

CITY OF MILWAUKEE – WATER WORKS

Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

CITY OF MILWAUKEE – WATER WORKS

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INDEPENDENT AUDITORS' REPORT

To the Common Council
City of Milwaukee - Water Works
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of City of Milwaukee - Water Works, an enterprise fund of the City of Milwaukee, Wisconsin, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the City of Milwaukee - Water Works' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Milwaukee - Water Works' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Milwaukee - Water Works as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Milwaukee - Water Works enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Milwaukee, Wisconsin, as of December 31, 2019 and 2018 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated July 22, 2020 on our consideration of the overall City of Milwaukee's 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, including those systems applicable to City of Milwaukee - Water Works. 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 City of Milwaukee - Water Works' 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 City of Milwaukee - Water Works' internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
July 22, 2020

CITY OF MILWAUKEE – WATER WORKS

Management’s Discussion and Analysis

December 31, 2019 and 2018

(Unaudited)

The management of the City of Milwaukee – Water Works (MWW) offers readers of the organization’s financial statements this narrative overview and analysis of the Water Works’ financial statements for the fiscal years ended December 31, 2019 and 2018. Readers are encouraged to consider the information presented here in conjunction with the financial information.

The mission of the Water Works is to provide safe, reliable, and aesthetically pleasing drinking water to the City of Milwaukee and customers in suburban communities.

Financial Highlights

Year ended December 31, 2019

- Total revenues decreased by 2.01% in 2019, from \$105.52 million in 2018 to \$103.40 million in 2019.
- Total expenses decreased by 8.68% in 2019, from \$82.8 million in 2018 to \$75.6 million in 2019.
- As of December 31, 2019, the Water Works’ outstanding debt consisted of \$60.1 million in revenue bonds, through a combination of the State of Wisconsin Safe Drinking Water Loan Program and conventional revenue bonds, and \$11.0 million in general obligation bonds for a total of \$71.1 million.

The Water Works is an enterprise fund within the primary government of the City of Milwaukee and as such is not subject to property taxes. In place of property taxes, the Water Works contributes to the City’s tax levy by making a payment in lieu of taxes (PILOT). The PILOT was \$13.3 million in 2019 and \$13.1 million in 2018 and is reported in the accompanying Statement of Revenues, Expenses, and Changes in Fund Net Position as transfers out.

Year ended December 31, 2018

- Total revenues increased by 3.99% in 2018, from \$101.48 million in 2017 to \$105.52 million in 2018.
- Total expenses increased by 12.18% in 2018, from \$73.8 million in 2017 to \$82.8 million in 2018.
- As of December 31, 2018, the Water Works’ outstanding debt consisted of \$49.7 million in revenue bonds, through a combination of the State of Wisconsin Safe Drinking Water Loan Program and conventional revenue bonds, and \$9.3 million in general obligation bonds for a total of \$59.0 million.
- The PILOT was \$13.1 million in 2018 and \$13.3 in 2017.

CITY OF MILWAUKEE – WATER WORKS

Management's Discussion and Analysis

December 31, 2019 and 2018

(Unaudited)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements of the Water Works. The financial statements include two components: 1) the financial statements and 2) notes to the financial statements, which explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements report information about the Water Works using accounting methods similar to those used by private sector companies. These statements provide both long-term and short-term information about the Water Works' overall financial status.

The statement of net position presents information on all of the Water Works' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. This statement provides information about the nature and the amounts of investments in resources (assets and deferred outflows of resources) and the obligations to Water Works' creditors (liabilities and deferred inflows of resources). It provides one way to measure financial health by providing the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Water Works. However, one will need to consider other nonfinancial factors, such as changes in economic conditions, population and industrial/commercial customer growth, and new or changed government legislation.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund net position. This statement measures the results of operations over the past year and can be used to determine whether the Water Works has successfully recovered all of its costs through user fees and other charges.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital financing and non-capital financing, and investing activities. This statement identifies sources and uses of cash, as well as the change in the cash balance during the reporting period.

CITY OF MILWAUKEE – WATER WORKS

Management’s Discussion and Analysis

December 31, 2019 and 2018

(Unaudited)

Financial Analysis of the Water Works

Statement of Net Position

A summary of assets, liabilities, and net position as of December 31, 2019, 2018, and 2017 is as follows:

Table A-1

Condensed Summary of Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets:			
Current assets	\$ 65,166,658	\$ 65,084,535	\$ 68,588,293
Net capital assets	<u>535,560,180</u>	<u>513,653,846</u>	<u>491,790,532</u>
Total assets	<u>600,726,838</u>	<u>578,738,381</u>	<u>560,378,825</u>
Deferred outflows of resources	<u>21,090,029</u>	<u>5,596,743</u>	<u>6,791,656</u>
Liabilities:			
Current liabilities	20,794,800	27,181,412	29,616,143
Noncurrent liabilities	<u>136,281,203</u>	<u>106,966,601</u>	<u>62,913,594</u>
Total liabilities	<u>157,076,003</u>	<u>134,148,013</u>	<u>92,529,737</u>
Deferred inflows of resources	<u>5,564,132</u>	<u>5,933,889</u>	<u>1,093,835</u>
Net Position:			
Net investment in capital assets	464,449,263	454,607,392	440,896,886
Restricted for debt service	1,729,638	2,404,594	2,209,368
Unrestricted net position	<u>(7,002,351)</u>	<u>(12,758,764)</u>	<u>30,440,655</u>
Total net position	\$ <u><u>459,176,550</u></u>	\$ <u><u>444,253,222</u></u>	\$ <u><u>473,546,909</u></u>

Net position may, over time, serve as a useful indicator of an entity’s financial position. In the case of the Water Works, assets exceeded liabilities by \$459.2 million and \$444.3 million at December 31, 2019 and 2018, respectively, showing a 3.4% increase from 2018.

CITY OF MILWAUKEE – WATER WORKS

Management’s Discussion and Analysis

December 31, 2019 and 2018

(Unaudited)

Financial Analysis of the Water Works (Continued)

Statement of Net Position (Continued)

In Table A-1, it can be seen that the largest portion of the Water Works’ net position, 101%, and 102% as of December 31, 2019 and 2018, respectively, reflects the net investment in capital assets (e.g., water mains, buildings, machinery and equipment). Also, as shown in Table A-3, the Water Works’ water main system makes up approximately 55% and 56% of the capital assets as of December 31, 2019 and December 31, 2018, respectively. The Water Works uses these capital assets to provide safe, reliable, and aesthetically pleasing drinking water to its 864,000 customer base that lives in the City of Milwaukee and surrounding communities.

The Water Works’ net investment in capital assets is reported net of related debt. The resources to repay this debt must be provided from operating and nonoperating activities as the capital assets themselves are not intended to be used to liquidate these liabilities.

Unrestricted net position of the Water Works represents current assets such as cash on hand for operation, cash held in local government investment pool, accounts receivable, and inventory of materials. Unrestricted net position changed to minus \$6.8 million in 2019 from minus \$12.8 million in 2018.

As can be seen in Table A-1, net investment in capital assets increased by \$9.8 million and \$13.7 million during the years ended December 31, 2019 and 2018, respectively. The increase in net investment in capital assets in 2019 is mainly due to an increase in capital assets, from \$513.7 million in 2018 to \$535.6 million in 2019, offset by an increase in debt, from \$59.0 in 2018 to \$71.1 million in 2019. Also, in 2019, \$11.0 million water mains were added to the system along with \$5.4 million service lines.

MWW’s increased water main replacement program to meet the PSC’s mandate introduced in 2017 constitutes a significant portion of the increases in capital assets both in 2019 and 2018. The PSC required MWW to replace 18 miles of main in 2019 and 2018. Requirement increases to 20 miles in year 2020 and thereafter.

CITY OF MILWAUKEE – WATER WORKS

Management’s Discussion and Analysis

December 31, 2019 and 2018

(Unaudited)

Statement of Revenues, Expenses, and Changes in Net Position

While the summary of net position (Table A-1) shows the amount of net position, as of the end of each respective year, the summary of revenues, expenses, and changes in fund net position (Table A-2) exhibits the nature and source of the changes.

Table A-2

Condensed Summary of Revenues, Expenses and Changes in Fund Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenue	\$ 99,015,405	\$ 100,661,251	\$ 97,833,453
Nonoperating revenue	<u>4,380,007</u>	<u>4,858,822</u>	<u>3,641,928</u>
Total revenues	<u>103,395,412</u>	<u>105,520,073</u>	<u>101,475,381</u>
Depreciation expense	19,639,442	18,685,166	18,185,463
Other operating expenses	50,809,903	59,548,312	51,675,777
Nonoperating expenses	<u>5,133,666</u>	<u>4,534,323</u>	<u>3,923,245</u>
Total expenses	<u>75,583,011</u>	<u>82,767,801</u>	<u>73,784,485</u>
Income before capital contributions and transfers	27,812,401	22,752,272	27,690,896
Capital contributions	410,927	1,550,977	22,528,174
Transfers to the City of Milwaukee	<u>(13,300,000)</u>	<u>(13,090,014)</u>	<u>(13,301,628)</u>
Changes in net position	14,923,328	11,213,235	36,917,442
Net position - beginning of year	444,253,222	473,546,909	436,629,467
Restatement - OPEB & Terminal Leave Payable	<u>-</u>	<u>(40,506,922)</u>	<u>-</u>
Net position - beginning of year (restated)		<u>433,039,987</u>	
Net position - end of year	<u>\$ 459,176,550</u>	<u>\$ 444,253,222</u>	<u>\$ 473,546,909</u>

CITY OF MILWAUKEE – WATER WORKS

Management's Discussion and Analysis

December 31, 2019 and 2018

(Unaudited)

Year ended December 31, 2019

A review of Table A-2 shows that total revenues decreased by \$2.1 million, or 2.0% in 2019 and total expenses decreased by \$7.2 million, or 8.7%. These results may be explained as follows:

Revenues

- Operating revenues decreased by \$1.6 million in 2019. Even though there was a 3% Simplified Rate Increase reflected in the last quarter of 2019, this was offset by the continued drop in water sales. Table A-4 shows the sale of water (in million gallons) for the last five years. According to this table, the total sale of water to all customer classes has dropped by 1.9 billion gallons or 6.3% from 2015. The decline in sales to some customer classes may show slight fluctuations over the years but the overall trend is a decline in consumption thereby affecting operating revenue.
- Nonoperating revenues for MWW typically consist of rental income from antenna contracts, and also include miscellaneous fees for service and branch tapping, interest income and other revenues such as from sale of nonutility properties. However, in 2019 and 2018, MWW received Lead Service Line (LSL) replacement grants from the City of Milwaukee and the Department of Natural Resources (DNR) as a reimbursement of LSL expenses and principal forgiveness loans, respectively. Nonoperating revenues for 2019 decreased by \$0.5 million or 9.9% over 2018. This decrease is the result of \$0.7 million reduced lead service line replacement grants received in 2019 offset by a slight increase in miscellaneous revenue.

Expenses

- Operating expenses, excluding depreciation, decreased by 14.7% to \$50.8 million in 2019, from \$59.5 million in 2018.
 - Administration and general expenses decreased by \$4.9 million or 36.2% to \$7.8 million in 2019, from \$12.1 million in 2018. This was driven by a reduction in OPEB expense of \$6.9 million offset by an increase in meter replacement parts of \$1.2 million and other minor increases.
 - Transmission and distribution expense decreased by \$5.8 million or 23.3% to \$19.3 million in 2019, from \$25.1 million in 2018. This was driven by a \$2.7 million reduction with the water distribution maintenance, and \$2.5 million reduction for the painting of the Lincoln and Florist tanks.
 - Water treatment expense increased by \$1.8 million or 15.2% to \$13.6 million in 2019, from \$11.8 million in 2018. This was due to the North Point tunnel inspection.
 - There were 553 and 517 water main breaks in 2019 and 2018 respectively.

CITY OF MILWAUKEE – WATER WORKS

Management's Discussion and Analysis

December 31, 2019 and 2018

(Unaudited)

- Nonoperating expenses, in addition to interest expense, include LSL expenditures that are reimbursed by the City or the DNR which are accounted for as nonoperating expenses and these expenditures amounted to \$3.6 million in 2019 and \$4.3 million in 2018. Interest expense, decreased by \$1.3 million or 100% from 2018 due to eliminating capitalization of interest expense during construction in 2019.

Year ended December 31, 2018

A review of Table A-2 shows that total revenues increased by \$4 million, or 4% in 2018 and total expenses increased by \$9 million, or 12.2%. These results may be explained as follows:

Revenues

- Operating revenues increased by \$2.8 million in 2018. This increase in revenue reflects the full year impact of a 3% Simplified Rate Increase that was implemented in September 2017, despite a continuing trend of drop in water sales or consumption in 2018. The total sale of water to all customer classes has dropped by 1.1 billion gallons or 3.7% from 2014.
- Nonoperating revenues for 2018 increased by \$1.2 million or 33.4% over 2017. This increase is the result of lead service line replacement grants received in 2018, as stated above. Interest income increased from \$76,500 in 2017 to \$214,500 in 2018 whereas other miscellaneous revenue stayed about the same in both years, resulting in no significant impact in relation to total nonoperating revenues.

Expenses

- Operating expenses, excluding depreciation, increased by 15.2% to \$59.5 million in 2018, from \$51.7 million in 2017. This was mainly due to increases in administrative and general expenses, billing and collection expenses and transmission and distribution expenses, offset by a slight decrease in pumping expenses. Administrative and general expenses increased by 5.4%, billing and collection expenses by 13.4%, and transmission and distribution expenses by 38.1%. Pumping and treatment expenses decreased by a modest 1.8% whereas treatment expenses stayed about the same due to no increases experienced in cost of chemicals used in treatment.

CITY OF MILWAUKEE – WATER WORKS

Management’s Discussion and Analysis

December 31, 2019 and 2018

(Unaudited)

Increase in pension expenses recognized in compliance to GASB requirements and increase in injuries and damages expenses account for most of the increase in administrative and general expenses. Increases in system support expenses arising from system upgrade issues and uncollectible accounts explain the increase in billing and collections expenses. Transmission and distribution expenses experienced the highest increase of \$6.9 million consisting of, among other things, \$2.5 million for tank painting and maintenance, \$3.3 million for maintenance of water mains due to increased water main breaks. There were 519 and 374 water main breaks in 2018 and 2017 respectively. Pumping expenses continued to decrease partly because Plants Operations continued observing “peak” for pump operations at Texas and Howard facilities that in turn was believed to result in lowered electrical charges.

- Nonoperating expenses: LSL expenditures that are reimbursed by the City or the DNR and are accounted for as nonoperating expenses amounted to \$4.5 million in 2018 and \$3.8 million in 2017. Interest expense, decreased by \$10,000 or 11% from 2017 due to continued capitalization of interest expense during construction, despite increase in revenue bond debt service in 2018.

Capital Assets and Debt Administration

Capital Assets

The Water Works calculates depreciation based on composite groups of assets within a given category and the average useful life. These categories are building and improvements, transmission and distribution system, and machinery and equipment. Each group’s depreciation is then calculated using a rate authorized by the latest Public Services Commission of Wisconsin (PSC) rate order.

As of December 31, 2019, the Water Works investment in capital assets, net of accumulated depreciation, increased by \$21.9 million or 4.3% to \$535.6 million. Transmission and distribution system assets increased \$15.8 million due to installation of water mains \$10.5 million and services \$5.4 million. Machinery and equipment increased by \$4.1 million due to hydrant installations \$1.3 million and general transportation equipment \$1.3 million. Construction in progress increased by \$15.0 million due to capitalization timing.

As of December 31, 2018, the Water Works investment in capital assets, net of accumulated depreciation, increased by \$21.9 million or 4.4% to \$513.7 million. Transmission and distribution system assets and machinery and equipment increased by \$23.5 million and \$7.9 million, respectively, and construction in progress increased by \$4.6 million. The increases in transmission and distribution system assets and construction in progress were mainly due to installation of water mains per the ramped up water main replacement program mandated by the PSC. The increase in machinery and equipment reflects a combination of increases in Automated Meter Reading (AMR) equipment, computer equipment and transportation equipment acquired in 2018.

CITY OF MILWAUKEE – WATER WORKS

Management’s Discussion and Analysis

December 31, 2019 and 2018

(Unaudited)

Table A-3

Capital Assets

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Capital assets:			
Land	\$ 1,415,398	\$ 1,415,398	\$ 1,415,398
Buildings	31,093,958	31,110,416	30,280,171
Transmission and distribution system	463,294,576	447,476,755	423,999,217
Machinery and equipments	280,161,473	276,038,310	268,151,780
Construction in progress	57,213,517	42,188,306	37,618,178
Nonutility property	<u>4,293,160</u>	<u>4,293,160</u>	<u>4,293,160</u>
Total capital assets	837,472,082	802,522,345	765,757,904
Less accumulated depreciation	<u>(301,911,902)</u>	<u>(288,868,499)</u>	<u>(273,967,372)</u>
Net capital assets	<u>\$ 535,560,180</u>	<u>\$ 513,653,846</u>	<u>\$ 491,790,532</u>

Investment Administration

As an enterprise fund within the primary government of the City of Milwaukee, the Water Works does not have a direct investment plan. As such, cash not in use for day-to-day operation is invested through the City of Milwaukee, primarily in the State of Wisconsin’s LGIP and/or other types of investment instruments as determined by the City Treasurer. As of December 31, 2019 and 2018, the City Treasurer held cash and cash equivalents of \$28.4 million and \$27.7 million, respectively, on behalf of the Water Works that consisted of LGIP investments and cash accounts.

Debt Administration

Debt service is administered by the Public Debt Commission and can only be initiated through Council resolution with approval from the Commissioner of Public Works (or his designee, the Superintendent of Water Works).

The Water Works continues to make its regularly scheduled payments on its bonds per the amortization schedule for each bond.

CITY OF MILWAUKEE – WATER WORKS

Management’s Discussion and Analysis

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(Unaudited)

As of December 31, 2019 and 2018, the Water Works debt consisted of \$60.1 million and \$49.7 million, respectively, in revenue bonds through the State of Wisconsin Safe Drinking Water Loan program and a conventional revenue bond that the Milwaukee Water Works issued in 2016. In addition, Milwaukee Water Works had \$11.0 million and \$9.3 million, respectively, in general obligation bonds for a total indebtedness of \$71.1 million and \$59.0 million, as of December 31, 2019 and 2018, respectively.

Economic Factors

Total volume of water sold decreased by 1 billion gallons and 52 million gallons in 2019 and 2018, respectively. As shown in Table A-4, from 2015 to 2019, volumes of water sold to all customer categories experienced declines. Year-over year, the highest decrease was for industrial customer class with a decline of 372 million gallons, followed by residential customer class with a 206 million gallons decrease. All the other customer classes experienced a decline.

It should also be noted that volume of water sold to all customers dropped by 6.3% or 1.9 billion gallons over the last five years, including 2019. Table A-5 shows, graphically, the volume of water sold to different categories of customers over the last 20 years. As can be observed in the graph, even though there had been a continuing decline in the sale of water to all customer categories over the 20-year period, it seems to have leveled out almost for all customer classes the last three years, with the exception of the shift that took place between residential and commercial customer classes in 2016 caused by reclassification of accounts. In 2016, some multi-family customer accounts were reclassified from commercial to residential category per a PSC mandate.

Milwaukee Water Works entered into a 40-year water sale agreement with the Waukesha Water Utility in 2017 to become Waukesha’s wholesale water provider. Water service is expected to commence in 2023, with an estimated annual revenue of approximately \$3 million at an initial rate of \$1.45 per thousand gallons for 6 million gallons daily. The initial rate in the Agreement will be updated to reflect rate increases approved by the PSC between the date of the executed agreement in 2017 and the commencement of service, now an effective rate of \$1.49 based on the September 1, 2019 simplified rate increase. Water sales to Waukesha is projected to grow to 8.2 million gallons daily over the term of the agreement. In preparation for the connection, MWW has agreed to extend a transmission main and replace an existing pumping station with additional capacity to serve Waukesha. In 2018, MWW began the design phase of the project and in late 2019, submitted to the PSC an application for construction authorization. The updated estimated capital costs of the facilities are \$22.6 million, of which Waukesha is contributing \$8.3 million and of which MWW’s \$14.3 million will primarily be incurred in 2020 and 2021.

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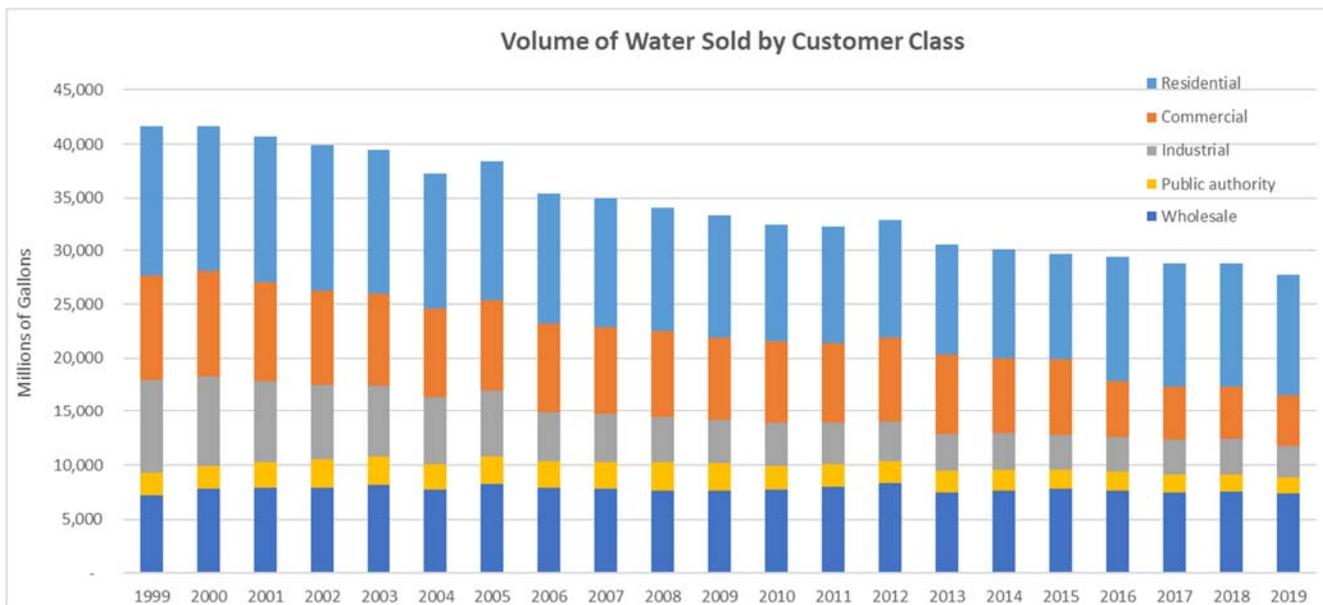
(Unaudited)

Table A-4

Sale of Water

	2019	2018	2017	2016	2015
	(In millions of gallons)				
Customer class:					
Residential	11,211	11,417	11,536	11,605	9,794
Commercial	4,791	4,982	4,996	5,265	7,151
Industrial	2,860	3,232	3,160	3,150	3,181
Public authority	1,529	1,622	1,697	1,748	1,738
Subtotal	20,391	21,252	21,388	21,768	21,864
Wholesale	7,370	7,533	7,449	7,659	7,779
Total	27,761	28,785	28,837	29,427	29,643

Table A-5



Contacting Water Works Financial Management

This financial report is designed to provide a general overview of the Water Works’ finances to its customers, creditors, and anyone who has an interest in the Water Works’ operations. If you have questions about this report or need additional information, contact the Water Works’ Superintendent, Karen Dettmer or Water Financial Manager, Menbere W. Medhin, 841 N. Broadway, Room 409, Milwaukee, Wisconsin 53202.

CITY OF MILWAUKEE – WATER WORKS

Statements of Net Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,520,757	\$ 25,175,191
Restricted cash and cash equivalents	1,906,847	2,553,624
Accounts receivable, net	17,128,747	18,258,694
Unbilled accounts receivable	13,912,410	13,524,695
Due from other funds	1,138,707	1,249,907
Inventory of materials and supplies	3,537,799	3,467,118
Prepaid items	951,624	795,233
Other assets	69,585	60,073
Total Current Assets	<u>65,166,476</u>	<u>65,084,535</u>
Noncurrent assets:		
Water plant in service, net	475,390,971	468,370,701
Construction work in process	57,213,517	42,188,306
Other property, net	2,955,692	3,094,839
Total Noncurrent Assets	<u>535,560,180</u>	<u>513,653,846</u>
Total Assets	<u>600,726,656</u>	<u>578,738,381</u>
DEFERRED OUTFLOW OF RESOURCES		
Pension deferred outflows	14,491,558	5,596,743
OPEB deferred outflows	6,598,471	-
Total Deferred Outflow of Resources	<u>21,090,029</u>	<u>5,596,743</u>
LIABILITIES		
Current liabilities:		
Accounts payable	12,867,044	15,062,969
Interest payable	244,585	205,720
Accrued wages	998,035	966,286
Compensated absences	1,944,505	1,988,163
Due to other funds	932,212	3,288,687
Long-term debt due within one year	3,808,419	5,669,587
Total Current Liabilities	<u>20,794,800</u>	<u>27,181,412</u>
Noncurrent liabilities:		
General obligation bonds payable	10,154,201	6,079,729
Revenue bonds payable	57,148,297	47,297,138
Net pension liability	21,403,000	6,569,000
Total Other Post Employment Benefits liability (TOL)	47,575,705	47,020,734
Total Noncurrent Liabilities	<u>136,281,203</u>	<u>106,966,601</u>
Total Liabilities	<u>157,076,003</u>	<u>134,148,013</u>
DEFERRED INFLOW OF RESOURCES		
Pension deferred inflows	1,678,000	2,897,000
OPEB deferred inflows	3,187,018	2,337,775
State deferred grant	699,114	699,114
Total Deferred Inflow of Resources	<u>5,564,132</u>	<u>5,933,889</u>
NET POSITION		
Net investment in capital assets	464,449,263	454,607,392
Restricted for debt service	1,729,638	2,404,594
Unrestricted (deficit)	<u>(7,002,351)</u>	<u>(12,758,764)</u>
TOTAL NET POSITION	<u>\$ 459,176,550</u>	<u>\$ 444,253,222</u>

See accompanying notes to financial statements.

CITY OF MILWAUKEE – WATER WORKS

Statements of Revenues, Expenses, and Changes in Fund Net Position
Years ended December 31, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Water sales	\$ 80,165,876	\$ 81,507,275
Fire protection service	9,388,153	9,457,202
Charges for shared services	6,497,485	6,702,207
Other	2,963,891	2,994,567
Total Operating Revenues	99,015,405	100,661,251
OPERATING EXPENSES		
Administrative and general	7,750,472	12,148,790
Billing and collection	3,180,430	3,532,448
Transmission and distribution	19,260,797	25,110,130
Water pumping	6,999,294	6,935,941
Water treatment	13,618,910	11,821,003
Depreciation	19,639,442	18,685,166
Total Operating Expenses	70,449,345	78,233,478
Operating income	28,566,060	22,427,773
NONOPERATING REVENUES (EXPENSES)		
Interest income	155,060	214,500
Interest expense	(1,398,078)	(77,496)
Miscellaneous	628,506	307,775
Noncapital construction grants	3,596,441	4,336,547
Noncapital construction expenses	(3,735,588)	(4,456,827)
Total Nonoperating Expenses, Net	(753,659)	324,499
Income before capital contributions and transfers	27,812,401	22,752,272
Capital contributions	410,927	1,550,977
Transfers out	(13,300,000)	(13,090,014)
Increase (Decrease) in Net Position	14,923,328	11,213,235
NET POSITION – Beginning of Year	444,253,222	433,039,987
NET POSITION – End of Year	\$ 459,176,550	\$ 444,253,222

See accompanying notes to financial statements.

CITY OF MILWAUKEE – WATER WORKS

Statements of Cash Flows

Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 93,879,146	\$ 94,480,281
Receipts from interfund services provided	6,497,484	6,702,207
Payments to suppliers	(30,498,635)	(38,259,357)
Payments to employees	(20,327,184)	(23,508,513)
Payments (to) from other funds	111,200	3,070,007
Net Cash Provided by Operating Activities	<u>49,662,011</u>	<u>42,484,625</u>
Cash flows from noncapital financing activities:		
Miscellaneous nonoperating revenue (expense)	-	2,861,732
Noncapital construction expenditures	(3,735,588)	(4,456,827)
Noncapital reimbursements	3,596,441	1,595,094
Interfund transfers	(13,300,000)	(13,090,014)
Net Cash Provided by Noncapital Financing Activities	<u>(13,439,147)</u>	<u>(13,090,015)</u>
Cash flows from capital and related financing activities:		
Acquisition of property, plant, and equipment	(46,487,857)	(37,008,695)
Proceeds from bonds, notes, and revenue bonds	17,839,577	20,168,521
Retirement of bonds, notes, and revenue bonds	(5,744,586)	(11,983,686)
Contributions received for construction	103,473	352,508
Interest paid	(1,389,742)	(1,384,602)
Net Cash Used in Capital and Related Financing Activities	<u>(35,679,135)</u>	<u>(29,855,954)</u>
Cash flows from investing activity:		
Interest income	155,060	214,500
Net Cash Provided by Investing Activity	<u>155,060</u>	<u>214,500</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>698,789</u>	<u>(246,844)</u>
Cash and Cash Equivalents – Beginning of Year	<u>27,728,815</u>	<u>27,975,659</u>
Cash and Cash Equivalents – End of Year	<u>\$ 28,427,604</u>	<u>\$ 27,728,815</u>
Cash and cash equivalents at year-end consist of:		
Unrestricted cash and cash equivalents	\$ 26,520,757	\$ 25,175,191
Restricted cash and cash equivalents	1,906,847	2,553,624
Total Cash and Cash Equivalents	<u>\$ 28,427,604</u>	<u>\$ 27,728,815</u>

	<u>2019</u>	<u>2018</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 28,566,060	\$ 22,427,773
Non-operating income	628,506	307,775
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	19,639,442	18,685,166
Effect of changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables	742,232	148,483
Due from/to other funds resulting from operations	(2,245,275)	(5,273,145)
Inventory of materials and supplies	(70,681)	(52,680)
Prepaid items	(156,391)	26,125
Other assets	(9,512)	64,979
Noncapital accounts payable	3,053,610	2,287,176
Accrued wages and compensated absences	(11,908)	(59,618)
Net pension obligations, deferred outflows and deferred inflows	4,720,184	2,184,914
Net OPEB obligation, deferred outflows and deferred inflows	<u>(5,194,256)</u>	<u>1,737,678</u>
Net Cash Provided by Operating Activities	<u>\$ 49,662,011</u>	<u>\$ 42,484,626</u>
Noncash activities:		
During the year, water mains and related property installed by others were deeded to the Water Works in the amount of	<u>\$ 307,454</u>	<u>\$ 1,198,469</u>

See accompanying notes to financial statements.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(1) Summary of Significant Accounting Policies

The City of Milwaukee – Water Works (Water Works) is an enterprise fund within the primary government of the City of Milwaukee (the City). The Water Works provides water to residents and commercial enterprises in the metropolitan Milwaukee area. The financial statements of the Water Works have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB) considering certain requirements of the Public Service Commission of Wisconsin (PSC). The PSC regulates rates charged to customers and other practices of the Water Works. To facilitate the understanding of data included in the financial statements, summarized below are the significant accounting policies:

(a) Reporting Entity

As defined by U.S. GAAP, the financial reporting entity consists of a primary government as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either:
 - (a) the ability to impose will by the primary government; or
 - (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based on the application of these criteria, the Water Works has no component units and is not a component unit of any other entity. However, because the Water Works is not legally separate from the City, it is included in the financial statements of the City as an enterprise fund.

(b) Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting. Revenues from operations, investments, and other sources are recognized in the accounting period in which they are earned. Revenues for water sales are recognized when water services are rendered. Unbilled water services are accrued as receivables and revenue at year-end. Expenses (including depreciation and amortization) of providing services to the public are recognized in the period they are incurred.

Nonexchange transactions, in which the Water Works receives value without directly giving equal value in return, include contributions and grants. On an accrual basis, revenue from contributions and grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements and expenditure requirements. Timing requirements specify the year when the resources are required to be used or the fiscal year when use is first permitted. Expenditure requirements specify the year in which the resources are provided to the Water Works on a reimbursement basis.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(1) Summary of Significant Accounting Policies (cont.)

(c) *Cash Equivalents*

Cash equivalents represent all highly liquid investments purchased with original maturities of three months or less, are stated at cost or amortized cost, which approximates fair value, and are invested with the City Treasurer. The City Treasurer manages a cash and investment pool to maximize return on funds while providing liquidity to meet day-to-day obligations. The Water Works' equity in the City's investment pool is considered to be a cash equivalent, since the Water Works can deposit or effectively withdraw cash at any time without prior notice or penalty.

(d) *Accounts Receivable*

Accounts receivable is composed of charges to customers for water services and receivables for sundry bill charges that cannot be attached to the property. The accounts receivable balance is stated net of allowance for doubtful accounts of \$862,349 and \$784,249 as of December 31, 2019 and 2018, respectively. The accounts receivable year-end balance includes actual unpaid charges. The unbilled accounts receivable balance consists of an estimate of the 2019 receivables that will be billed in the first quarter of 2020.

Transactions between the utility and other funds of the municipality that are representative of lending/borrowing arrangements outstanding at year end are referred to as advances to/from other funds. All other outstanding balances between the utility and other funds of the municipality are reported as due to/from other funds.

The utility has the right under Wisconsin statutes to place delinquent water bills on the tax roll for collection.

(e) *Inventory of Materials and Supplies*

Inventories of materials and supplies are stated at lower of moving average cost or market, based upon perpetual record-keeping systems and periodic cycle counts of quantities on hand.

(f) *Investments*

The City Treasurer is responsible for managing all of the Water Works' investments pursuant to the City's investment policy and Wisconsin Statutes. Wisconsin Statutes permit the City to invest funds not immediately needed in any of the following:

- Time deposits maturing within three years in any credit union, bank, savings bank, trust company, or savings and loan association which are authorized to transact business in the State of Wisconsin.
- Bonds or securities issued or guaranteed by the Federal government.
- Bonds or securities of any county, city, drainage district, technical college district, village, town or school district of the State of Wisconsin, as well as bonds issued by a local exposition district, a local professional baseball park district, or the University of Wisconsin Hospitals and Clinics Authority.
- Local Government Investment Pool – Investment Fund of the State of Wisconsin.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(1) Summary of Significant Accounting Policies (cont.)

(f) Investments (cont.)

- Repurchase agreements with public depositories, if the agreement is secured by federal bonds or securities.
- Any security which matures or which may be tendered for purchase at the option of the holder within not more than seven years of the date on which it is acquired, if that security has a rating which is the highest or second highest rating category assigned by Standard & Poor's Corporation, Moody's Investors Service, Inc. or other similar nationally recognized rating agency or if that security is senior to, or on a parity with, a security of the same issuer which has such a rating.
- Securities of open-end management investment companies or investment trusts (mutual funds) if the portfolio is limited to (a) bonds and securities issued by the federal government or a commission, board or other instrumentality of the federal government, (b) bonds that are guaranteed as to principal and interest by the federal government or a commission, board or other instrumentality of the federal government, and (c) repurchase agreements that are fully collateralized by these bonds or securities.

Investments, except the Local Government Investment Pool, are reported at fair value based on quoted market prices. The Local Government Investment Pool is an external investment pool administered by the State of Wisconsin. The value of the Water Works' investment in the fund is the same as the value of the pooled shares. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of Section 25.50 of the Wisconsin Statutes.

(g) Capital Assets

Capital assets are defined by the Water Works as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of a year. Capital assets are capitalized at cost when purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. Intangible assets not specifically excluded by its scope provisions will be classified as capital assets. Costs of depreciable property retired are removed from utility plant accounts and are charged to accumulated depreciation. Maintenance and repair costs are charged to operations as incurred and renewals and improvements are added to the asset accounts. In 2018, interest incurred during the construction phase, estimated at \$1,300,000, was reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested debt proceeds over the same period. In 2019, the utility implemented GASB No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. No interest was capitalized in 2019 in accordance with the statement. Depreciation is provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Building and improvements	31 - 59 years
Transmission and distribution systems	45 - 77 years
Machinery and equipment	4 - 30 years

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(1) Summary of Significant Accounting Policies (cont.)

(h) *Restricted Assets*

Mandatory segregation of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

(i) *Bond Premiums, Issuance Costs, and Deferred Amounts on Refunding*

Bond premiums and deferred amounts on refunding are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of the applicable bond premium and deferred amounts on refunding. Bond issuance costs are reported as expenses in the year incurred.

(j) *Net Position*

Net position is displayed in three components as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of amounts that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Water Works' policy to use restricted resources first, and then unrestricted resources when they are needed. The Water Works has restricted net position of \$1,729,638 and \$2,404,594 at December 31, 2019 and 2018, respectively. The restriction of net position is related to the debt service reserve requirements of the revenue bonds.

Unrestricted – This consists of net position that do not meet the definition of “restricted” or “investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the utility's policy to use restricted resources first, then unrestricted resources as they are needed.

(k) *Compensated Absences*

Vacation Benefits

Vacation benefits are recorded as expenses over the periods the benefits accrue to the employees. Vacation benefits accrued are included in the compensated absences balance.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(1) Summary of Significant Accounting Policies (cont.)

(k) *Compensated Absences (cont.)*

Sick Leave

The liability for sick leave has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Upon retirement, employees receive a portion of their unused sick leave, in accordance with the Code of Ordinances. Upon retirement, employees are generally entitled to payment of accumulated sick leave up to a maximum of 30 days. At December 31, 2019 and 2018, accumulated sick leave earned but not taken was approximately \$3,798,996 and \$4,045,877, respectively.

Unfunded Terminal Leave Payable

Terminal leave liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and Medicare tax). A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

(l) *Classification of Revenues and Expenses*

The Water Works classifies its revenues and expenses as either operating or nonoperating.

Operating revenue includes activities that have the characteristics of exchange transactions including sales of water supplied to city, suburban, and commercial users. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as contributions and most Federal, State, and local grants and contracts.

Operating expenses include the costs of operating the water utility, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition, including interest expense, are reported as nonoperating expenses.

(m) *Taxes*

Payments in lieu of property taxes are recognized as a transfer in the year billed by the City.

(n) *Estimates*

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(1) Summary of Significant Accounting Policies (cont.)

(o) *Pension*

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employee Retirement System (ERS) and additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(p) *Other Post-Employment Benefits (OPEB)*

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

(q) *Other Assets*

The balance represents amounts due from other municipalities, miscellaneous receivables, and prepaid expenses.

(r) *Charges for services*

Utility billings are rendered and recorded based on actual service provided. Revenues are recognized on the accrual basis and include amounts for service rendered but not billed.

Current rates were authorized by the PSCW in an order dated September 1, 2019.

(s) *New Accounting Pronouncements Implemented*

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement requires additional essential information related to debt be disclosed in the notes to the financial statements. This Statement will be effective for the year end 2019 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement established accounting requirements for interest costs incurred before the end of a construction period. This Statement will be effective for the year end 2019 financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*. This statement established consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement will be effective for the year end 2019 financial statements.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(1) Summary of Significant Accounting Policies (cont.)

(s) *New Accounting Pronouncements Implemented (cont.)*

In May 2019, the GASB issues Statement No. 91, *Conduit Debt Obligations*. This statement established a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement will be effective for the year-end 2019 financial statements.

The utility implemented GASB 88, 89, 90 and 91 as of January 1, 2019.

The GASB has approved the following statements:

- Statement No. 87, *Leases*
- Statement No. 92, *Omnibus*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87 which was postponed by one and a half years.

(t) *Comparative Data*

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

(2) Deposits and Investments

As of December 31, 2019 and 2018, the Water Works' deposits and investments were as follows:

	<u>2019</u>	<u>2018</u>
Local Government Investment Pool	\$ 13,074,945	\$ 15,744,419
Deposits and cash on hand	15,352,659	11,984,396
Total	<u>\$ 28,427,604</u>	<u>\$ 27,728,815</u>

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000. Per Common Council, the City Treasurer shall require collateralization of demand deposits and certificates of time deposit at financial institutions when the total amount of such deposits with any institution exceeds the combined insured limit of \$650,000. As of December 31, 2019 and 2018, the Water Works' deposits were not subject to custodial credit risk as they were either insured or collateralized by securities held in the pledging bank's trust department in the City's name.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(2) Deposits and Investments (cont.)

The Water Works categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Water Works maintains certain cash and investments commingled with the municipality. The fair value hierarchy pertaining specifically to the Water Work's resources cannot be determined for those accounts. Please refer to the City's CAFR for information on the fair value measurements.

(3) Capital Assets

Capital asset activity for the year ended December 31, 2019 was as follows:

	<u>December 31, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers/ Adjustments</u>	<u>December 31, 2019</u>
Capital assets not being depreciated:					
Land and land improvements	\$ 1,415,398	\$ -	\$ -	\$ -	\$ 1,415,398
Nonutility property, land	375,541	-	-	-	375,541
Construction in progress	42,188,306	47,597,241	(32,572,030)	-	57,213,517
Total capital assets not being depreciated	<u>43,979,245</u>	<u>47,597,241</u>	<u>(32,572,030)</u>	<u>-</u>	<u>59,004,456</u>
Capital assets being depreciated					
Buildings	31,110,416	80,937	(97,395)	-	31,093,958
Transmission and distribution system	447,476,755	16,474,364	(656,543)	-	463,294,576
Machinery and equipment	276,038,310	10,189,279	(6,066,116)	-	280,161,473
Nonutility property, land	3,917,619	-	-	-	3,917,619
Total capital assets being depreciated	<u>758,543,100</u>	<u>26,744,580</u>	<u>(6,820,054)</u>	<u>-</u>	<u>778,467,626</u>
Less accumulated depreciation:					
Buildings	20,920,242	986,884	(97,395)	-	21,809,731
Transmission and distribution system	118,971,123	6,318,053	(670,394)	-	124,618,782
Machinery and equipment	147,778,812	12,334,505	(5,967,396)	-	154,145,921
Nonutility property	1,198,322	-	-	139,146	1,337,468
Total accumulated depreciated	<u>288,868,499</u>	<u>19,639,442</u>	<u>(6,735,185)</u>	<u>139,146</u>	<u>301,911,902</u>
Total capital assets being depreciated, net	<u>469,674,601</u>	<u>7,105,138</u>	<u>(84,869)</u>	<u>(139,146)</u>	<u>476,555,724</u>
Total capital assets, net	<u>\$ 513,653,846</u>	<u>\$ 54,702,379</u>	<u>\$ (32,656,899)</u>	<u>\$ (139,146)</u>	<u>\$ 535,560,180</u>

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(3) Capital Assets (cont.)

Capital asset activity for the year ended December 31, 2018 was as follows:

	<u>December 31, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers/ Adjustments</u>	<u>December 31, 2018</u>
Capital assets not being depreciated:					
Land and land improvements	\$ 1,415,398	\$ -	\$ -	\$ -	\$ 1,415,398
Nonutility property, land	375,541	-	-	-	375,541
Construction in progress	<u>37,618,178</u>	<u>40,685,656</u>	<u>(36,115,528)</u>	-	<u>42,188,306</u>
Total capital assets not being depreciated	<u>39,409,117</u>	<u>40,685,656</u>	<u>(36,115,528)</u>	-	<u>43,979,245</u>
Capital assets being depreciated					
Buildings	30,280,171	869,236	(38,991)	-	31,110,416
Transmission and distribution system	423,999,217	24,356,809	(879,271)	-	447,476,755
Machinery and equipment	268,151,780	10,889,483	(3,002,953)	-	276,038,310
Nonutility property, land	<u>3,917,619</u>	-	-	-	<u>3,917,619</u>
Total capital assets being depreciated	<u>726,348,787</u>	<u>36,115,528</u>	<u>(3,921,215)</u>	-	<u>758,543,100</u>
Less accumulated depreciation:					
Buildings	19,984,593	974,640	(38,991)	-	20,920,242
Transmission and distribution system	113,640,190	6,020,180	(938,343)	249,096	118,971,123
Machinery and equipment	139,283,414	11,690,346	(2,945,849)	(249,099)	147,778,812
Nonutility property	<u>1,059,175</u>	-	-	139,147	<u>1,198,322</u>
Total accumulated depreciated	<u>273,967,372</u>	<u>18,685,166</u>	<u>(3,923,183)</u>	<u>139,144</u>	<u>288,868,499</u>
Total capital assets being depreciated, net	<u>452,381,415</u>	<u>17,430,362</u>	<u>1,968</u>	<u>(139,144)</u>	<u>469,674,601</u>
Total capital assets, net	<u>\$ 491,790,532</u>	<u>\$ 58,116,018</u>	<u>\$ (36,113,560)</u>	<u>\$ (139,144)</u>	<u>\$ 513,653,846</u>

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(4) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2019 were as follows:

	<u>December 31, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2019</u>	<u>Due within one year</u>
Capital assets not being depreciated:					
General obligation bonds	\$ 6,628,411	\$ -	\$ (933,411)	\$ 5,695,000	\$ 820,000
Revolving Note	2,400,000	5,000,000	(2,400,000)	5,000,000	-
Unamortized premiums	309,729	-	(30,528)	279,201	-
Revenue bonds	<u>49,708,314</u>	<u>12,839,577</u>	<u>(2,411,176)</u>	<u>60,136,715</u>	<u>2,988,419</u>
Total	<u>\$ 59,046,454</u>	<u>\$ 17,839,577</u>	<u>\$ (5,775,115)</u>	<u>\$ 71,110,916</u>	<u>\$ 3,808,419</u>

Changes in long-term obligations for the year ended December 31, 2018 were as follows:

	<u>Balance December 31, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2018</u>	<u>Due within one year</u>
General obligation bonds	\$ 7,485,622	\$ -	\$ (857,211)	\$ 6,628,411	\$ 858,411
Revolving Note	-	10,400,000	(8,000,000)	2,400,000	2,400,000
Unamortized premiums	341,756	-	(32,027)	309,729	-
Revenue bonds	<u>43,066,268</u>	<u>9,768,521</u>	<u>(3,126,475)</u>	<u>49,708,314</u>	<u>2,411,176</u>
Total	<u>\$ 50,893,646</u>	<u>\$ 20,168,521</u>	<u>\$ (12,015,713)</u>	<u>\$ 59,046,454</u>	<u>\$ 5,669,587</u>

In addition to the liabilities above, information on the net pension liability and total OPEB liability is provided in Note 6.

(b) General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of the water plant and related equipment (water system). General obligation bonds are secured by the full faith and unlimited taxing power of the City. The bonds for the Water Works will be retired by revenues from water services or, if the revenues are not sufficient, by future tax levies.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(4) Long-Term Obligations (cont.)

(b) General Obligation Bonds (cont.)

General obligation bonds outstanding at December 31, 2019 and 2018 were as follows:

Series	Maturity	Interest rates	Original	Principal	
				Balance as December 31 2019	2018
Refunding E	2017 to 2019	4.50% to 5.00%	\$ 3,125,658	\$ -	\$ 23,411
2019 N1	2017 to 2019	3.00% to 5.00%	150,000	-	15,000
2009 B2	2020 to 2024	4.00% to 5.00%	75,000	-	75,000
2010-N1	2017 to 2020	2.50% to 5.00%	450,000	45,000	90,000
2010-B5	2021 to 2025	1.50% to 5.00%	225,000	225,000	225,000
2011-N3	2017 to 2021	4.00% to 5.00%	7,750,000	1,550,000	2,325,000
2011-B4	2022 to 2026	4.00% to 5.00%	3,875,000	3,875,000	3,875,000
Total			<u>\$ 15,650,658</u>	<u>\$ 5,695,000</u>	<u>\$ 6,628,411</u>

The maturities of the outstanding principal and related interest requirements as of December 31, 2019 are as follows:

Year Ending December 31,	Principal	Interest	Total
2020	\$ 820,000	\$ 357,306	\$ 1,177,306
2021	820,000	268,806	1,088,806
2022	819,998	182,250	1,002,248
2023	819,998	141,250	961,248
2024	819,998	100,250	920,248
2025 - 2026	1,595,006	78,625	1,673,631
Total	<u>\$ 5,695,000</u>	<u>\$ 1,128,487</u>	<u>\$ 6,823,487</u>

(c) General Obligation Revolving Note

On December 27, 2019, The City drew \$5,000,000 for Milwaukee Water Works use on a revolving note, Series 2019-W2, to pay for water system improvements. The interest rate is at 2% for 18 months. The note is automatically extended for a period of 18 months beyond its maturity date of November 1, 2019. During 2018, the City repaid \$8,000,000 of the Revolving Note and as of December 31, 2018 the revolving note balance is \$0.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(4) Long-Term Obligations (cont.)

(d) Revenue Bonds

Below is a summary of the Water Works issuance of revenue bonds to either the State of Wisconsin Safe Drinking Water Loan (SDWL) Program or the City. The SDWL bonds support loans to the Water Works for water quality capital projects, or reimbursement for capital expenditures related to water quality, up to the face value of the bond. The City bonds are for the purpose of financing the costs of improvements to the City's Water Works System. Loan covenants provide for the monthly escrow of revenues to repay the debt plus interest.

<u>Date</u>	<u>Series</u>	<u>Face value</u>	<u>Issued with</u>	<u>Closed year</u>	<u>Final amount</u>	<u>Maturity</u>
12/2013	SDW Bond 4851-08*	\$ 7,823,139	SDWL	2015	\$ 6,221,748	5/1/2033
10/2014	SDW Bond 4851-23*	8,548,447	SDWL	2018	8,046,504	5/1/2034
01/2017	SDW Bond 4851-26*	18,167,178	SDWL	2018	15,290,562	5/1/2036
06/2017	SDW Bond 4851-27*	6,936,616	SDWL	2019	5,911,914	5/1/2037
05/2018	SDW Bond 4851-32*	12,706,234	SDWL	Open	8,926,968	5/1/2038
06/2019	SDW Bond 4851-35*	16,210,551	SDWL	Open	10,313,630	5/1/2039
12/2016	Series 2016 W-10	10,000,000	City	2016	10,000,000	12/1/2036
	Total	<u>\$ 80,392,165</u>			<u>\$ 64,711,326</u>	

*The debt noted is directly placed with a third party.

Revenue bonds outstanding at December 31, 2019 and 2018 were as follows:

<u>Series</u>	<u>Maturity</u>	<u>Interest rates</u>	<u>Principal</u>	
			<u>Balance as December 31 2019</u>	<u>2018</u>
SDW Bond 4851-08*	2017 to 2033	1.93%	\$ 4,625,502	\$ 4,911,027
SDW Bond 4851-23*	2017 to 2034	1.93%	6,624,539	7,002,412
SDW Bond 4851-26*	2017 to 2036	1.54%	13,359,439	14,042,388
SDW Bond 4851-27*	2017 to 2037	1.87%	5,447,874	5,700,519
SDW Bond 4851-32*	2018 to 2038	1.87%	11,080,730	8,926,968
SDW Bond 4851-35*	2019 to 2039	4.00%	10,313,630	-
Series 2016 W-10	2017 to 2036	2.00%	8,685,000	9,125,000
Total			<u>\$ 60,136,714</u>	<u>\$ 49,708,314</u>

*The debt noted is directly placed with a third party.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(4) Long-Term Obligations (cont.)

(d) Revenue Bonds (cont.)

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2019 and 2018 were \$3,479,269 and \$4,106,500 respectively. Total customer net revenues as defined for the same periods were \$48,360,561 and \$41,327,439. Annual principal and interest payments are expected to require 7.0% of net revenues on average.

(e) Debt Service Requirements

The maturities of the outstanding principal and related interest requirements as of December 31, 2019 are as follows:

Year Ending December 31,	Bonds			Direct Placement: SDW Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 445,000	\$ 334,625	\$ 779,625	\$ 2,543,418	\$ 891,321	\$ 3,434,739
2021	450,000	323,438	773,438	2,589,532	866,001	3,455,533
2022	455,000	310,988	765,988	2,636,488	818,615	3,455,103
2023	460,000	292,663	752,663	2,684,304	770,362	3,454,666
2024	465,000	269,538	734,538	2,732,995	721,226	3,454,221
2025 - 2029	2,455,000	1,025,831	3,480,831	14,427,102	2,837,029	17,264,131
2030 - 2034	2,750,000	522,000	3,272,000	15,405,179	1,470,110	16,875,289
2035 - 2039	1,205,000	48,500	1,253,500	8,432,696	306,730	8,739,426
Total	<u>\$ 8,685,000</u>	<u>\$ 3,127,583</u>	<u>\$ 11,812,583</u>	<u>\$ 51,451,714</u>	<u>\$ 8,681,394</u>	<u>\$ 60,133,108</u>

(5) Revenue Bond Debt Covenants

Year	Gross revenue	Debt coverage expense	Net revenue available for debt service	Debt service requirements			Coverage
				Principal	Interest	Total	
2019	\$ 99,170,465	\$ 50,809,903	\$ 48,360,562	\$ 2,988,418	\$ 1,225,946	\$ 4,214,364	11.48
2018	\$ 100,875,751	\$ 59,548,312	\$ 41,327,439	\$ 2,411,176	\$ 1,047,083	\$ 3,458,259	11.95

Gross revenues are defined as total revenues plus interest income. Debt coverage expenses are defined as total operating expenses, minus depreciation. The revenue bonds debt service coverage ratio requirement is the greater of 1.2 or the highest debt service coverage ratio with respect to any other debt obligations payable from the revenues of the water system.

At December 31, 2019 and 2018, there were no other debt obligations payable from the revenues of the water system.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits

(a) Pension Benefits

Plan Description - The following brief description of the more common provisions of the Employees' Retirement System of the City of Milwaukee (the Retirement System or ERS) is provided for financial statement purposes only. The provisions described reflect changes to the Retirement System enacted in 2000 as part of what is known as the Global Pension Settlement (GPS). GPS increased benefits to all members who consented to the settlement in exchange for allowing the City to make certain changes in plan administration, including allowing the use of Retirement System assets to pay for all costs to administer the Retirement System.

Plan Administration – The Retirement System was established pursuant to the Retirement Act (Chapter 396 of the Laws of Wisconsin 1937) to provide the payment of retirement and other benefits to employees of the City of Milwaukee (the “City”). Chapter 441 of the Laws of Wisconsin of 1947 made the benefits contractual and vested. The Retirement System is a cost-sharing, multi-employer plan, which also provides benefits to employees of the Milwaukee Metropolitan Sewerage District, Wisconsin Center District, Veolia Water Milwaukee LLC, Milwaukee Housing and Redevelopment Authorities, non-certified staff of the Milwaukee Public Schools and some employees of the Milwaukee Area Technical College (the “Agencies”). City employees comprise approximately 54.8% of the active participants in the Retirement System.

Measurement Focus and Basis of Accounting – The ERS is accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, contributions are recognized in the accounting period in which the underlying earnings on which the contributions are based are paid and the employers has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the ERS. Investment transactions and the related gains and losses are recorded on a trade date basis. Dividend and interest income are accrued as earned. Investments are reported at fair value.

Long-term Expected Rate of Return on Plan Assets –The long-term expected rate of return on pension plan investments was reviewed as part of the regular experience study, prepared for the Retirement System in October 2017. Additional analysis was performed in early 2019 which resulted in a decrease in the long-term rate of return to 7.50%. Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations, as developed by the Retirement System's investment consultant, for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real returns of return by the target asset allocation percentage and then adding expected inflation. This assumption is intended to be a long-term assumption (30 to 50 years) and is not generally expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(a) Pension Benefits (cont.)

Best estimates of arithmetic real rates of return (net of inflation) for each major asset class included in the Retirement System's target asset allocation as of December 31, 2018, are listed in the table below:

<u>Asset Class</u>	<u>Policy</u>	<u>Long-term Expected Rate of Return*</u>
Public Equity	47.0%	7.30%
Fixed Income & Cash	25.0%	3.10%
Real Estate	7.7%	5.60%
Real Assets	3.3%	4.50%
Private Equity	8.0%	10.60%
Absolute Return	<u>9.0%</u>	2.90%
	100.0%	

Best estimates of arithmetic real rates of return (net of inflation) for each major asset class included in the Retirement System's target asset allocation as of December 31, 2017, are listed in the table below:

<u>Asset Class</u>	<u>Policy</u>	<u>Long-term Expected Rate of Return*</u>
Public Equity	49.0%	8.25%
Fixed Income	13.0%	1.83%
Cash	1.0%	0.94%
Real Estate	7.7%	6.91%
Real Assets	3.3%	5.38%
Private Equity	8.0%	12.54%
Absolute Return	<u>18.0%</u>	4.66%
	100.0%	

**Rates provided by Callan Associates, arithmetic mean, net of expenses*

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(a) Pension Benefits (cont.)

Rate of Return – For the year ended December 31, 2018, the annual money-weighted rate of return, net of investment expense is shown below. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

	<u>2018</u>
Annual money-weighted rate of return, net of investment expense	-2.75%

Rate of Return – For the year ended December 31, 2017, the annual money-weighted rate of return, net of investment expense is shown below. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	16.41%

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(a) Pension Benefits (cont.)

Actuarial Assumptions – The last actuarial valuation was performed as of January 1, 2018, and the amounts were used to roll-forward the total pension liability to the plan’s year-end December 31, 2018, and was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Valuation Date	January 1, 2018
Actuarial Cost Method	Entry Age Normal – Level Percentage of Pay
Amortization Method	Level percent of payroll, closed
Asset Valuation Method	5-year smoothing of difference between expected return on actuarial value and actual return on market value
Actuarial Assumptions:	
Investment Rate of Return	7.50% per annum, compounded annually
Projected Salary Increases	General City: 2.5% - 5.5% Policy & Fire: 4.0% - 13.4%
Inflation Assumption	2.50%
Cost of Living Adjustments	Varies by employee group and decrement type (see plan provisions)
Mortality Table	Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant Mortality Table, using 111% of rates for males and 110% of rates for females, projected generationally with Scale MP-2016. Disabled mortality rates are based on RP-2014 Disabled Mortality Table, using 102% of rates for males and 98% of rates for females, projected generationally using Scale MP-2016. Active mortality rates are based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2016.
Experience Study	The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2012-December 31, 2016.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(a) Pension Benefits (cont.)

Actuarial Assumptions – The last actuarial valuation was performed as of January 1, 2017, and the amounts were used to roll-forward the total pension liability to the plan’s year-end December 31, 2017, and was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Valuation Date	January 1, 2017
Measurement Date	December 31, 2017
Actuarial Cost Method	Entry Age Normal – Level Percentage of Pay
Amortization Method	For pension expense; the difference between expected and actual liability experience and changes of assumptions are amortized over the average of the expected remaining service lives of all members. The differences between projected and actual earnings are amortized over a closed period of five years.
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.00% return for calendar years through 2022, and 8.25% beginning with calendar year 2023
Projected Salary Increases	General City: 2.5% - 5.5% Police & Fire 4.0% - 13.4%
Inflation Assumption	2.50%
Cost of Living Adjustments	Vary by Employee Group as explained in summary of plan provisions.
Mortality Table	For regular retirees and for survivors, the RP-2014 Healthy Annuitant Mortality Table (using 111% of rates for males and 110%of rates for females) projected generationally with Scale MP-2016. For duty and ordinary disability retirees, the RP-2014 Disability Mortality Table (using 102% of rates for males and 98% of rates for females) projected generationally with Scale MP-2016 was used. For death in active service, the RP-2014 Non-annuitant Mortality Table projected generationally with Scale MP-2016.
Experience Study	The actuarial assumptions used in December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2012 - December 31, 2016.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(a) Pension Benefits (cont.)

Net Pension Liability – The components of the pension liability of the City of Milwaukee – Water Works as of December 31, were as follows:

	<u>2019</u>	<u>2018</u>
Total pension liability	\$ 100,547,000	\$ 101,040,000
Plan fiduciary net position	<u>(79,144,000)</u>	<u>(94,471,000)</u>
Net pension liability	<u>\$ 21,403,000</u>	<u>\$ 6,569,000</u>
Plan fiduciary net position as a percentage of the total pension liability	78.71%	93.70%
Employee payroll	\$ 9,182,290	\$ 10,456,861
Net pension liability as a percentage of employee payroll	233.09%	62.82%

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent and 8.24 percent for 2018 and 2017, respectively. The projection of cash flows used to determine the discount rate assumed that contribution from plan members will be made at the current contribution rate and that contributions from ERS agencies will be made at contractually required rates, actuarially determined. Based on those assumptions, the ERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The cross over analysis produces a single rate of 7.50 percent, which reflects the long-term expected rate of return on ERS investments. Therefore, the discount rate was applied to all periods of projected benefit payments to determine the total pension liability. The Annuity and Pension Board changed the long-term assumed rate of return to 7.50% from the blended rate of 8.24% used in the 2017 fiscal year. This change was adopted by the board at the April 29, 2019 meeting and is effective for the measurement date of December 31, 2018.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the Water Works' net pension liability calculated using the discount rate of 7.50 percent, as well as what the Water Works' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate as of December 31, 2019:

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(a) Pension Benefits (cont.)

	1% Decrease	Current Discount	1% Increase
	6.50%	7.50%	8.50%
Net pension liability	\$ 33,478,000	\$ 21,403,000	\$ 11,354,000

The following presents Water Works' net pension liability calculated using the discount rate of 8.24%, as well as what the Water Works' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.24 percent) or 1-percentage-point higher (9.24 percent) than the current rate as of December 31, 2018.

	1% Decrease	Current Discount	1% Increase
	7.24%	8.24%	9.24%
Net pension liability	\$ 18,447,000	\$ 6,569,000	\$ (3,379,000)

Schedule of Employer Allocations – The Employer Allocation Percentage is based on the employers' required contribution compared to the required contribution for all employers. The Employer Allocation Percentage is rounded to seven decimal places.

Schedule of Pension Amounts – The employer's proportionate share of the Collective Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and Total Employer Pension Expense (Income) is based on the Employer Allocation Percentage.

The Collective Deferred Inflows and Outflows of Resources due to liabilities are amortized over the Average Expected Service Lives of all Employees of 4.01 years. The Collective Deferred Inflows and Outflows of Resources due to the net difference between projected and actual earnings on pension plan investments is amortized over five years.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(a) Pension Benefits (cont.)

Collective Deferred Inflows and Outflows of Resources to be recognized in the Future Pension Expense for the year ended December 31, 2019 are as follows:

	Outflows of Resources	Inflows of Resources	Net Outflows (Inflows) of Resources
	<u> </u>	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 527,000	\$ (1,165,000)	\$ (638,000)
Changes of assumptions	7,632,000	(4,000)	7,628,000
Differences between projected and actual earnings	4,939,000	-	4,939,000
Changes in proportion	8,000	(509,000)	(501,000)
Contributions subsequent to the measurement date	<u>1,385,558</u>	<u>-</u>	<u>1,385,558</u>
Total	<u>\$ 14,491,558</u>	<u>\$ (1,678,000)</u>	<u>\$ 12,813,558</u>

Collective Deferred Inflows and Outflows of Resources to be recognized in the Future Pension Expense for the year ended December 31, 2018 are as follows:

	Outflows of Resources	Inflows of Resources	Net Outflows (Inflows) of Resources
	<u> </u>	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 907,000	\$ (249,000)	\$ 658,000
Changes of assumptions	3,309,000	(27,000)	3,282,000
Differences between projected and actual earnings	-	(2,547,000)	(2,547,000)
Changes in proportion	18,000	(74,000)	(56,000)
Contributions subsequent to the measurement date	<u>1,362,743</u>	<u>-</u>	<u>1,362,743</u>
Total	<u>\$ 5,596,743</u>	<u>\$ (2,897,000)</u>	<u>\$ 2,699,743</u>

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(a) Pension Benefits (cont.)

Deferred Outflows and Inflows of Resources to be recognized in the Future Pension Expense are as follows:

<u>Year Ending December 31,</u>	<u>Net Outflows Resources</u>
2020	\$ 4,334,000
2021	3,191,000
2022	2,071,000
2023	1,832,000

Fiscal Year ending December 31,	<u>2019</u>	<u>2018</u>
Service Cost	\$ 1,201,000	\$ 1,408,000
Interest cost on total pension liability	7,431,000	8,005,000
Projected earnings on plan investments	(6,924,000)	(7,097,000)
Contributions - Member	(513,000)	(589,000)
Administrative Expense	115,000	156,000
<u>Recognition of net deferred outflows (inflows)</u>		
Changes in assumptions	1,897,000	1,130,000
Difference between expected and actual liability experience	(365,000)	310,000
Difference between projected and actual earnings	1,897,000	(1,435,000)
Recognition of prior years':	2,944,000	1,898,000
Deferred Outflows	(1,445,000)	(202,000)
Deferred Inflows	(166,000)	(14,000)
Total Pension Expense	<u>\$ 6,072,000</u>	<u>\$ 3,570,000</u>

Additional Financial Information for the ERS – For additional information regarding ERS’s financial statements and audit report, please visit the ERS web site at <https://www.cmers.com>

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(b) Other Postemployment Benefits

The City implemented GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective January 1, 2018. The cumulative effect of the change in net position due to the change in accounting standard was adjusted in the beginning net position for 2018.

The City provides other postemployment benefits (OPEB) to its retirees for health and life insurance.

Plan Description – The City provides a single-employer defined benefit healthcare plan and life insurance administered by both the City and Milwaukee’s Employees’ Retirement System (ERS). The City provides medical and COBRA dental insurance benefits for substantially all retirees in accordance with terms set forth in labor contracts or by Common Council resolution. Retirees are eligible to enroll in any of the group plans offered by the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of statement 75.

Benefits Provided – Retiree eligibility for full health insurance coverage varies by employee group, but can be summarized as follows:

General Employees: Employees hired prior to January 1, 2017, in general, are eligible when they retire through the ERS with a minimum of 15 years of creditable service with the City. Furthermore, if they retire on a service retirement they are eligible for an 88% subsidy until they attain age 65. Certain other groups of General employees are eligible, but pay a variety of rates depending upon their group affiliation at the time of retirement, service credit, age, and type of retirement – the subsidy for these may range from 100% to 25% until age 65. Almost all retirees get a 25% subsidy once they attain Medicare age (65 years). Service retirement for General employees enrolled prior to January 1, 2014 is age 60 or age 55 with 30 years of creditable service; for those enrolled on/after January 1, 2014 is age 65 or age 60 with 30 years of creditable service.

Disability: Slightly different eligibility criteria apply for employees who retire on an ordinary or duty disability and their subsidy is different from regular service retirees.

In addition to medical insurance, before 2014 the City allowed its employees to continue life insurance coverage under the Group Life Insurance Plan offered to active employees in accordance with Section 350-25 of the Code of Ordinances. The base amount of coverage for general City employees covered under the City’s Life Insurance plan until December 31, 2013 was equal to the employee’s annual basic salary to the next higher thousand dollars. The base amount of coverage for firefighters and police officers is equal to one and one-half the employee’s annual basic salary to the next higher thousand dollars.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(b) Other Postemployment Benefits (cont.)

General City employees retiring after 2013 must have purchased before retirement at least 50% of their annual base salary in voluntary life insurance coverage to be able to continue their enrollment in the City’s General Life Insurance program. Premiums are paid at age-banded rates that are in effect at that time. Employees maintaining a minimum of 50% of their annual base salary at the time of retirement in voluntary coverage until age 65, upon attaining age 65, have \$10,000 of coverage paid for by the City.

In general, General City employees retiring on a service retirement prior to 2014 were eligible to continue coverage at the level on the date prior to their date of retirement. Firefighters and Police retiring on a service retirement are eligible to continue coverage up to their base amount of coverage on the date prior to their date of retirement. Prior to age 65, all retirees are required to pay the full premium rates as established by the insurance carrier, less an adjustment for estimated dividends.

The rates established are group rates applied consistently to all employees, without regard to age or health. Upon reaching the age of 65, those retirees still part of the group life plan have their coverage reduced in accordance with the reduction schedule in effect on their last day physically at work. For certain groups of retirees, the City may assume all future premiums or only the cost of the \$10,000 of coverage, depending upon the retirement date and reduction schedule in effect on their last day at work.

Employees covered by benefit terms – At December 31, 2019 and 2018, the following estimated MWW employees were covered by the benefit terms.

	<u>2019</u>	<u>2018</u>
Inactive plan members or beneficiaries currently receiving benefit payments	329	325
Inactive plan members entitled to but not yet receiving benefit payments	-	-
Active plan members	<u>618</u>	<u>618</u>
Total	<u><u>948</u></u>	<u><u>943</u></u>

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(b) Other Postemployment Benefits (cont.)

Actuarial Assumptions –

Valuation Date	January 1, 2019
Measurement Date	December 31, 2019
Sponsor’s fiscal year end	December 31, 2019
Actuarial Cost Method	Entry Age Normal, used to measure the Total OPEB Liability
Contribution Policy	Sponsor contributes pay-as-you-go-costs.
Discount Rate as of January 1, 2019	3.71%
Discount Rate as of January 1, 2020	2.75%
Asset Valuation Method	Not applicable
Investment Rate of Return	Not applicable
Wage Inflation	2.50% for general employees and 4.00% for public safety employees
Salary Increases	Depends on employee group and age. For general employees, salary increase rates start at 5.5% at age 20 and decrease steadily to 2.5% at age 45. For public safety employees, salary increases start at 13.4% at age 20 and decrease steadily to 4.0% at age 55.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	For regular retirees and for survivors, the RP-2014 Healthy Annuitant Mortality Table (using 111% of rates for males and 110% of rates for females) (base year 2006) projected generationally with Scale MP-2016. For duty and ordinary disability retirees, the RP-2014 Disability Mortality Table (using 102% of rates for males and 98% for rates for females) (base year 2006) projected generationally with Scale MP-2016 was used. For death in active service, the RP-2014 Non-annuitant Mortality Table (base year 2006) projected generationally with Scale MP-2016.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(b) Other Postemployments Benefits (cont.)

Actuarial Assumptions – (cont.)

Healthcare Cost Trend Rates	Pre-Medicare trend rates are 8.0% for 2020 and grade down in 0.50% increments to an ultimate trend rate of 4.50% in 2027. Post-Medicare trend rates are 9.50% for 2020 and grade down in 0.50% increments to an ultimate trend rate of 4.50% in 2030. Actual trend rates of 3.02% for pre-Medicare and 6.63% for post-Medicare are used in 2019.
Aging Factors	Based on the 2013 SOA Study “Health Care Costs – From Birth to Death”
Expenses	Health administrative expenses are included in the development of the per capita claim costs. Operating expenses are reflected separately.

Actuarial Assumptions –

Valuation Date	January 1, 2017
Measurement Date	December 31, 2018
Plan Fiscal Year end	December 31, 2018
Actuarial Cost Method	Entry Age Normal, used to measure the Total OPEB Liability
Contribution Policy	Sponsor contributes pay-as-you-go-costs.
Asset Valuation Method	No Assets (Pay-as-you-go)
Discount Rate	3.31% as of December 31, 2017; 3.71% as of December 31, 2018
Wage Inflation	3.00% per year
Salary Increases	Depends on employee group and age. For general employees, salary increase rates start at 6.9% at age 25 and decrease steadily to 3.0% at age 50. For public safety employees, salary increases start at 10.5% at age 25 and decrease steadily to 3.0% at age 55.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(b) Other Postemployments Benefits (cont.)

Actuarial Assumptions – (cont.)

Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	<p>For regular retirees and for survivors, the RP-2000 Combined Mortality Table with mortality improvements projected to the year 2009 for the actuarial valuation as of January 1, 2013, for males and females. For death in active service, the RP-2000 Combined Mortality Table with mortality improvements projected to the year 2009 for the actuarial valuation as of January 1, 2013, for males and females, then a 6-year setback for males and females. For purposes of the retiree healthcare valuation, the mortality assumption for disabled retirees is the assumption for regular retirees and survivors with a 3-year set forward to the mortality rates.</p>
Healthcare Cost Trend Rates	<p>Plan year 2018 trend rates were based on actual premium and were equal to 6.0% for pre-Medicare benefits and 6.6% for post-Medicare benefits. Pre-Medicare trend rates are 8.0% for 2019 and grade down in 0.50% increments to an ultimate trend rate of 4.50% in 2029. Effective in 2022, pre-Medicare/post-Medicare excess trend of 0.39%/0.00% for the PPO Plan and 0.43%/0.10% for the EPO Plan are applied to the base trend healthcare rates to account for the Excise Tax under the Healthcare Reform Act.</p>
Aging Factors	Based on the 2013 SOA Study “Health Care Costs – From Birth to Death”
Expenses	Health administrative expenses are included in the development of the per capita claim costs. Operating expenses are reflected separately.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(b) Other Postemployment Benefits (cont.)

CHANGES IN THE NET OPEB LIABILITY

Fiscal Year ending December 31,	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service Cost	\$ 1,484,720	\$ 1,937,129
Interest on the total OPEB Liability	1,440,899	1,585,075
Recognition of Outflow/(Inflow) due to Non-Invest Exper		(7,068)
Changes of Benefit Terms	-	-
Difference between Expected and Actual Experience	(1,826,892)	
Changes in Assumptions	791,256	(2,722,837)
Benefit Payments	<u>(1,335,012)</u>	<u>(1,392,396)</u>
Net Change in Total OPEB Liability	<u><u>\$ 554,971</u></u>	<u><u>\$ (600,097)</u></u>
Total OPEB Liability - Beginning	\$ 47,020,734	\$ 47,620,831
Total OPEB Liability - Ending	\$ 47,575,705	\$ 47,020,734

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the Water Works' portion of the City of Milwaukee's total OPEB liability, as well as what the Water Works' total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

<u>Year</u>	<u>Category</u>	<u>Total OPEB liability</u>		
		<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
2019	Discount Rate	1.75%	2.75%	3.75%
	Amount	\$ 55,469,868	\$ 47,575,705	\$ 40,663,033
2018	Discount Rate	2.71%	3.71%	4.71%
	Amount	\$ 54,289,477	\$ 47,020,734	\$ 41,121,338

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(6) Retirement Plan and Other Postemployment Benefits (cont.)

(b) Other Postemployment Benefits (cont.)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the Water Works’ portion of the City of Milwaukee’s total OPEB liability, as well as what the Water Works’ total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates. The key current trend rates are percent 8.00 percent in 2021 decreasing to an ultimate trend rate of 4.50 percent in 2028, for non-Medicare coverage, and percent 9.50 percent in 2021 decreasing to an ultimate trend rate of 4.50 percent in 2031 for Medicare coverage.

<u>Year</u>	<u>Healthcare Cost Assumption</u>		
	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
2019 OPEB liability	\$ 41,754,305	\$ 47,575,705	\$ 54,563,835
2018 OPEB liability	\$ 40,773,749	\$ 47,020,734	\$ 54,919,375

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended December 31, 2019, the City of Milwaukee recognized OPEB expense of \$2,176,049. At December 31, 2019, the City of Milwaukee reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (1,550,717)
Changes of assumptions or other inputs	6,598,471	(1,636,302)
Total	<u>\$ 6,598,471</u>	<u>\$ (3,187,019)</u>

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(7) Regulatory Agency

PSC reporting requirements and the timing of the reports give rise to differences between revenues and expenses that are included in the PSC reports and these financial statements. The major categories of these differences are as follows: (1) the PSC recognizes the amortization of Contributions in Aid of Construction (CIAC) deferred credits over a 20-year period, (2) the PSC has elected to retain reporting pension related expense under the funding method, rather than the actuarial method required by GASB standards, and (3) some expenses are recognized in different years due to the timing of the PSC report and this report.

The effect of such differences on net income is as follows for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Increase in net position as shown in accompanying financial statements	\$ 14,923,328	\$ 11,213,235
Amortization of deferred credits resulting from Contributions in Aid of Construction (CIAC) reclassification	811,326	811,326
Misc. credits to Non-Operating Income	-	(25,493)
Net income as shown on PSC reports	<u>\$ 15,734,654</u>	<u>\$ 11,999,068</u>

(8) Commitments and Contingencies

The Water Works is generally committed under the terms of various contracts for construction of improvements and additions to the Water Works' system. Contract terms provide for partial payments as construction progresses with specified retention to assure full contract compliance. Open commitments on such contracts as of December 31, 2019 totaled \$6,160,081.

The Water Works has an annual maximum contingent liability of \$200,000 for general liability claims. Claims in excess of this amount, if any, are the liability of the City.

(9) Risk Management

The Water Works is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employee or natural disaster. These risks are monitored and evaluated by the City of Milwaukee for all aspect of the City's operations, including the Water Works. With certain exceptions, it is not the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for reasonably estimated current claim settlements and unfavorable judgements through annual appropriations and supplemental appropriations. The liabilities are recorded in the City's government-wide financial statements and are not separately determinable for the Water Works.

CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2019 and 2018

(10) Transfers and Interfund Balances

At December 31, 2019 and 2018, the Water Works has nothing recorded a due from other funds of respectively, which represents the amount owed to the Water Works as a result of regular advance and reimbursement activities. At December 31, 2019 and 2018, the Water Works has recorded a due to the City (General and Sewer Funds) of \$932,212 and \$3,288,687 respectively, for sewer maintenance and other municipal fees collected by the Water Works.

The Water Works transfers funds to the City (general fund) for PILOT. In 2019 and 2018, the PILOT transfers to the City were \$13,300,000 and \$13,090,009, respectively.

The Water Works advanced funds to the Parking fund for \$272,286 in 2012. The advance is payable in annual installments of \$27,229 over 10 years or until the balance is repaid.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILWAUKEE – WATER WORKS

Required Supplementary Information

December 31, 2019 and 2018

Schedule of Water Works Proportionate Share of the Net Pension Liability (Asset)
City of Milwaukee Employee Retirement System
Last 10 Measurement Periods*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Water Works' proportion of the net pension liability (asset)	1.5985459%	1.8118086%	1.8683190%	1.8194712%	1.8920740%
Water Works' proportionate share of the net pension liability (asset)	\$ 21,403,000	\$ 6,569,000	\$ 7,961,000	\$ 7,652,000	\$ 2,147,000
Water Works' covered - employee payroll	\$ 10,456,292	\$ 10,777,478	\$ 10,126,658	\$ 9,748,763	\$ 10,027,000
Plan fiduciary net position as a percentage of the total pension liability (asset)	78.71%	93.50%	92.08%	92.41%	97.76%

Schedule of City of Milwaukee – Water Works Contributions
City of Milwaukee Employee Retirement System
Last 10 Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 1,385,558	\$ 1,362,743	\$ 1,490,656	\$ 1,314,000	\$ 1,464,233
Contributions in relation to the contractually required contributions	\$ (1,385,558)	\$ (1,362,743)	\$ (1,490,656)	\$ (1,314,000)	\$ (1,464,233)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Water Works' covered - employee payroll	\$ 10,514,343	\$ 10,456,292	\$ 10,777,478	\$ 10,126,658	\$ 9,748,763
Contributions as a percentage of covered - employee payroll	13.18%	13.03%	13.83%	12.98%	15.02%

*Additional years' information will be displayed as it becomes available.

See Accompanying Notes to the Required Supplementary Information.

CITY OF MILWAUKEE – WATER WORKS

Required Supplementary Information

December 31, 2019 and 2018

Notes to the Required Supplementary Information
For the Year Ended December 31, 2019

Significant Changes Since Last Year's Valuation:

- The Board voted to lower the investment return assumption from 8.00% for calendar years 2018 through 2022 and 8.25% beginning in 2023 to 7.50% for all years, effective with the January 1, 2019 valuation.
- Actual vs expected experience: The return on the market value of assets during calendar year 2018 was -2.75%, as reported by Northern Trust (ERS' custodian), compared to the 8.0% assumed rate of return for 2018.
- The Global Pension Settlement (GPS) provides that members enrolled through June 28, 2000, must provide written consent to the ERS in order to be eligible for the benefit enhancements of GPS. Members enrolled after June 28, 2000 are automatically participants in the Combined Fund. Since the January 1, 2018 valuation, nine individuals who were eligible for ERS benefits as of June 28, 2000 -- and who had not previously consented to GPS -- have now consented. As a result, assets have been transferred from the non-consenter funds in which these members previously participated to the Combined Fund.
- The Board modified the amortization of the unfunded actuarial accrued liability by setting the initial amortization base (layer) equal to the unfunded actuarial accrued liability as of January 1, 2019 and amortized over 25 years.
- This is the first actuarial valuation report prepared by Cavanaugh Macdonald Consulting, LLC (CMC). As part of our transition work, we replicated the January 1, 2018 actuarial valuation. Results were within acceptable limits, but as is typical in a takeover situation, there were some differences in the key valuation metrics.
- Benefit changes: none

CITY OF MILWAUKEE – WATER WORKS

Required Supplementary Information

December 31, 2019 and 2018

Schedule of Changes in Milwaukee Water Works’ OPEB Liability and Related Ratios
City of Milwaukee GRS
Last 10 Measurement Periods*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service Cost	\$ 1,484,720	\$ 1,937,129	\$ 2,422,679
Interest	1,440,899	1,585,075	283,192
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(1,826,892)	(7,068)	-
Changes of assumptions	791,256	(2,722,837)	(270,531)
Benefit payments	(1,335,012)	(1,392,396)	(1,294,608)
Net Change in Total OPEB Liability	554,971	(600,097)	1,140,732
Total OPEB Liability - Beginning	47,020,734	47,620,831	46,480,099
Total OPEB Liability - Ending	<u>\$ 47,575,705</u>	<u>\$ 47,020,734</u>	<u>\$ 47,620,831</u>
Covered employee payroll	\$ 17,799,809	\$ 18,836,918	\$ 16,836,908
Total OPEB liability as a percentage of covered employee payroll	267.28%	249.62%	282.84%

See Accompanying Notes to the Required Supplementary Information.

CITY OF MILWAUKEE – WATER WORKS

Required Supplementary Information

December 31, 2019 and 2018

Schedule of City of Milwaukee – Water Works Contributions
City of Milwaukee GRS
Last 10 Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contributions	\$ 1,385,558	\$ 1,392,396	\$ 1,294,608
Contributions in relation to the contractually required contributions	\$ (1,385,558)	\$ (1,392,396)	\$ (1,294,608)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Water Works' covered -- employee payroll	\$ 17,799,809	\$ 17,701,534	\$ 16,836,908
Contributions as a percentage of covered - employee payroll	7.78%	7.87%	7.69%

*Additional years' information will be displayed as it becomes available

Changes of benefit terms. There were no changes of benefit terms for any participating employee in OPEB.

Changes of assumptions. There were no changes in the assumptions.

The City implemented GASB Statement No. 75 in fiscal year 2017. Information prior to fiscal year 2017 is not available.