station includes upgrading the electrical system, pump and motor upgrade, mechanical intake screens upgrade, pump station structural improvement, and recondition of the conduit surge tower. The Production Division is committed to making further improvements in chlorine and ammonia system operations and to ensure compliance with OSHA and EPA Clean Air Act regulations.

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.

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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,



Racquel Vaske
General Manager



Rich Rowland
Business Division Manager

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

As of December 31, 2023

PUBLIC MEMBERS

Term Expires

Mara Humphrey, President

August 31, 2026

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, 2027

Amy Brendmoen

December 31, 2023

Chris Tolbert

July 8, 2024

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

SUBURBAN MEMBERS

John Larkin, City of Falcon Heights

December 31, 2023

Rebecca Cave, City of Maplewood

December 31, 2023

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, 2023, 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, 2023, and the changes in financial position, and its cash flows thereof 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2.D to the financial statements, in 2023, the Saint Paul Regional Water Services adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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 GASB, 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.

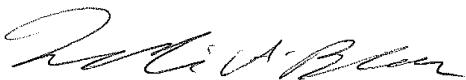
Other Information

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 20, 2024, 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



Chad Struss, CPA
Deputy State Auditor

December 20, 2024

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2023**

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, 2023. 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 \$405,638,509 (Net Position). Of this amount, \$19,045,914 (unrestricted) may be used to meet the utility's ongoing obligations.
- Regional Water's total net position increased by \$24,982,894.

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 and amortization 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 and amortization 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, 2023**

Overview of Annual Financial Report (continued)

This report contains certain required supplementary information other than the MD&A. 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 \$24.98 million to \$405.63 million in 2023, up from \$380.65 million in 2022. 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 2023, Regional Water had invested \$753.36 million in capital assets. There was a \$85.89 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 2023, principal on bonds payable were \$92.92 million and revenue notes payable were \$98.67 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, 2023**

Condensed Statement of Net Position (in thousands)

	Fiscal Year 2023	Fiscal Year 2022	Dollar Change	Total % Change
Assets				
Current and Other Assets	\$ 167,955	\$ 89,941	\$ 78,014	86.7
Capital Assets - net	<u>\$ 501,514</u>	<u>\$ 424,514</u>	<u>\$ 77,000</u>	<u>18.1</u>
Total Assets	<u>\$ 669,469</u>	<u>\$ 514,455</u>	<u>\$ 155,014</u>	<u>30.1</u>
Deferred Outflows of Resources	<u>\$ 10,438</u>	<u>\$ 12,724</u>	<u>\$ (2,286)</u>	<u>(18.0)</u>
Liabilities				
Current Liabilities	\$ 30,355	\$ 24,742	\$ 5,613	22.7
Noncurrent Liabilities	<u>\$ 221,889</u>	<u>\$ 106,100</u>	<u>\$ 115,789</u>	<u>109.1</u>
Total Liabilities	<u>\$ 252,244</u>	<u>\$ 130,842</u>	<u>\$ 121,402</u>	<u>92.8</u>
Deferred Inflows of Resources	<u>\$ 22,025</u>	<u>\$ 15,680</u>	<u>\$ 6,345</u>	<u>40.5</u>
Net Position				
Net Investment in Capital Assets	\$ 371,854	\$ 356,014	\$ 15,840	4.4
Restricted for Debt Service	\$ 14,738	\$ 16,613	\$ (1,875)	(11.3)
Unrestricted	<u>\$ 19,046</u>	<u>\$ 8,029</u>	<u>\$ 11,017</u>	<u>137.2</u>
Total Net Position	<u>\$ 405,638</u>	<u>\$ 380,656</u>	<u>\$ 24,982</u>	<u>6.6</u>

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

	Fiscal Year 2023	Fiscal Year 2022	Dollar Change	Total % Change
Operating Revenues	\$ 82,392	\$ 73,547	\$ 8,845	12.0
Non-Operating Revenues (Expenses)	<u>\$ 7,413</u>	<u>\$ (4,787)</u>	<u>\$ 12,200</u>	<u>(254.9)</u>
Total Revenues	<u>\$ 89,805</u>	<u>\$ 68,760</u>	<u>\$ 21,045</u>	<u>30.6</u>
Operating Expenses	<u>\$ 66,866</u>	<u>\$ 59,470</u>	<u>\$ 7,396</u>	<u>12.4</u>
Income (Loss) Before Capital Contributions	<u>\$ 22,939</u>	<u>\$ 9,290</u>	<u>\$ 13,649</u>	<u>146.9</u>
Capital Contributions	<u>\$ 2,043</u>	<u>\$ 447</u>	<u>\$ 1,596</u>	<u>357.0</u>
Change in Net Position	\$ 24,982	\$ 9,737	\$ 15,245	156.6
Net Position - January 1	<u>\$ 380,656</u>	<u>\$ 370,919</u>	<u>\$ 9,737</u>	<u>2.6</u>
Net Position - December 31	<u>\$ 405,638</u>	<u>\$ 380,656</u>	<u>\$ 24,982</u>	<u>6.6</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2023**

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 \$8.84 million to \$82.39 million in 2023, from \$73.55 million in 2022.

In 2023 the winter/summer rates were set at \$3.66 and \$3.77 respectively; this is an increase of \$0.33 per 100 Cubic Feet (CCF) from the 2022 average winter/summer rate of \$3.38 CCF to \$3.71 CCF. Actual water consumption in 2023 was 17.07 million billing units slightly up by 0.30 billing units from 16.77 million billing units (100 cubic feet) in 2022. There was an increase of \$0.60 in the water service base fee to \$6.60, up from \$6.00 in 2022. 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 an increase of \$0.02 in the water main surcharge to \$0.22 per CCF, up from \$0.20 in 2022. 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 9.5% over 2022 water rates.

Non-Operating Revenues (Expenses) increased by \$12.20 million, mainly due to better results from interest earned on investments combined with grant revenue received for the lead line replacement work.

Expenses

Regional Water's total operating expenses increased \$7.39 million to \$66.86 million in 2023, up from \$59.47 million in 2022. Salary expenses in 2023 increased by \$2.44 million compared to 2022. Service expenses increased \$2.70 million. The notable increase in service expenses were for lead line replacement services. Materials and supplies increased by \$1.55 million. This increase can be mainly attributed to electricity costs, natural gas costs and water chemicals. Depreciation and amortization increased by \$217 thousand.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2023**

Economic and Other Factors

Annual production of water for 2023 was higher than the previous three years, with a daily average of 43.7 million gallons per day. Precipitation in 2023 was 0.92 inches below normal for the Twin Cities metro area and 5.90 inches below normal from May through September according to the Minnesota Department of Natural Resources. Mississippi River levels remained low for much of 2023, and drought continued to be a concern for the metro area.

Inflation decreased to 3.4% in 2023 compared to 6.5% in 2022, according to U.S. Department of Labor. Inflation continued to contribute to an overall increase in materials, supplies and services costs with increases specifically pronounced in costs related to electrical and chemical.

The McCarron's Water Treatment Plant Improvement Project (a historic, multi-year project) progressed on schedule in 2023. The project ended the year approximately 39% complete. Much of the work completed in 2023 included construction of foundation, exterior walls, interior baffle walls and the roof slab for three recarbonation and ozonation basins. The most notable change in 2023 is the addition of the four new clarifier units which were erected using a precast panel method for more efficient and speedy construction. On the financial side of the project, we continue to monitor this closely and are tracking well with budget expectations.

Regional Water serves over 450,000 customers and has over 96,500 separate utility accounts. Of these service lines, about 19,704 are comprised of lead (complete service line or some portion), about 8,635 run from the house to the property line (private property), the other 10,851 run all the way to the main (public and private). In 2023 Regional Water replaced 702 services funded by American Rescue Plan dollars administered by the City of Saint Paul along with funds awarded to Regional Water from the Minnesota Department of Health. To meet our comprehensive 10-year plan, we expect this program to expand as funding sources allow. Minnesota will receive \$680 million in Infrastructure Investment and Jobs Act (IIJA) funding over the next five years, and Regional Water is expecting to receive \$35 million in 2024 in the combination of grant and forgivable loan from the Minnesota Department of Health to further support the efforts of Lead-Free Saint Paul Regional Water Services.

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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2023**

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BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2023
(Amounts in dollars)

Exhibit A

ASSETS

Current Assets

Cash and Investments with Treasurer	14,918,121
Investments	106,412,254
Departmental Cash	410,790
Imprest Funds	2,000
Restricted Cash and Cash Equivalents	
Investments for Revenue Note Debt Service	7,728,745
Investments for Revenue Bond Debt Service	4,878,550
Receivables	
Accounts (Net of Allowance for Estimated Uncollectibles)	8,010,780
Assessments	
Current	3,963,601
Noncurrent	2,054,081
Delinquent	474,035
Leases	854,204
Accrued Interest Leases	141,760
Accrued Interest Investments	628,488
Due from Primary Government	102,168
Due from Other Governmental Units	603,590
Inventory - Materials and Supplies	3,602,651

Total Current Assets 154,785,818

Noncurrent Assets

Restricted Assets	
Investments for Revenue Bond Operations and Maintenance	2,624,795
Long-Term Loans Receivable	56,914
Long-Term Leases Receivable	10,487,460
Capital Assets	
Land	4,133,566
Buildings and Structures	59,107,446
Less: Accumulated Depreciation	(32,197,152)
Public Improvements	460,656,587
Less: Accumulated Depreciation	(177,690,208)
Equipment	72,442,877
Less: Accumulated Depreciation	(41,874,717)
Construction in Progress	155,745,974
Sbita Intangible right-to-use Assets	472,096
Less: Accumulated Amortization	(86,288)
Sbita Implementation in Progress	804,342

Total Capital Assets (Net of Accumulated Depreciation and Amortization) 501,514,523

Total Noncurrent Assets 514,683,692

Total Assets 669,469,510

DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Outflows	3,496,578
Deferred Other Postemployment Benefits Outflows	6,941,993
Total Deferred Outflows of Resources	<u>10,438,571</u>

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2023
(Amounts in dollars)

Exhibit A

LIABILITIES

Current Liabilities (Payable from Current Assets)

Accrued Salaries Payable	852,801
Accounts Payable	8,868,944
Contract Retention Payable	3,074,445
Due to Primary Government	5,299,041
Due to Other Governmental Units	3,566,772
Unearned Revenue	79,531
Compensated Absences Payable	53,599
Claims and Judgments Payable	809,508
Other Post Employment Benefit	553,450
Subscription Liability	85,164

Total Current Liabilities (Payable from Current Assets) 23,243,255

Current Liabilities (Payable from Restricted Assets)

Revenue Notes Payable	5,717,610
Revenue Bonds Payable	900,000
Accrued Interest Payable on Revenue Notes	162,447
Accrued Interest Payable on Revenue Bonds	331,546

Total Current Liabilities (Payable from Restricted Assets) 7,111,603

Noncurrent Liabilities

Revenue Notes Payable	92,949,734
Revenue Bonds Payable	92,015,000
Premium on Revenue Bonds	3,537,718
Compensated Absences Payable	1,759,067
Claims and Judgments Payable	4,165,588
Other Postemployment Benefits Liability	13,803,065
Net Pension Liability	13,318,552
Subscription Liability	340,639

Total Noncurrent Liabilities 221,889,363

Total Liabilities 252,244,221

DEFERRED INFLOWS OF RESOURCES

Deferred Pension Inflows	4,324,745
Deferred Other Postemployment Benefits Inflows	6,815,825
Deferred Leases Receivable Inflows	10,884,781

Total Deferred Inflows of Resources 22,025,351

NET POSITION

Net Investment in Capital Assets	371,854,498
Restricted for Debt Service	14,738,097
Unrestricted	19,045,914

Total Net Position 405,638,509

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, 2023
(Amounts in dollars)

Exhibit B

OPERATING REVENUES	
Fees, Sales and Services	79,391,880
Rents and Leases	1,213,505
Miscellaneous	1,787,353
	<hr/>
Total Operating Revenues	82,392,738
OPERATING EXPENSES	
Salaries	18,331,369
Employee Fringe Benefits	8,245,833
Services	17,391,055
Materials and Supplies	11,243,921
Depreciation and amortization	10,385,125
Miscellaneous	1,269,286
	<hr/>
Total Operating Expenses	66,866,589
OPERATING INCOME (LOSS)	<hr/> 15,526,149
NON-OPERATING REVENUES (EXPENSES)	
Operating Grants	8,842,889
Gain on Sale of Assets	96,783
Loss on Retirement of Assets	(1,955,207)
Investment Income	
Interest Earned on Investments	4,370,923
Increase (Decrease) in Fair Value of Investments	841,375
Miscellaneous Other Revenue (Expenses)	(444,611)
Interest Expense on	
Revenue Notes	(1,598,897)
Revenue Bonds	(2,740,202)
	<hr/>
Total Non-Operating Revenues (Expenses)	7,413,053
INCOME BEFORE CAPITAL CONTRIBUTIONS	<hr/> 22,939,202
CAPITAL CONTRIBUTIONS	
Capital Acquisitions - Outside Sources	2,043,692
	<hr/>
CHANGE IN NET POSITION	24,982,894
NET POSITION, January 1	<hr/> 380,655,615
NET POSITION, December 31	<hr/> <hr/> 405,638,509

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, 2023
(Amounts in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	77,483,599
Other Operating Receipts	1,213,505
Other Receipts	1,787,353
Payments to Suppliers	(32,305,030)
Payments to Employees	(18,229,758)
Payment for Fringe Benefits and Payroll Taxes	(7,433,291)
Non-Operating Revenue Received	<u>204,824</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 22,721,202

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Grants Received	5,579,011
Non-Operating Loans Repayment Received from Customers	<u>(49,966)</u>

NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES 5,529,045

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Proceeds From Issuance of Debt:	
Revenue Bonds	97,061,191
Revenue Notes	37,771,162
Cash Proceeds From Sale of Capital Assets:	
Equipment	96,783
Cash Proceeds from Capital Grants	
From Outside Parties	3,263,878
Principal Paid on Debt Maturities:	
Revenue Bonds	(1,995,000)
Revenue Notes	(6,004,000)
Payments for Acquisition and Construction of Capital Assets:	
Construction in Progress	(83,423,007)
Interest Paid On:	
Revenue Bonds	(2,625,897)
Revenue Notes	(1,553,917)
Payment of Bond Issuance Costs	<u>(643,345)</u>

NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES 41,947,848

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investment Securities	(399,575,098)
Proceeds From Sale and Maturities of Investment Securities	328,107,240
Interest and Dividends on Investments Received	<u>3,948,901</u>

NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES (67,518,957)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 2,679,138

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 25,259,068

CASH AND CASH EQUIVALENTS AT END OF YEAR 27,938,206

continued

BOARD OF WATER COMMISSIONERS OF THE CITY OF SAINT PAUL, MINNESOTA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2023
(Amounts in dollars)

Exhibit C

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

Operating Income (Loss)		<u>15,526,149</u>
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	10,385,125	
Increase (Decrease) in Allowance for Uncollectible Accounts	(5,046)	
Nonoperating Miscellaneous Other Revenue Received	204,824	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(794,291)	
(Increase) Decrease in Assessments Receivable	(746,673)	
(Increase) Decrease in Leases Receivable	(744,364)	
(Increase) Decrease in Due From Primary Government	(8,063)	
(Increase) Decrease in Due From Other Governmental Units	24,122	
(Increase) Decrease in Deferred Other Postemployment Benefits Outflows	177,350	
(Increase) Decrease in Deferred Pension Outflows	2,108,411	
(Increase) Decrease in Inventories	10,781	
Increase (Decrease) in Accrued Salaries Payable	101,611	
Increase (Decrease) in Accounts Payable	(944,407)	
Increase (Decrease) in Due To Primary Government	55,071	
Increase (Decrease) in Due To Other Governmental Units	330,307	
Increase (Decrease) in Unearned Revenue	(56,461)	
Increase (Decrease) in Compensated Absences Payable	(16,352)	
Increase (Decrease) in Net Pension Liability	(5,338,775)	
Increase (Decrease) in Deferred Pension Inflows	3,824,415	
Increase (Decrease) in Other Postemployment Benefits Liability	(2,040,071)	
Increase (Decrease) in Deferred Other Postemployment Benefits Inflows	2,097,564	
Increase (Decrease) in Deferred Leases Inflows	422,495	
Increase (Decrease) in Claims and Judgments Payable	(2,278,323)	
Increase (Decrease) in Subscription Liability	<u>425,803</u>	
Total Adjustments		<u>7,195,053</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u><u>22,721,202</u></u>

DETAILS OF CASH AND CASH EQUIVALENTS

Cash and Investments with Treasurer	14,918,121
Departmental Cash	410,790
Imprest Funds	2,000
Restricted Cash for Revenue Note Debt Service	7,728,745
Restricted Cash for General Revenue Bond Debt Service	<u>4,878,550</u>

TOTAL CASH AND CASH EQUIVALENTS 27,938,206

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Loss on Retirement/Deletion of Capital Assets	(1,955,207)
Increase/(Decrease) in Fair Value of Investments	(841,375)
Capital Assets Purchased on Account - Construction in Progress	12,676,800

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, 2023**

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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, 2023, 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.

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

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023

Note 2. Summary of Significant Accounting Policies (continued)

is Regional Water’s policy to use restricted resources first, and then unrestricted resources, as they are noted.

D. Change in Accounting Principle

During the year ended December 31, 2023, Regional Water implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement establishes criteria under which a software subscription results in recording a right-to-use subscription asset and the corresponding subscription liability.

E. 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, 2023. 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 2023, Regional Water recorded an “increase in fair value of investments” of \$841,375 as part of investment income. The non-pooled portion is \$1,265,062 and the pooled portion is (\$423,687). 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, 2023**

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 2018 through 2022.

The Leases Receivable consist mainly of leases of water towers to various organizations for wireless communication equipment. The leases terms range from 15 to 25 years and vary with each agreement. The leases receivable is measured at the present value of the lease payments expected to be received during the lease term. Deferred inflows of resources are recorded for the leases and are amortized on a straight-line-basis over the term of the leases.

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, 2023**

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. Right-to-use subscription-based technology arrangements (SBITAs) are recorded at the present value of future payments, if the net present value of future payment is over the \$385,000 materiality threshold and if the term of the arrangement is greater than 12 months.

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 and amortization of all exhaustible capital assets used by Regional Water is charged as an expense. Accumulated depreciation and amortization is offset against the original cost of the capital assets on the Statement of Net Position. Depreciation and amortization have 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
Right-to-use SBITAs	Straight Line	2 - 5

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, 2023**

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, 2023**

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 that time. 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 three items, deferred pension inflows, deferred other postemployment benefit inflows and deferred leases receivable inflows, that qualify for reporting in this category.

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 amortization 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 represent an increase in the net position on the operating statement.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 2. Summary of Significant Accounting Policies (continued)

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.

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.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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 2023, 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 2023. 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.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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, 2023, 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 \$16,032,745 (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, 2023, the total imprest funds were \$2,000. Regional Water also had departmental cash on hand of \$410,790.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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 time deposits insured by the Federal Insurance Corporation, the National Credit Union Administration, or bankers' acceptances of United States Banks; or

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 4. A. Assets (continued)

- (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.
- (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, 2023, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody's	Aaa	\$85,150,449
Moody's	Aa1	5,665,668
Moody's	Aa2	1,536,631
Moody's	Aa3	1,728,552
Moody's	A1	3,239,183
Moody's	Not rated	<u>11,716,566</u>
		<u>\$109,037,049</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 4. A. Assets (continued)

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, 2023, 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.

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, 2023, 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, 2023, 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	\$ 56,871,600	\$ 21,659,731	\$ 9,333,050	\$ 11,499,100	\$ 14,379,719
U.S. Treasury	22,750,174	22,750,174	-	-	-
Municipal Bonds	20,389,033	17,764,395	2,624,638	-	-
Corporates	5,289,640	5,289,640	-	-	-
Commercial paper	3,676,530	3,676,530	-	-	-
Government Money Market Mutual Fund	60,072	60,072	-	-	-
	<u>\$ 109,037,049</u>	<u>\$ 71,200,542</u>	<u>\$ 11,957,688</u>	<u>\$ 11,499,100</u>	<u>\$ 14,379,719</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 4. A. Assets (continued)

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.

At December 31, 2023, Regional Water had the following recurring fair value measurements.

	12/31/2023	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	\$ 56,871,600	\$ -	\$ 56,871,600	\$ -
U.S. Treasury	22,750,174	22,750,174	-	-
Municipal Bonds	20,389,033	-	20,389,033	-
Corporates	5,289,640	-	5,289,640	-
Commercial Paper	3,676,530	-	3,676,530	-
Government Money Market Mutual Fund	60,072	60,072	-	-
	<u>\$ 109,037,049</u>	<u>\$ 22,810,246</u>	<u>\$ 86,226,803</u>	<u>\$ -</u>

Debt securities classified in Level 1 are valued using a market approach quoted in active markets for those securities.

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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 4. A. Assets (continued)

Recap

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

Cash and Investments with Treasurer	\$ 14,918,121
Investments	106,412,254
Departmental Cash	410,790
Imprest Funds	2,000
Restricted Cash, Cash Equivalents and Investments:	
Revenue Note Debt Service	7,728,745
Revenue Bond Debt Service	4,878,550
Revenue Bond Operations and Maintenance	<u>2,624,795</u>
Total	<u>\$ 136,975,255</u>

Deposits	\$ 16,032,745
Investments	109,037,049
Regional Water's Portion of City Cash Pool	11,492,671
Departmental Cash	410,790
Imprest Funds	<u>2,000</u>
Total	<u>\$ 136,975,255</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, 2023**

Note 4. A. Assets (continued)

2. Summary of Receivables

The receivables presented on the Statement of Net Position consists of Accounts Receivable, Assessments, Leases, Accrued Interest and Loan. The balance of those accounts as of December 31, 2023, is as follows:

Current	
Accounts Receivable – Invoices	\$ 187,467
Accounts Receivable – Water Billings	7,885,897
Accounts Receivable – Unbilled	49,187
Accounts Receivable – Miscellaneous	46,773
Allowance for Uncollectible Accounts	(158,544)
Accounts Receivable (net of Allowance for Estimated Uncollectible)	<u>\$ 8,010,780</u>
Assessments	6,491,717
Leases	995,964
Accrued Interest	628,488
Total Current	<u>\$ 16,126,949</u>
Long-term	
Leases	\$ 10,487,460
Loan	56,914
Total Long-term	<u>\$ 10,544,374</u>

Leases Receivable

Regional Water leases its water towers to various organizations to use for wireless communication equipment. The terms of the leases range between 15 and 25 years and vary with each agreement. The total leases receivable and deferred inflows of resources at December 31, 2023 were \$11,483,424 and \$10,884,781 respectively. Principal and interest totaling \$1,115,389 and \$160,814 respectively, were received during the year ended December 31, 2023.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 4. A. Assets (continued)

3. Summary of Changes in Capital Assets

A summary of changes in capital assets follows:

	01/01/2023	Additions	Deductions	12/31/2023
Capital Assets Not Being Depreciated and Amortized:				
Land	\$ 4,061,766	\$ 71,800	\$ -	\$ 4,133,566
Construction in Progress	90,019,946	87,211,230	(21,485,202)	155,745,974
SBITA Implementation in Progress	-	804,342	-	804,342
Total Capital Assets Not Being Depreciated	\$ 94,081,712	\$ 88,087,372	\$ (21,485,202)	\$ 160,683,882
Capital Assets Being Depreciated and Amortized:				
Buildings and Structures	\$ 57,797,250	\$ 1,310,196	\$ -	\$ 59,107,446
Public Improvements	444,227,862	19,688,321	(3,259,596)	460,656,587
Equipment	71,372,037	2,117,229	(1,046,389)	72,442,877
SBITA Right-to-use	-	472,096	-	472,096
Total Capital Assets Being Depreciated or Amortized	\$ 573,397,149	\$ 23,587,842	\$ (4,305,985)	\$ 592,679,006
Less Accumulated Depreciation and Amortization for:				
Buildings and Structures	\$ (30,992,413)	\$ (1,204,739)	\$ -	\$ (32,197,152)
Public Improvements	(171,319,820)	(7,707,645)	1,337,257	(177,690,208)
Equipment	(40,652,391)	(2,224,676)	1,002,350	(41,874,717)
SBITA Right-to-use	-	(86,288)	-	(86,288)
Total Accumulated Depreciation* and Amortization	\$ (242,964,624)	\$ (11,223,348)	\$ 2,339,607	\$ (251,848,365)
Total Capital Assets Being Depreciated and Amortized, Net	\$ 330,432,525	\$ 12,364,494	\$ (1,966,378)	\$ 340,830,641
Capital Assets, Net	\$ 424,514,237	\$ 100,451,866	\$ (23,451,580)	\$ 501,514,523

*Total Accumulated Depreciation and Amortization is reduced by an allowance of \$838,223 for equipment used to construct capital assets; net depreciation and amortization reported is \$10,385,125 (\$11,223,348 - \$838,223).

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 4. Detail Notes (continued)

B. Liabilities

1. Debt Obligations of Regional Water

a. Current and Long-Term Debt Maturities

At December 31, 2023, current and long-term debt consisted of:

	Unpaid Balances December 31, 2023	Principal Less Current Maturities	Long-Term Maturities
Revenue Notes	\$ 98,667,344	\$ 5,717,610	\$ 92,949,734
Revenue Bonds	92,915,000	900,000	92,015,000
Total	\$ 191,582,344	\$ 6,617,610	\$ 184,964,734

b. Changes in Long-Term Debt Liabilities

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

	01/01/2023	Additions	Deductions	12/31/2023
Revenue Notes	\$ 66,900,182	\$ 37,771,162	\$ 6,004,000	\$ 98,667,344
Revenue Bonds	1,495,000	93,415,000	1,995,000	92,915,000
Total	\$ 68,395,182	\$ 131,186,162	\$ 7,999,000	\$ 191,582,344

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 4. B. Liabilities (continued)

c. Principal and Interest Requirements on Debt Obligations

The annual requirements to pay the principal of \$191,582,344 and interest of \$90,758,547 on all Regional Water debt outstanding as of December 31, 2023, are as follows:

<u>YEAR</u>	<u>2023A REVENUE BONDS</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$900,000	\$3,978,550	\$4,878,550
2025	\$ -	\$3,933,550	\$3,933,550
2026	\$565,000	\$3,933,550	\$4,498,550
2027	\$590,000	\$3,905,300	\$4,495,300
2028	\$620,000	\$3,875,800	\$4,495,800
2029-33	\$7,085,000	\$18,713,000	\$25,798,000
2034-38	\$13,110,000	\$16,281,500	\$29,391,500
2039-43	\$23,755,000	\$12,544,850	\$36,299,850
2044-48	\$46,290,000	\$4,662,400	\$50,952,400
	<u>\$92,915,000</u>	<u>\$71,828,500</u>	<u>\$164,743,500</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, 2023**

Note 4. B. Liabilities (continued)

YEAR	2010A DRINKING WATER REVENUE NOTE			2010B DRINKING WATER REVENUE NOTE		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$335,000	\$46,111	\$381,111	\$1,305,000	\$178,267	\$1,483,267
2025	\$510,000	\$39,535	\$549,535	\$1,985,000	\$152,663	\$2,137,663
2026	\$290,000	\$29,524	\$319,524	\$1,105,000	\$113,718	\$1,218,718
2027	\$295,000	\$23,830	\$318,830	\$1,135,000	\$92,038	\$1,227,038
2028	\$300,000	\$18,040	\$318,040	\$1,160,000	\$69,769	\$1,229,769
2029-33	\$619,000	\$18,217	\$637,217	\$2,396,000	\$70,769	\$2,466,769
2034-38	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2039-43	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>\$2,349,000</u>	<u>\$175,257</u>	<u>\$2,524,257</u>	<u>\$9,086,000</u>	<u>\$677,224</u>	<u>\$9,763,224</u>

YEAR	2014 DRINKING WATER REVENUE NOTE			2016 DRINKING WATER REVENUE NOTE		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$111,000	\$13,498	\$124,498	\$369,000	\$52,693	\$421,693
2025	\$112,000	\$12,335	\$124,335	\$373,000	\$48,882	\$421,882
2026	\$113,000	\$11,161	\$124,161	\$376,000	\$45,028	\$421,028
2027	\$115,000	\$9,976	\$124,976	\$380,000	\$41,144	\$421,144
2028	\$116,000	\$8,772	\$124,772	\$384,000	\$37,219	\$421,219
2029-33	\$598,000	\$25,383	\$623,383	\$1,980,000	\$125,768	\$2,105,768
2034-38	\$123,000	\$1,289	\$124,289	\$1,239,000	\$25,680	\$1,264,680
2039-43	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>\$1,288,000</u>	<u>\$82,414</u>	<u>\$1,370,414</u>	<u>\$5,101,000</u>	<u>\$376,414</u>	<u>\$5,477,414</u>

YEAR	2021 DRINKING WATER REVENUE NOTE			2022 DRINKING WATER REVENUE NOTES		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$667,610	\$123,043	\$790,653	\$1,853,000	\$1,070,287	\$2,923,287
2025	\$674,286	\$116,367	\$790,653	\$1,898,000	\$1,025,296	\$2,923,296
2026	\$681,029	\$109,624	\$790,653	\$1,945,000	\$979,212	\$2,923,212
2027	\$687,839	\$102,814	\$790,653	\$1,992,000	\$931,988	\$2,923,988
2028	\$694,717	\$95,936	\$790,653	\$2,040,000	\$883,622	\$2,923,622
2029-33	\$3,579,195	\$374,071	\$3,953,266	\$10,968,000	\$3,650,620	\$14,618,620
2034-38	\$3,761,769	\$191,497	\$3,953,266	\$12,366,000	\$2,252,844	\$14,618,844
2039-43	\$1,557,899	\$23,408	\$1,581,307	\$11,019,000	\$676,902	\$11,695,902
	<u>\$12,304,344</u>	<u>\$1,136,760</u>	<u>\$13,441,104</u>	<u>\$44,081,000</u>	<u>\$11,470,771</u>	<u>\$55,551,771</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 4. B. Liabilities (continued)

<u>YEAR</u>	<u>2023 DRINKING WATER REVENUE NOTE</u>			<u>TOTAL DRINKING WATER REVENUE NOTE</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$1,077,000	\$468,245	\$1,545,245	\$5,717,610	\$1,952,144	\$7,669,854
2025	\$1,098,000	\$453,591	\$1,551,591	\$6,650,286	\$1,848,669	\$8,498,955
2026	\$1,119,000	\$432,290	\$1,551,290	\$5,629,029	\$1,720,557	\$7,349,586
2027	\$1,141,000	\$410,582	\$1,551,582	\$5,745,839	\$1,612,372	\$7,358,211
2028	\$1,163,000	\$388,446	\$1,551,446	\$5,857,717	\$1,501,804	\$7,359,521
2029-33	\$6,161,000	\$1,594,590	\$7,755,590	\$26,301,195	\$5,859,418	\$32,160,613
2034-38	\$6,782,000	\$973,705	\$7,755,705	\$24,271,769	\$3,445,015	\$27,716,784
2039-43	\$5,917,000	\$289,758	\$6,206,758	\$18,493,899	\$990,068	\$19,483,967
	<u>\$24,458,000</u>	<u>\$5,011,207</u>	<u>\$29,469,207</u>	<u>\$98,667,344</u>	<u>\$18,930,047</u>	<u>\$117,597,391</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, 2023**

Note 4. B. Liabilities (continued)

d. 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 Bond	5.00%; 06/01; 12/01	04/06/23	12/01/47	<u>\$92,915,000</u>
Total				<u>\$92,915,000</u>

Regional Water issued \$93,415,000 of 2023A Revenue Bonds on April 6, 2023. The proceeds of the bonds are for costs associated with the construction of the new Water Treatment Plant. The outstanding principal amount of the bond was \$92,915,000 at December 31, 2023.

e. 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	\$ 2,349,000
Drinking Water Revenue Note	1.96%; 06/01; 12/01	07/13/10	12/01/30	9,086,000
Drinking Water Revenue Note	1.05%; 06/01; 12/01	06/19/14	12/01/34	1,288,000
Drinking Water Revenue Note	1.03%; 06/01; 12/01	11/28/16	12/01/36	5,101,000
Drinking Water Revenue Note	1.00%; 06/01; 12/01	05/27/21	12/01/40	12,304,344
Drinking Water Revenue Note	2.42%; 06/01; 12/01	06/14/22	12/01/42	44,081,000
Drinking Water Revenue Note	1.94%; 06/01; 12/01	08/09/23	12/01/42	<u>24,458,000</u>
Total				<u>\$98,667,344</u>

Regional Water entered into an agreement for a long-term note on August 6, 2023 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 \$25,000,000. The proceeds of the note are for construction costs for the new Water Treatment Plant. The outstanding principal amount of the loan at December 31, 2023, was \$24,458,000.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 4. B. Liabilities (continued)

2. Claims and Judgements

Claims and judgments 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, 2023, the claims and judgments total liability was \$4,975,096.

	01/01/2023	Additions	Deductions	12/31/2023
Claims and Judgements	\$ 7,253,419	\$ -	\$ 2,278,323	\$ 4,975,096
			Less Current Liability	Long-Term Liability
Claims and Judgements	\$ 4,975,096		\$ 809,508	\$ 4,165,588

3. Compensated Absences

At December 31, 2023, the compensated absences total liability was \$1,812,666.

	01/01/2023	Additions	Deductions	12/31/2023
Compensated Absences	\$ 1,829,018	\$ 2,018,480	\$ 2,034,832	\$ 1,812,666
			Less Current Liability	Long-Term Liability
Compensated Absences	\$ 1,812,666		\$ 53,599	\$ 1,759,067

4. Subscription Liability

Regional Water contracts various subscription-based information technology arrangements (SBITAs) from software vendors. The contract terms vary with each agreement ranging between one to five years. The SBITA liability is calculated based on the interest rate charged on the agreement, if available, or by using the Debt Book incremental borrowing rate calculator. SBITAs under the materiality threshold of \$385,000 and those with a lease term of less than 12 months are excluded from the subscription liability. Agreements excluded from the subscription liability are recognized as operating expenses or included in capital projects in the current reporting period. At December 31, 2023, Regional Water recorded the Advanced Metering Infrastructure pilot project subscription agreement as a liability. The term of the agreement is five years.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 4. Detail Notes (continued)

At December 31, 2023 Regional Water recognized \$86,289 in subscription principal expense payment and a subscription liability of \$425,803. Outstanding commitments for this project is \$455,165 at December 31, 2023.

Year Ending December 31	Principal Payments	Interest Payments	Total
2024	\$ 85,164	\$ 10,900	\$ 96,064
2025	96,855	8,795	105,650
2026	113,206	6,295	119,501
2027	130,578	3,372	133,950
Total	<u>\$ 425,803</u>	<u>\$ 29,362</u>	<u>\$ 455,165</u>

At December 31, 2023, Regional Water reported SBITA implementation in progress for the implementation of a capital asset system. A subscription liability will be recorded once this application is completed.

C. Due From Primary Government

At December 31, 2023, 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	\$102,168

D. Due To Primary Government

At December 31, 2023, 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	\$4,024,346
Capital Projects	Capital Fund	1,274,695
		<u>\$5,299,041</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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, 2023.

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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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

Benefits Provided (continued)

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.

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 2023.

In 2023, 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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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

Contributions (continued)

Regional Water’s contributions for the General Employees Plan for the year ended December 31, 2023, was \$1,446,999. The contributions are equal to the contractually required contributions as set by state statute.

Pension Costs

At December 31, 2023, Regional Water reported a liability of \$13,318,552 for its proportionate share of the General Employees Plan’s net pension liability. The net pension liability was measured as of June 30, 2023, 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, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2023, Regional Water’s proportion was 0.2382 percent. It was 0.2356 percent measured as of June 30, 2022. Regional Water recognized pension expense \$2,117,074 for its proportionate share of the General Employees Plan’s pension expense.

Regional Water also recognized \$1,650 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	\$ 13,318,552
State of Minnesota’s proportionate share of the net pension liability associated with Regional Water	367,136
Total	\$ 13,685,688

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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

Pension Costs (continued)

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	\$ 436,237	\$ 90,287
Changes in actuarial assumptions	2,122,162	3,650,502
Difference between projected and actual investment earnings	-	472,172
Changes in proportion	180,148	111,784
Contributions paid to PERA subsequent to the measurement date	758,031	-
	\$ 3,496,578	\$ 4,324,745

The \$758,031 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, 2024. 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
2024	\$ 272,103
2025	(1,913,256)
2026	343,878
2027	(288,923)

Actuarial Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.25 percent per year
Active member payroll growth	3.00 percent per year
Investment rate of return	7.00 percent per year

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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

Actuarial Assumptions (continued)

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 through December 31, 2054, and 1.50 percent per year thereafter.

Actuarial assumptions used in the June 30, 2023, valuation were based on the results of actuarial experience studies. The most recent four-year experience study for the General Employees Plan was completed in 2022. A review of inflation and investment assumptions dated July 12, 2023, was utilized.

The long-term expected rate of return on pension plan investments is 7.00 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	25.00%	0.75%
Private markets	25.00%	5.90%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent in 2023, a change of 0.50 percent from 2022. 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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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

Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2023:

- The investment return assumption and single discount rate were changed from 6.50% to 7.00%.

The following changes in plan provisions occurred in 2023:

- An additional on-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.50% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Proportionate share of the General Employees Retirement Plan net pension liability	\$ 23,561,586	\$ 13,318,552	\$ 4,893,265

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, 2023**

Note 5. B. Postemployment Benefits Other than Pensions

Plan Description

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

Benefits Provided

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

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

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

Health Care Benefit

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

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

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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

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, 2022 valuation date, the employees covered by the benefit terms consisted of:

Active employees electing coverage	208
Active employees waiving coverage	12
Retired employees electing coverage	<u>123</u>
Total	<u>343</u>

Total OPEB Liability

Regional Water’s total OPEB liability of \$14,356,515 was measured as of December 31, 2022. 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, 2022
b. Measurement date (assets and liabilities)	December 31, 2022
c. Measurement period	January 1 to December 31, 2022
d. Reporting date (fiscal year end)	December 31, 2023

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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

Total OPEB Liability (continued)

The total OPEB liability in the fiscal year-end December 31, 2023, 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 4.05%. The discount rate was selected from an index rate for 20-year, tax-exempt municipal bonds. (Fidelity 20-year Municipal GO AA Index)
Inflation rate	2.50%
Mortality	
General Employees	From the July 1, 2023 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-2021, and other adjustments.
Police and Fire	From the July 1, 2023 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-2021, and other adjustments.
Health care cost trend rate	The health care cost trend rate is 7.6% for FY2023, gradually decreasing over several decades to an ultimate rate of 3.9% in FY2075 and later years.
Actuarial Cost Method	Entry Age Normal level percent of pay.

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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, 2022:

	Total OPEB Liability
OPEB Liability, January 1, 2023	\$ 16,396,586
Changes for the year:	
Service cost	\$ 467,102
Interest	292,107
Differences between expected and actual experience	1,913,427
Changes in assumptions	(3,358,993)
Benefit payments	(731,014)
Change in Proportion	(622,700)
Net change	\$ (2,040,071)
Balance at December 31, 2023	\$ 14,356,515

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**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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 1.00% point lower or 1.00% point higher than the current discount rate:

	<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	3.05%	\$15,970,091
Current	4.05%	\$14,356,515
1% Increase	5.05%	\$12,985,345

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 1.00% point lower or 1.00% point higher than the current health care cost trend rate:

	<u>Health Care Trend Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	6.60%	\$13,184,202
Current	7.60%	\$14,356,515
1% Increase	8.60%	\$15,585,809

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	\$ 2,115,720	\$ 2,688,008
Changes in actuarial assumptions	1,327,347	2,905,355
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,853,139	1,222,462
Contributions subsequent to the measurement date	645,787	-
Total	<u>\$ 6,941,993</u>	<u>\$ 6,815,825</u>

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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

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

The \$645,787 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, 2024. 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>
2024	\$121,597
2025	(58,710)
2026	(129,114)
2027	(106,450)
2028	(200,215)
Thereafter	<u>(146,727)</u>
Total	<u><u>\$(519,619)</u></u>

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2023:

- The discount rate was changed from 1.84% to 4.05% 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 experiences.
- Mortality rates were updated from the rates used in the 7/1/2021 PERA General Employees Plan to the rates used in the 7/1/2023 valuations.
- The general inflation assumption was changed from 2.25% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- The payroll growth assumption was changed from 3.00% to 3.25% due to an update in the underlying inflation assumption.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

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 2022 and 2023:

	Year Ended <u>12/31/2022</u>	Year Ended <u>12/31/2023</u>
Beginning fiscal year liability	\$8,257,040	\$7,253,419
Current year claims and changes in estimates	222,387	(300,411)
Claim payments	<u>(1,226,008)</u>	<u>(1,977,912)</u>
End of year liability	<u>\$7,253,419</u>	<u>\$4,975,096</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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 5. Other Information (continued)

D. Construction and Other Significant Commitments

At December 31, 2023, Regional Water had commitments for the following construction project:

<u>Project Title</u>	<u>Remaining Construction Commitments</u>
McCarrons Treatment Plant Construction	<u>\$121,898,157</u>

E. 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.

F. 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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2023**

Note 5. Other Information (continued)

G. Subsequent Events

On June 4, 2024, the Board of Water Commissioners authorized additional \$29,000,000 in revenue note to be issued in 2025 through the Minnesota Public Facilities Authority. The proceeds will fund the McCarron's Treatment Plan Construction.

On August 28, 2024, Regional Water issued a \$29,000,000 Water Revenue Note, Series 2024 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 Construction. The interest rate is 2.378%. Principal and interest payments are due June and December with the first payment starting December 1, 2024.

In the fall of 2024 Regional Water was awarded Infrastructure Investment and Jobs Acts funds of \$35,000,000 by the Minnesota Public Facility Authority. The funds are a combination of grant and loan to be used for lead service line replacement. The Board of Water Commissioners accepted the funds with a resolution on August 20, 2024.

In the fall of 2024 Regional Water signed the agreement for the \$7,500,000 Lead Service Line Replacement Grant Anticipation Note Series 2024. The 2024 LSLR GAN is payable from funds received from proceeds of the 2024 LSLR Grant awarded in 2023 by the Minnesota Public Facilities Authorities. The proceeds are intended to be sufficient to repay the full amount of the 2024 LSLR GAN, if Regional Water and the City comply with the requirement of the 2024 LSLR Grant.

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REQUIRED SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended December 31, 2023**

Schedule 1

**Schedule of Proportionate Share of Net Pension Liability
Public Employees General Employees Retirement Plan*
Last Ten Years ****

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability/Asset	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City of Saint Paul (Asset) (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a+b)	Covered Payroll** * (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.2403%	\$12,451,952	N/A	\$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%
June 30, 2022	0.2356%	18,657,325	546,969	19,204,296	17,644,343	105.74%	76.67%
June 30, 2023	0.2382%	13,318,552	367,136	13,685,688	18,940,184	70.32%	83.10%

*For Information regarding the pension plan see Note 5.A. on pages 41-46.

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

***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, 2023**

Schedule 2

**Schedule of Pension Contributions
PERA General Employees Retirement Plan*
Last Ten Years****

Fiscal Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll*** (d)	Actual Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2015	\$1,069,877	\$1,069,877	\$ -	\$14,265,031	7.50%
December 31, 2016	1,145,685	1,145,685	-	15,275,800	7.50%
December 31, 2017	1,184,859	1,184,859	-	15,798,124	7.50%
December 31, 2018	1,219,883	1,219,883	-	16,265,107	7.50%
December 31, 2019	1,268,599	1,268,599	-	16,914,659	7.50%
December 31, 2020	1,336,785	1,336,785	-	17,823,800	7.50%
December 31, 2021	1,279,967	1,279,967	-	17,066,229	7.50%
December 31, 2022	1,355,335	1,355,335	-	18,071,135	7.50%
December 31, 2023	1,446,999	1,446,999	-	19,293,324	7.50%

*For Information regarding the pension plan see Note 5.A. on pages 41-46.

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

***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, 2023**

Schedule 3

**Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios*
Last Ten Years****

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability						
Service cost	\$ 467,102	\$ 455,254	\$ 454,794	\$ 272,303	\$ 315,981	\$ 286,706
Interest	292,107	320,128	527,686	491,365	439,894	505,484
Differences between expected and actual experience	1,913,427	193,523	(4,814,069)	(11,341)	1,404,413	-
Changes of assumption or other inputs	(3,358,993)	311,381	329,215	1,503,670	(254,483)	803,838
Benefit payments	(731,014)	(869,662)	(936,791)	(663,908)	(632,548)	-
Change in Proportion	(622,700)	1,214,673	4,314,075	(1,259,204)	(942,542)	(687,667)
Net change in total OPEB liability	\$ (2,040,071)	\$ 1,625,297	\$ (125,090)	\$ 332,885	\$ 330,715	\$ 908,361
Total OPEB Liability – Beginning, as restated	16,396,586	14,771,289	14,896,379	14,563,494	14,232,779	13,324,418
Total OPEB Liability – Ending	<u>\$14,356,515</u>	<u>\$16,396,586</u>	<u>\$14,771,289</u>	<u>\$14,896,379</u>	<u>\$14,563,494</u>	<u>\$14,232,779</u>
*For Information regarding the pension plan see Note 5.A.	\$18,025,983	\$17,182,724	\$17,368,816	\$15,963,694	\$15,597,740	\$12,836,507
Total OPEB liability as a percentage of covered employee payroll	79.64%	95.42%	85.04%	93.31%	93.37%	110.88%

*For Information regarding the plan see Note 5.B. on pages 47-52.

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

***For purposes of this schedule, covered employee 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, 2023

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

2023

- The investment return assumption and single discount rate was changed from 6.50% to 7.00%.
- An additional on-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.50% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021

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.

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2023**

2020 (continued)

- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- 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.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2023

2018 (continued)

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

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80% 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, 15.00% 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%.

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SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2023

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:

2023

- The discount rate was changed from 1.84% to 4.05% 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 experiences.
- Mortality rates were updated from the rates used in the 7/1/2021 PERA General Employees Plan to the rates used in the 7/1/2023 valuations.
- The general inflation assumption was changed from 2.25% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- The payroll growth assumption was changed from 3.00% to 3.25% due to an update in the underlying inflation assumption.

2022

- The discount rate was changed from 2.00% to 1.84% based on the 20-year Municipal GO Bond Index as of 12/31/2021.

2021

- The discount rate was changed from 2.75% to 2.00% based on updated 20-year municipal bond rates.
- Healthcare trend rate was 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.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For Fiscal Year Ended December 31, 2023

2021 (continued)

- 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.

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).

SUPPLEMENTARY INFORMATION

**SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2023**

Schedule 4

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal ALN Number	Pass-Through Grant Number	Expenditures
U.S. Department of the Treasury Passed through City of St. Paul COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	SLFRP1612	<u>\$8,746,322</u>
U.S. Environmental Protection Agency Passed through Minnesota Public Facilities Authority Drinking Water State Revolving Fund Cluster			
Drinking Water State Revolving Fund	66.468	MPFA-DWRF- L-042-FY21	\$96,514
Drinking Water State Revolving Fund	66.468	MPFA-DWRF- L-062-FY22	\$12,674,649
Drinking Water State Revolving Fund	66.468	MPFA-DWRF- L-051-FY23	<u>\$25,000,000</u>
Total U.S Environmental Protection Agency			<u>\$37,771,163</u>
Total Federal Awards			<u>\$46,517,485</u>
Totals by Cluster			
Total expenditures for Drinking Water State Revolving Fund Cluster			<u>\$37,771,163</u>

Regional Water did not pass any federal awards through to subrecipients for the year ended December 31, 2023.

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, 2023

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, 2023. 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

The Saint Paul Regional Water Services had federal expenses under four federal awards in 2023. The first federal award is the American Rescue Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Fund (SLFRF), of \$16,000,000 for lead pipe replacement. A subrecipient agreement signed and dated May 24, 2022, between the Saint Paul Regional Water Services and the City of Saint Paul with an initial award of \$4,000,000 was amended twice. The first amendment was effective on February 9, 2023, with an additional \$10,500,000 and the second amendment was effective on August 23, 2023, with an additional \$1,500,000. A total of \$8,746,322 was expended during fiscal year 2023, and the unexpended balance carried forward to fiscal year 2024 is \$4,837,335.

SAINT PAUL REGIONAL WATER SERVICES
SAINT PAUL, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2023

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

The next three are Capitalization Grants for Drinking Water State Revolving Funds, which are passed through the MNPFA, a component unit of the State of Minnesota. These awards are in the form of Drinking Water Notes Payable secured by Net Revenues of the Saint Paul Regional Water Services repaid over 20-year periods. Expenses for the Capitalization Grants for Drinking Water State Revolving Funds during the year ended December 31, 2023, totaled \$37,771,163. Reimbursement during fiscal year 2023 totaled \$37,771,163; \$8,640,685 was for 2022 expenses and the remaining \$29,130,478 was for 2023 expenses.