

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 13, 2020

NEW ISSUE  
NOT BANK QUALIFIED

Moody's Rating: Requested  
S&P Rating: Requested

*In the opinion of Kennedy & Graven, Chartered, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions (which excludes any pending legislation which may have a retroactive effect), and assuming compliance with certain covenants, interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and, to the same extent, from taxable net income of individuals, estates and trusts for Minnesota income purposes, and is not a preference item for purposes of computing the federal alternative minimum tax or the Minnesota alternative minimum tax imposed on individuals, trusts, and estates. Such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. No opinion will be expressed by Kennedy & Graven, Chartered regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds. The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations. See "TAX EXEMPTION" and "OTHER FEDERAL AND STATE TAX CONSIDERATIONS" herein.*

**\$21,365,000\***

**Rochester Economic Development Authority**

**Lease Revenue Bonds (City of Rochester, Minnesota Lease Obligation), Series 2020A  
(Book Entry Only)**

**Dated Date: Date of Delivery**

**Interest Due: Each February 1 and August 1  
commencing August 1, 2020**

The Bonds will mature as shown on the inside front cover of this Official Statement.

Proposals for the Bonds may contain a maturity schedule providing for a combination of serial bonds and term bonds. All term bonds shall be subject to mandatory sinking fund redemption at a price of par plus accrued interest to the date of redemption scheduled to conform to the maturity schedule set forth on the following page.

The Bonds having stated maturities on February 1, 2029 and thereafter are subject to redemption, at the election of the Rochester Economic Development Authority (the "EDA"), in whole or in part, on February 1, 2028, and on any date thereafter, at a price of par plus accrued interest. The Bonds are also subject to extraordinary redemption as described under "THE BONDS – Redemption Provisions – Extraordinary Redemption" herein.

The Bonds will be special, limited obligations of the EDA issued pursuant to a Trust Indenture dated as of March 1, 2020 (the "Indenture") between the EDA and U.S. Bank National Association, Saint Paul, Minnesota, as Trustee (the "Trustee"), a resolution adopted by the governing body of the EDA on February 3, 2020 (the "EDA Resolution"), and a concurring resolution adopted by the City of Rochester, Minnesota (the "City") on February 3, 2020 (the "City Resolution," and, together with the EDA Resolution, the "Resolutions") payable solely from revenues to be received from the City pursuant to a Lease-Purchase Agreement dated as of March 1, 2020 (the "Lease") between the EDA and the City. **The City's obligation to make Lease Payments under the Lease is subject to non-appropriation. The Bonds shall not constitute a general obligation of the EDA or a charge against the general credit or taxing powers of the EDA, the City, or the State of Minnesota (the "State").** The proceeds of the Bonds will be used by the EDA to finance the construction and equipping of a facility which will include a police station and a development services center within the EDA's Economic Development District No. 75 and pursuant to the Economic Development Plan of the EDA.

Proposals shall be for not less than \$21,365,000 (Par) plus accrued interest, if any, on the total principal amount of the Bonds. Proposals shall specify rates in integral multiples of 1/100 or 1/8 of 1%. The initial price to the public for each maturity as stated on the proposal must be 98.0% or greater. Following receipt of proposals, a good faith deposit will be required to be delivered to the City by the lowest bidder as described in the "Terms of Proposal" herein. Award of the Bonds will be made on the basis of True Interest Cost (TIC).

The City will not designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, and the Bonds will not be subject to the alternative minimum tax for individuals.

The Bonds will be issued as fully registered obligations without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases may be made in book entry form only, in the principal amount of \$5,000 and integral multiples thereof. Investors will not receive physical certificates representing their interest in the Bonds purchased. (See "Book Entry System" herein.) Trustee will serve as registrar (the "Registrar" or "Bond Registrar") for the Bonds. The Bonds will be available for delivery at DTC on or about March 30, 2020.

**PROPOSALS RECEIVED: Monday, March 2, 2020 until 10:00 A.M., Central Time**

**CONSIDERATION OF AWARD: Subsequent to Proposal Opening**



Further information may be obtained from Baker Tilly Municipal Advisors, LLC, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101-2887 (651) 223-3000.

\* Preliminary; subject to change.

The information contained in this Preliminary Official Statement is deemed by the City to be final as of the date hereof; however, the pricing and underwriting information is subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

## Rochester Economic Development Authority

### \$21,365,000\* Lease Revenue Bonds (City of Rochester, Minnesota Lease Obligation), Series 2020A

The **Bonds** will mature February 1 in the years and amounts\* as follows:

2021	\$855,000	2025	\$875,000	2029	\$1,020,000	2033	\$1,145,000	2037	\$1,270,000
2022	\$780,000	2026	\$910,000	2030	\$1,055,000	2034	\$1,175,000	2038	\$1,310,000
2023	\$810,000	2027	\$950,000	2031	\$1,085,000	2035	\$1,205,000	2039	\$1,345,000
2024	\$845,000	2028	\$985,000	2032	\$1,120,000	2036	\$1,240,000	2040	\$1,385,000

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\* *Preliminary; subject to change.*

# **ROCHESTER ECONOMIC DEVELOPMENT AUTHORITY**

## **BOARD OF COMMISSIONERS\***

Randy Staver	President
Patrick Keane	Commissioner/Council Member – First Ward
Michael Wojcik	Commissioner/Council Member – Second Ward
Nick Campion	Commissioner/Council Member – Third Ward
Mark Bilderback	Commissioner/Council Member – Fourth Ward
Shaun C. Palmer	Commissioner/Council Member – Fifth Ward
Annalissa Johnson	Commissioner/Council Member – Sixth Ward

\* *The EDA is governed by a seven-member Board of Commissioners, with the members of the Common Council serving on the Board.*

## **CITY DIRECTOR OF FINANCE/ASSISTANT TREASURER**

Dale R. Martinson

## **MUNICIPAL ADVISOR**

Baker Tilly Municipal Advisors, LLC  
Saint Paul, Minnesota

## **BOND COUNSEL**

Kennedy & Graven, Chartered  
Minneapolis, Minnesota

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the EDA from time to time, may be treated as a Preliminary Official Statement with respect to the Bonds described herein that is deemed final as of the date hereof (or of any such supplement or correction) by the EDA.

By awarding the Bonds to any underwriter or underwriting syndicate submitting a Proposal therefor, the EDA agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior managing underwriter of the syndicate to which the Bonds are awarded copies of the Final Official Statement in the amount specified in the Terms of Proposal.

No dealer, broker, salesman or other person has been authorized by the EDA to give any information or to make any representations with respect to the Bonds, other than as contained in the Preliminary Official Statement or the Final Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the EDA.

Certain information contained in the Preliminary Official Statement or the Final Official Statement may have been obtained from sources other than records of the EDA and, while believed to be reliable, is not guaranteed as to completeness or accuracy. THE INFORMATION AND EXPRESSIONS OF OPINION IN THE PRELIMINARY OFFICIAL STATEMENT AND THE FINAL OFFICIAL STATEMENT ARE SUBJECT TO CHANGE, AND NEITHER THE DELIVERY OF THE PRELIMINARY OFFICIAL STATEMENT NOR THE FINAL OFFICIAL STATEMENT NOR ANY SALE MADE UNDER EITHER SUCH DOCUMENT SHALL CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE EDA SINCE THE RESPECTIVE DATE THEREOF.

References herein to laws, rules, regulations, resolutions, agreements, reports and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices to the Preliminary Official Statement or the Final Official Statement, they will be furnished upon request.

Any CUSIP numbers for the Bonds included in the Final Official Statement are provided for convenience of the owners and prospective investors. The CUSIP numbers for the Bonds are assigned by an organization unaffiliated with the EDA. The EDA is not responsible for the selection of the CUSIP numbers and makes no representation as to the accuracy thereof as printed on the Bonds or as set forth in the Final Official Statement. No assurance can be given by the EDA that the CUSIP numbers for the Bonds will remain the same after the delivery of the Final Official Statement or the date of issuance and delivery of the Bonds.

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THE EDA HAS AUTHORIZED BAKER TILLY MUNICIPAL ADVISORS, LLC TO NEGOTIATE THIS ISSUE ON ITS BEHALF. PROPOSALS WILL BE RECEIVED ON THE FOLLOWING BASIS:

**TERMS OF PROPOSAL**

**\$21,365,000\***

**ROCHESTER ECONOMIC DEVELOPMENT AUTHORITY**

**LEASE REVENUE BONDS**

**(CITY OF ROCHESTER, MINNESOTA LEASE OBLIGATION), SERIES 2020A**

**(BOOK ENTRY ONLY)**

Proposals for the above-referenced obligations (the “Bonds”) will be received by the Rochester Economic Development Authority (the “EDA”) on Monday, March 2, 2020 (the “Sale Date”) until 10:00 A.M., Central Time at the offices of Baker Tilly Municipal Advisors, LLC (“Baker Tilly MA”), 380 Jackson Street, Suite 300, Saint Paul, Minnesota, 55101, after which time proposals will be opened and tabulated. Consideration for award of the Bonds will be by the designated Pricing Committee subsequent to the opening of proposals.

**SUBMISSION OF PROPOSALS**

Baker Tilly MA will assume no liability for the inability of a bidder to reach Baker Tilly MA prior to the time of sale specified above. All bidders are advised that each proposal shall be deemed to constitute a contract between the bidder and the EDA to purchase the Bonds regardless of the manner in which the proposal is submitted.

(a) **Sealed Bidding.** Proposals may be submitted in a sealed envelope or by fax (651) 223-3046 to Baker Tilly MA. Signed proposals, without final price or coupons, may be submitted to Baker Tilly MA prior to the time of sale. The bidder shall be responsible for submitting to Baker Tilly MA the final proposal price and coupons, by telephone (651) 223-3000 or fax (651) 223-3046 for inclusion in the submitted proposal.

**OR**

(b) **Electronic Bidding.** Notice is hereby given that electronic proposals will be received via PARITY®. For purposes of the electronic bidding process, the time as maintained by PARITY® shall constitute the official time with respect to all proposals submitted to PARITY®. *Each bidder shall be solely responsible for making necessary arrangements to access PARITY® for purposes of submitting its electronic proposal in a timely manner and in compliance with the requirements of the Terms of Proposal.* Neither the EDA, its agents, nor PARITY® shall have any duty or obligation to undertake registration to bid for any prospective bidder or to provide or ensure electronic access to any qualified prospective bidder, and neither the EDA, its agents, nor PARITY® shall be responsible for a bidder’s failure to register to bid or for any failure in the proper operation of, or have any liability for any delays or interruptions of or any damages caused by the services of PARITY®. The EDA is using the services of PARITY® solely as a communication mechanism to conduct the electronic bidding for the Bonds, and PARITY® is not an agent of the EDA.

If any provisions of this Terms of Proposal conflict with information provided by PARITY®, this Terms of Proposal shall control. Further information about PARITY®, including any fee charged, may be obtained from:

PARITY®, 1359 Broadway, 2<sup>nd</sup> Floor, New York, New York 10018  
Customer Support: (212) 849-5000

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\* *Preliminary; subject to change.*

Baker Tilly Municipal Advisors, LLC is a registered municipal advisor and wholly-owned subsidiary of Baker Tilly Virchow Krause, LLP, an accounting firm. Baker Tilly Virchow Krause, LLP trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. © 2020 Baker Tilly Municipal Advisors, LLC.

## DETAILS OF THE BONDS

The Bonds will be dated as of the date of delivery and will bear interest payable on February 1 and August 1 of each year, commencing August 1, 2020. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Bonds will mature February 1 in the years and amounts\* as follows:

2021	\$855,000	2025	\$875,000	2029	\$1,020,000	2033	\$1,145,000	2037	\$1,270,000
2022	\$780,000	2026	\$910,000	2030	\$1,055,000	2034	\$1,175,000	2038	\$1,310,000
2023	\$810,000	2027	\$950,000	2031	\$1,085,000	2035	\$1,205,000	2039	\$1,345,000
2024	\$845,000	2028	\$985,000	2032	\$1,120,000	2036	\$1,240,000	2040	\$1,385,000

\* *The EDA reserves the right, after proposals are opened and prior to award, to increase or reduce the principal amount of the Bonds or the amount of any maturity or maturities in multiples of \$5,000. In the event the amount of any maturity is modified, the aggregate purchase price will be adjusted to result in the same gross spread per \$1,000 of Bonds as that of the original proposal. Gross spread for this purpose is the differential between the price paid to the EDA for the new issue and the prices at which the proposal indicates the securities will be initially offered to the investing public.*

Proposals for the Bonds may contain a maturity schedule providing for a combination of serial bonds and term bonds. All term bonds shall be subject to mandatory sinking fund redemption at a price of par plus accrued interest to the date of redemption scheduled to conform to the maturity schedule set forth above. In order to designate term bonds, the proposal must specify “Years of Term Maturities” in the spaces provided on the proposal form.

## BOOK ENTRY SYSTEM

The Bonds will be issued by means of a book entry system with no physical distribution of Bonds made to the public. The Bonds will be issued in fully registered form and one Bond, representing the aggregate principal amount of the Bonds maturing in each year, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Bonds. Individual purchases of the Bonds may be made in the principal amount of \$5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the registrar to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The lowest bidder (the “Purchaser”), as a condition of delivery of the Bonds, will be required to deposit the Bonds with DTC.

## TRUSTEE

The EDA will name the trustee (the “Trustee”) for the Bonds, and the EDA will pay for the services of the Trustee.

## OPTIONAL REDEMPTION

The Bonds having stated maturities on February 1, 2029 and thereafter are subject to redemption, at the election of the EDA, in whole or in part, on February 1, 2028, and on any date thereafter, at a price of par plus accrued interest. Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the maturity and principal amounts within each maturity to be redeemed shall be determined by the EDA, and if only part of the Bonds having a common maturity date are called for prepayment, the specific Bonds to be prepaid shall be selected randomly or by lottery by the Bond Registrar. Notice of redemption shall be given by registered mail to the registered owner of the Bonds not less than 30 days prior to such redemption date. The Bond Registrar may provide a conditional notice of redemption upon the direction of the EDA or the City. If a conditional notice of redemption has been

provided and the conditions are not satisfied, such notice of redemption shall be of no force and effect and the Bondholders shall be restored to their former positions as though no such notice of redemption had been delivered.

#### EXTRAORDINARY REDEMPTION

The Bonds are subject to extraordinary redemption on any Business Day, in whole or in part, at a redemption price equal to par plus accrued interest to the redemption date, at the election of the EDA or, in accordance with the Lease, the City, upon the happening of certain events of damage to or destruction or condemnation of the Site or the Facilities or change of law rendering the Lease unenforceable or impossible of performance, all as more fully provided in the Lease.

#### SECURITY AND PURPOSE

The Bonds will be special, limited obligations of the EDA payable solely from rental payments to be made by the City of Rochester, Minnesota (the “City”) pursuant to a Lease Purchase Agreement between the EDA and the City (the “Lease”). The City’s obligation to make the rental payments under the terms of the Lease is subject to annual appropriation. The Bonds are not a general obligation of the City and the full faith and credit and ad valorem taxing powers of the City are not pledged for the payment of the Bonds.

The proceeds of the Bonds will be used by the EDA to finance the construction and equipping of a facility which will include a police station and a development services center within the EDA’s Economic Development District No. 75 and pursuant to the Economic Development Plan of the EDA.

#### BIDDING PARAMETERS

Proposals shall be for not less than \$21,365,000 (Par) plus accrued interest, if any, on the total principal amount of the Bonds. No proposal can be withdrawn or amended after the time set for receiving proposals unless award of the Bonds is not made by the Pricing Committee following the opening of proposals, as designated by the EDA’s Board of Commissioners pursuant to a resolution adopted on February 3, 2020. Rates shall be in integral multiples of 1/100 or 1/8 of 1%. The initial price to the public for each maturity as stated on the proposal must be 98.0% or greater. Bonds of the same maturity shall bear a single rate from the date of the Bonds to the date of maturity. No conditional proposals will be accepted.

#### ESTABLISHMENT OF ISSUE PRICE

In order to provide the EDA with information necessary for compliance with Section 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder (collectively, the “Code”), the Purchaser will be required to assist the EDA in establishing the issue price of the Bonds and shall complete, execute, and deliver to the EDA prior to the closing date, a written certification in a form acceptable to the Purchaser, the EDA, and Bond Counsel (the “Issue Price Certificate”) containing the following for each maturity of the Bonds (and, if different interest rates apply within a maturity, to each separate CUSIP number within that maturity): (i) the interest rate; (ii) the reasonably expected initial offering price to the “public” (as said term is defined in Treasury Regulation Section 1.148-1(f) (the “Regulation”)) or the sale price; and (iii) pricing wires or equivalent communications supporting such offering or sale price. Any action to be taken or documentation to be received by the EDA pursuant hereto may be taken or received on behalf of the EDA by Baker Tilly MA.

The EDA intends that the sale of the Bonds pursuant to this Terms of Proposal shall constitute a “competitive sale” as defined in the Regulation based on the following:

- (i) the EDA shall cause this Terms of Proposal to be disseminated to potential bidders in a manner that is reasonably designed to reach potential bidders;
- (ii) all bidders shall have an equal opportunity to submit a bid;



- (iii) the EDA reasonably expects that it will receive bids from at least three bidders that have established industry reputations for underwriting municipal bonds such as the Bonds; and
- (iv) the EDA anticipates awarding the sale of the Bonds to the bidder who provides a proposal with the lowest true interest cost, as set forth in this Terms of Proposal (See “AWARD” herein).

Any bid submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in the proposal. The Purchaser shall constitute an “underwriter” as said term is defined in the Regulation. By submitting its proposal, the Purchaser confirms that it shall require any agreement among underwriters, a selling group agreement, or other agreement to which it is a party relating to the initial sale of the Bonds, to include provisions requiring compliance with the provisions of the Code and the Regulation regarding the initial sale of the Bonds.

If all of the requirements of a “competitive sale” are not satisfied, the EDA shall advise the Purchaser of such fact prior to the time of award of the sale of the Bonds to the Purchaser. **In such event, any proposal submitted will not be subject to cancellation or withdrawal.** Within twenty-four (24) hours of the notice of award of the sale of the Bonds, the Purchaser shall advise the EDA and Baker Tilly MA if 10% of any maturity of the Bonds (and, if different interest rates apply within a maturity, to each separate CUSIP number within that maturity) has been sold to the public and the price at which it was sold. The EDA will treat such sale price as the “issue price” for such maturity, applied on a maturity-by-maturity basis. The EDA will not require the Purchaser to comply with that portion of the Regulation commonly described as the “hold-the-offering-price” requirement for the remaining maturities, but the Purchaser may elect such option. If the Purchaser exercises such option, the EDA will apply the initial offering price to the public provided in the proposal as the issue price for such maturities. If the Purchaser does not exercise that option, it shall thereafter promptly provide the EDA and Baker Tilly MA the prices at which 10% of such maturities are sold to the public; provided such determination shall be made and the EDA and Baker Tilly MA notified of such prices whether or not the closing date has occurred, until the 10% test has been satisfied as to each maturity of the Bonds or until all of the Bonds of a maturity have been sold.

#### GOOD FAITH DEPOSIT

To have its proposal considered for award, the Purchaser is required to submit a good faith deposit to the EDA in the amount of \$213,650 (the “Deposit”) no later than 1:00 P.M., Central Time on the Sale Date. The Deposit may be delivered as described herein in the form of either (i) a certified or cashier’s check payable to the EDA; or (ii) a wire transfer. The Purchaser shall be solely responsible for the timely delivery of its Deposit whether by check or wire transfer. Neither the EDA nor Baker Tilly MA have any liability for delays in the receipt of the Deposit. If the Deposit is not received by the specified time, the EDA may, at its sole discretion, reject the proposal of the lowest bidder, direct the second lowest bidder to submit a Deposit, and thereafter award the sale to such bidder.

*Certified or Cashier’s Check.* A Deposit made by certified or cashier’s check will be considered timely delivered to the EDA if it is made payable to the EDA and delivered to Baker Tilly Municipal Advisors, LLC, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101 by the time specified above.

*Wire Transfer.* A Deposit made by wire will be considered timely delivered to the EDA upon submission of a federal wire reference number by the specified time. Wire transfer instructions will be available from Baker Tilly MA following the receipt and tabulation of proposals. The successful bidder must send an e-mail including the following information: (i) the federal reference number and time released; (ii) the amount of the wire transfer; and (iii) the issue to which it applies.

Once an award has been made, the Deposit received from the Purchaser will be retained by the EDA and no interest will accrue to the Purchaser. The amount of the Deposit will be deducted at settlement from the purchase price. In the event the Purchaser fails to comply with the accepted proposal, said amount will be retained by the EDA.

## AWARD

The Bonds will be awarded on the basis of the lowest interest rate to be determined on a true interest cost (TIC) basis calculated on the proposal prior to any adjustment made by the EDA. The EDA's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling.

The EDA will reserve the right to: (i) waive non-substantive informalities of any proposal or of matters relating to the receipt of proposals and award of the Bonds, (ii) reject all proposals without cause, and (iii) reject any proposal that the EDA determines to have failed to comply with the terms herein.

## BOND INSURANCE AT PURCHASER'S OPTION

The EDA has **not** applied for or pre-approved a commitment for any policy of municipal bond insurance with respect to the Bonds. If the Bonds qualify for municipal bond insurance and a bidder desires to purchase a policy, such indication, the maturities to be insured, and the name of the desired insurer must be set forth on the bidder's proposal. The EDA specifically reserves the right to reject any bid specifying municipal bond insurance, even though such bid may result in the lowest TIC to the EDA. All costs associated with the issuance and administration of such policy and associated ratings and expenses (other than any independent rating requested by the EDA) shall be paid by the successful bidder. Failure of the municipal bond insurer to issue the policy after the award of the Bonds shall not constitute cause for failure or refusal by the successful bidder to accept delivery of the Bonds.

## CUSIP NUMBERS

If the Bonds qualify for the assignment of CUSIP numbers such numbers will be printed on the Bonds; however, neither the failure to print such numbers on any Bond nor any error with respect thereto will constitute cause for failure or refusal by the Purchaser to accept delivery of the Bonds. Baker Tilly MA will apply for CUSIP numbers pursuant to Rule G-34 implemented by the Municipal Securities Rulemaking Board. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the Purchaser.

## SETTLEMENT

On or about March 30, 2020, the Bonds will be delivered without cost to the Purchaser through DTC in New York, New York. Delivery will be subject to receipt by the Purchaser of an approving legal opinion of Kennedy & Graven, Chartered of Minneapolis, Minnesota, and of customary closing papers, including a no-litigation certificate. On the date of settlement, payment for the Bonds shall be made in federal, or equivalent, funds that shall be received at the offices of the EDA or its designee not later than 12:00 Noon, Central Time. Unless compliance with the terms of payment for the Bonds has been made impossible by action of the EDA, or its agents, the Purchaser shall be liable to the EDA for any loss suffered by the EDA by reason of the Purchaser's non-compliance with said terms for payment.

## CONTINUING DISCLOSURE

In accordance with SEC Rule 15c2-12(b)(5), the EDA and the City will undertake, pursuant to their respective resolutions, to provide annual reports and notices of certain events. A description of this undertaking is set forth in the Official Statement. The Purchaser's obligation to purchase the Bonds will be conditioned upon receiving evidence of this undertaking at or prior to delivery of the Bonds.

## OFFICIAL STATEMENT

The EDA and the City have authorized the preparation of a Preliminary Official Statement containing pertinent information relative to the Bonds, and said Preliminary Official Statement has been deemed final by the EDA and the City as of the date thereof within the meaning of Rule 15c2-12 of the Securities and Exchange Commission. For copies of the Preliminary Official Statement or for any additional information prior to sale, any prospective purchaser is referred to the Municipal Advisor to the EDA and the City, Baker Tilly Municipal Advisors, LLC, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101, telephone (651) 223-3000.

A Final Official Statement (as that term is defined in Rule 15c2-12) will be prepared, specifying the maturity dates, principal amounts, and interest rates of the Bonds, together with any other information required by law. By awarding the Bonds to the Purchaser, the EDA agrees that, no more than seven business days after the date of such award, it shall provide without cost to the Purchaser up to 25 copies of the Final Official Statement. The EDA designates the Purchaser as its agent for purposes of distributing copies of the Final Official Statement to each syndicate member, if applicable. The Purchaser agrees that if its proposal is accepted by the EDA, (i) it shall accept designation and (ii) it shall enter into a contractual relationship with its syndicate members for purposes of assuring the receipt of the Final Official Statement by each such syndicate member.

Dated February 3, 2020

BY ORDER OF THE ROCHESTER ECONOMIC DEVELOPMENT  
AUTHORITY BOARD OF COMMISSIONERS

## OFFICIAL STATEMENT

**\$21,365,000\***

### **ROCHESTER ECONOMIC DEVELOPMENT AUTHORITY**

#### **LEASE REVENUE BONDS**

**(CITY OF ROCHESTER, MINNESOTA LEASE OBLIGATION), SERIES 2020A**

**(BOOK ENTRY ONLY)**

### INTRODUCTORY STATEMENT

This Official Statement contains information regarding Rochester Economic Development Authority (the “EDA”), the City of Rochester, Minnesota (the “City”) and the EDA’s issuance of \$21,365,000 Lease Revenue Bonds (City of Rochester, Minnesota Lease Obligation), Series 2020A (the “Bonds”).

The Bonds will be issued pursuant to Minnesota Statutes, Chapter 475 and Section 465.71, Sections 469.001 to 469.047, and Sections 469.090 to 469.1082, all as amended, a Trust Indenture dated as of March 1, 2020 (the “Indenture”) between the EDA and U.S. Bank National Association, Saint Paul, Minnesota (the “Trustee”) and a resolution adopted by the governing body of the EDA on February 3, 2020 (the “EDA Resolution”), and a concurring resolution adopted by the City on February 3, 2020 (the “City Resolution,” and, together with the EDA Resolution, the “Resolutions”). The proceeds of the Bonds will be used by the EDA to finance the construction and equipping of a facility which will include a police station and a development services center within the EDA’s Economic Development District No. 75 and pursuant to the Economic Development Plan of the EDA.

The Project will be leased to the City pursuant to and in accordance with a Lease-Purchase Agreement dated as of March 1, 2020 (the “Lease”) to be entered into between the EDA, as Lessor, and the City, as Lessee, and subject to a Ground Lease, dated as of March 1, 2020, between the City, as Lessor, and the EDA, as Lessee (the “Ground Lease”).

The Bonds are special, limited obligations of the EDA, payable solely from and secured by a pledge of lease payments (the “Lease Payments”) to be made to the EDA by the City pursuant to the Lease. The Bonds do not constitute a general obligation of the EDA, the City, or the State, and are not a charge against the general credit of the EDA.

Brief descriptions of the Lease, the Indenture, the Ground Lease, and related documents (collectively, the “Documents”) are included in this Official Statement. The references herein to the Documents are qualified in their entirety by reference to such Documents, which are available for inspection prior to delivery of the Bonds at the principal offices of Baker Tilly Municipal Advisors, LLC, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101, and upon delivery of the Bonds at the principal corporate trust office of the Trustee. All summaries of Documents contained in this Official Statement are not and do not purport to be comprehensive or definitive, and are subject to the provisions of, and are qualified in their entirety by reference to, such Documents. All capitalized terms which are not expressly defined herein shall have the meanings as defined in the Documents unless the context clearly requires a different meaning.

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\* *Preliminary; subject to change.*

## CONCURRENT FINANCING

As of the date of this Official Statement, the City, while not the issuer of the Bonds described herein, by means of separate Official Statement to be dated on or about February 20, 2020, is offering for sale its \$25,050,000\* Taxable General Obligation Waste Water Revenue Refunding Bonds, Series 2020B (the “City Bonds”). The proceeds of the City Bonds will be used to refund the February 1, 2023 through February 1, 2026 maturities (the “Refunded Maturities”) of the City’s General Obligation Waste Water Revenue Bonds Refunding Bonds, Series 2012A, dated May 15, 2012. Settlement of the City Bonds is expected to take place concurrently with the settlement of the Bonds.

## CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 (the “Rule”), pursuant to the Resolutions, the EDA and the City have covenanted to comply with the continuing disclosure undertaking (the “Undertaking”) for the benefit of holders or beneficial owners of the Bonds to provide certain financial information and operating data relating to the City to the Municipal Securities Rulemaking Board annually, and to provide notices of the occurrence of certain events enumerated in the Rule to the Municipal Securities Rulemaking Board and to any state information depository. The specific nature of the Undertaking, as well as the information to be contained in the annual report or the notices of material events, is set forth in the Undertaking in substantially the form attached hereto as Appendix III, subject to such modifications thereof or additions thereto as: (i) consistent with requirements under the Rule, (ii) required by the purchaser of the Obligations from the City, and (iii) acceptable to the Mayor and Clerk of the City.

The EDA has not had any debt outstanding in the past five years requiring compliance with the Rule. Except to the extent the following deficiencies are deemed to be material, the City believes it has complied for the past five years in all material respects in accordance with the terms of its previous continuing disclosure undertakings entered into pursuant to the Rule. In reviewing its past disclosure practices, the City has found the following:

- The City has delivered continuing disclosure undertakings under which it committed to provide certain annual operating data relating to its outstanding obligations. For the fiscal year ended December 31, 2015, the City’s Comprehensive Annual Financial Report (CAFR) was referenced as the source for the City’s annual operating data. However, certain Debt Ratios were not included in the City’s CAFR as referenced. The Debt Ratios for the fiscal year ended December 31, 2015 were filed with the Municipal Securities Rulemaking Board on September 19, 2019.
- Prior continuing disclosure undertakings entered into by the City included language stating that the City’s audited financial statements would be filed “as soon as available.” Although the City did not always comply with this requirement, the audited financial statements were timely filed within the required twelve (12) month timeframe as provided for in each undertaking.

A failure by the EDA or the City to comply with the Undertaking will not constitute an event of default on the Bonds (although holders or other beneficial owners of the Bonds will have the sole remedy of bringing an action for specific performance). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

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\* *Preliminary; subject to change.*

## THE BONDS

### General Description

The Bonds are dated as of the date of delivery and will mature annually on February 1 as set forth on the inside front cover of this Official Statement. The Bonds are issued in book entry form. Interest on the is payable on February 1 and August 1 of each year, commencing August 1, 2020. Interest will be payable to the holder (initially Cede & Co.) registered on the books of the Registrar as of the fifteenth day of the calendar month next preceding such interest payment date. Interest will be computed on the basis of a 360-day year of twelve 30-day months. Principal of and interest on the Bonds will be paid as described in the section herein entitled “Book Entry System.” The Trustee will serve as Registrar for the Bonds, and the EDA will pay for registrar services.

### Redemption Provisions

Thirty days’ written notice of redemption shall be given to the registered owner(s) of the Bonds. Failure to give such written notice to any registered owner of the Bonds or any defect therein shall not affect the validity of any proceedings for the redemption of the Bonds. All Bonds or portions thereof called for redemption will cease to bear interest after the specified redemption date, provided funds for their redemption are on deposit at the place of payment.

### Optional Redemption

The Bonds having stated maturities on February 1, 2029 and thereafter are subject to redemption, at the election of the EDA, in whole or in part, on February 1, 2028, and on any date thereafter, at a price of par plus accrued interest. Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the maturity and principal amounts within each maturity to be redeemed shall be determined by the EDA, and if only part of the Bonds having a common maturity date are called for prepayment, the specific Bonds to be prepaid shall be selected randomly or by lottery by the Bond Registrar. Notice of redemption shall be given by registered mail to the registered owner of the Bonds not less than 30 days prior to such redemption date. The Bond Registrar may provide a conditional notice of redemption upon the direction of the EDA or the City. If a conditional notice of redemption has been provided and the conditions are not satisfied, such notice of redemption shall be of no force and effect and the Bondholders shall be restored to their former positions as though no such notice of redemption had been delivered.

### Extraordinary Redemption

The Bonds are subject to extraordinary redemption on any Business Day in whole or in part, at a redemption price equal to par, plus accrued interest to the redemption date, at the election of the EDA or, in accordance with the Lease, the City, upon the happening of certain events of damage to or destruction or condemnation of the Site or the Facilities or change of law rendering the Lease unenforceable or impossible of performance, all as more fully provided in the Lease.

### Book Entry System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a

“clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the EDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to

whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the EDA or its agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the EDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the EDA or its agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to EDA or its agent. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

The EDA may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the EDA believes to be reliable, but the EDA takes no responsibility for the accuracy thereof.

## **RISK FACTORS**

### **Cybersecurity**

The EDA/City's services and systems may be critical to operations or involve the storage, processing and transmission of sensitive data, including valuable property tax, other proprietary or confidential data, regulated data, and personal information of employees, taxpayers, and others. Successful breaches, employee malfeasance, or human or technological error could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of the EDA/City's or other third party data or systems; theft of sensitive, regulated, or confidential data including personal information; the loss of access to critical data or systems; service or system disruptions or denials of service. A potentially successful cyberattack on the EDA/City's operations could also disrupt the delivery of EDA/City services and EDA/City operations. While the EDA/City employs professional information technology professionals and utilizes operational safeguards that are tested periodically, no assurance can be given that such measures will ensure that the EDA/City is protected against all cybersecurity threats or attacks.

**INVESTORS SHOULD BE AWARE THAT INVESTMENT IN THE BONDS MAY ENTAIL SOME DEGREE OF RISK. EACH PROSPECTIVE INVESTOR IN THE BONDS IS ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW WHICH, AMONG OTHERS, COULD AFFECT THE PAYMENT OF PRINCIPAL AND INTEREST ON THE BONDS AND WHICH COULD ALSO AFFECT THE MARKET PRICE OF THE BONDS TO AN EXTENT THAT CANNOT BE DETERMINED. THIS DISCUSSION OF RISK FACTORS IS NOT, AND IS NOT INTENDED TO BE, EXHAUSTIVE.**



### **Special, Limited Obligation**

Payment of the Bonds is a special, limited obligation of the EDA, payable solely from Lease Payments to be received from the City pursuant to the Lease. The Bonds are not a general obligation of the EDA or the City, and neither the EDA's nor the City's full faith and credit is pledged to the payment of the Bonds.

### **Maintenance of Rating**

The will be rated as to their creditworthiness by Moody's Investor's Service and S&P Global Ratings based upon the pledge of the Lease Payments. While the EDA does not anticipate any material changes in the future, no assurance can be given that the Bonds will maintain their original ratings. If the ratings on the Bonds decrease or are withdrawn, the Bonds may lack liquidity in the secondary market in comparison with other such municipal obligations. See "RATINGS" in this Official Statement.

### **No Reserve Fund or Credit Enhancement**

No debt service reserve fund, financial guaranty insurance policy, letter of credit or other credit enhancement will be issued to insure principal and interest payments due with respect to the Bonds. Accordingly, any potential investor of the Bonds should consider the financial ability of the City to make Lease Payments under the Lease.

### **Non-Appropriation**

Lease Payments will be payable solely from City funds which are annually budgeted and appropriated by the governing body of the City and which may be terminated in any Fiscal Year by action of such governing body. There is no assurance that the City will not non-appropriate under the Lease for a future Fiscal Year. Accordingly, any factors which may potentially influence the budgeting process of the City should be considered by a prospective purchaser of the Bonds.

In the event the governing body of the City fails to renew the Lease for any Fiscal Year, fails to budget and appropriate sufficient City funds for payment of all Lease Payments, or defaults under the Lease, the Lease will be terminated. In such event, the Bonds will be payable only from moneys held by the Trustee under the Indenture, including funds derived from the exercise of remedies available under the Lease and the Indenture.

### **Termination of the Lease**

If the Lease is terminated for non-appropriation, the City shall deliver possession of the Project to the EDA and the Trustee, as assignee of the EDA's interest in the Lease under the Indenture and on behalf of the owners of the Bonds, would attempt to re-lease the Project. This may result in revenues substantially less than amounts to be received as Lease Payments under the Lease, and the proceeds of any such replacement lease or other disposition may be substantially less than the remaining principal amount on the Bonds.

### **Events of Default**

Investors should understand that in an event of default by the City under the Lease, the remedies provided by the Lease may be unenforceable due to the application of principles of equity or State and federal laws relating to bankruptcy, moratoriums, reorganizations and creditor's rights generally, or may require the expenditure of money and considerable time to enforce. Further, investors should understand that in the event of default by the City under the Lease and the repossession of the Project by the EDA, the EDA may be unable to re-lease the Project, or to re-lease it at a price which will provide to the investors net proceeds equal to the amount of remaining principal of the Bonds.

### **Insurance Risk or Condemnation**

The Lease provides that, in the event that the Project is damaged or destroyed by fire or other casualty, or title to or the temporary or permanent use of the Project, or any portion thereof, shall be taken under the exercise of the power of eminent domain, the City is obligated to repair and replace the Project from the proceeds of any insurance policy, performance bond or condemnation award made available by reason of such occurrence, or to exercise its option to redeem the Bonds in whole or in part.

The City is required under the Lease to cause the Project to be insured by policies of liability and property insurance in an amount not less than the full replacement value of the Project. However, there is no assurance that, in the event the Lease is terminated as a result of damage to or destruction or condemnation of the Project, moneys made available by reason of such an occurrence will be sufficient to redeem the Bonds at a price equal to the principal amount thereof outstanding plus accrued interest to the redemption date.

### **Determination of Taxability Risk**

If the interest payable on the Bonds were to become subject to taxation, no provision has been made for redemption of the Bonds and investors holding the Bonds would not be entitled to any additional interest exceeding the rate printed on the Bonds. The Bondholder would subsequently be holding a security with a substantially lower interest rate return than that of a comparable taxable security.

## **THE EDA**

The Rochester Economic Development Authority is a body politic and corporate duly organized and existing under the laws of the State. The EDA was established in October 2001 and is governed by a seven-member Board of Commissioners (the "Board"), with the Rochester Common Council members serving on the Board. Board members serve terms concurrent with their terms on the Common Council. The current Board members are as follows:

		<u>Expiration of Term</u>
Randy Staver	President	January 4, 2021
Patrick Keane	Commissioner	January 3, 2023
Michael Wojcik	Commissioner	January 4, 2021
Nick Champion	Commissioner	January 3, 2023
Mark Bilderback	Commissioner	January 4, 2021
Shaun C. Palmer	Commissioner	January 3, 2023
Annalissa Johnson	Commissioner	January 4, 2021

Mr. Dale Martinson is the Assistant Treasurer of the EDA, which is an appointed position. Mr. Martinson also serves as the City Director of Finance. Ms. Anissa Hollingshead serves as the Board Secretary.

## AUTHORITY AND PURPOSE

The Bonds are being issued by the EDA pursuant to Minnesota Statutes, Chapter 475 and Sections 465.71, Sections 469.001 to 469.047, and Sections 469.090 to 469.1082, all as amended, the Indenture, the Lease, the Ground Lease, and the Resolutions. The proceeds of the Bonds will be used by the EDA to finance the construction and equipping of a facility which will include a police station and a development services center within the EDA's Economic Development District No. 75 and pursuant to the Economic Development Plan of the EDA.

## SOURCES AND USES OF FUNDS

The composition of the Bonds is estimated to be as follows:

Sources of Funds:	
Principal Amount	\$21,365,000
Estimated Reoffering Premium	<u>1,005,362</u>
Total Sources of Funds	\$22,370,362
Uses of Funds:	
Deposit to the Project Fund	\$22,100,000
Costs of Issuance	142,172
Estimated Underwriter's Compensation	<u>128,190</u>
Total Uses of Funds	\$22,370,362

## SECURITY AND FINANCING

### Special, Limited Obligations

The Bonds are special limited obligations of the EDA payable solely from and secured by a pledge of Lease Payments to be made to the EDA by the City pursuant to the Lease. The Bonds are not general obligations of the EDA or the City and are not payable from any funds, revenues or assets of the EDA or any other political subdivision or governmental authority (except for the EDA's interest in the Lease and amounts held pursuant to the Indenture, including Lease Payments made by the City). The Bonds do not constitute a pledge of the full faith and credit or taxing power of the EDA or the City.

The EDA covenants and agrees, under the Indenture, that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indenture and in each and every Bond executed, authenticated and delivered thereunder; will pay or cause to be paid, from Lease Payments by the City and other amounts received in respect of the Lease or available under the Indenture, the principal of, premium (if any) on and interest on every Bond issued under the Indenture on the dates, at the places and in the manner prescribed in the Bonds in any coin or currency which, on the respective dates of payment of such principal and interest, is legal tender for the payment of public and private debts; and will cause such amounts received to be deposited with the Trustee prior to the due date of each installment of principal and interest and prior to the maturity of any Bond in amounts sufficient to pay such installment; provided, however, that the principal of and interest on any Bond is not and shall not constitute an indebtedness of the EDA or the City within the meaning of any State constitutional provision, statutory or charter limitation and shall not be deemed to represent a debt or pledge the faith or

credit of the EDA, the City, the State or any other political subdivision thereof or grant to the Holder of any Bond any right to have the EDA, the City, the State or any other political subdivision thereof levy any taxes or appropriate any funds to the payment of principal of or interest on the Bonds and the Bonds do not constitute or give rise to a charge against the general credit or taxing powers of the EDA or the City or a pecuniary liability of the EDA or the City, such payment will be made solely and only out of the moneys received pursuant to the Lease and the funds and accounts established and maintained with the Trustee pursuant to the requirements of the Indenture and appropriated to the payment of the Bonds by the Indenture.

### **Pledge of Lease Payments; Right to Terminate the Lease**

During the term of the Lease, the City is required to make semiannual Lease Payments scheduled to be sufficient to pay when due all scheduled payments of principal of and interest on the Bonds. Pursuant to the Indenture, the EDA will assign to the Trustee all the EDA's interest in the Lease (other than certain rights to receive indemnification and reimbursement of expenses). The City has covenanted in the Lease to include in its annual budget request to the Common Council for each Fiscal Year during the term of the Lease moneys sufficient to pay all Lease Payments. The City intends to continue the Lease for its entire term and to pay all Lease Payments. However, the Common Council has a right not to appropriate such amounts in any future Fiscal Year. The City shall have the right to terminate the Lease by adopting a resolution of non-appropriation for future Fiscal Years giving the EDA and the Trustee a written notice within five business days of the City's non-appropriation. The City has agreed to endeavor to give such notice in the event of a non-appropriation at least 60 days prior to the end of its then current Fiscal Year for the succeeding Fiscal Year. **ACCORDINGLY, THE LEASE DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY AND THE BONDS ARE NOT SECURED BY THE FULL FAITH AND CREDIT OR TAXING POWER OF THE CITY.**

### **Funds and Accounts**

Pursuant to the provisions of the Indenture, the EDA assigns to the Trustee, and to any successor, all of the right, title and interest of the EDA in the Lease. There shall be established with the Trustee the Bond Fund, into which there shall be deposited (i) upon delivery of the Bonds all accrued interest, if any, received on the Bonds, (ii) the Lease Payments received from the City; and which shall be used for the payment of principal of, premium (if any) and interest on the Bonds when due and payable, (iii) all other moneys received by the Trustee from the City when accompanied by directions of the City that such moneys are to be paid into the Bond Fund or used for purposes for which moneys in the Bond Fund may be used, and (iv) all other moneys required to be deposited in the Bond Fund pursuant to any provision of the Indenture, the Ground Lease, the Lease or the Resolutions. For additional information see APPENDIX IV "Document Summaries" herein.

## **FUTURE FINANCING**

With the exception of the City Bonds discussed in the "Concurrent Financing" section herein, neither the EDA nor the City anticipate issuing any additional long-term debt within the next 90 days.

## LITIGATION

Neither the EDA nor the City is aware of any threatened or pending litigation affecting the validity of the Bonds, the Resolutions, the Indenture, the Lease Purchase Agreement, the Ground Lease, or the City's ability to meet its financial obligations.

## LEGALITY

The Bonds are subject to approval as to certain matters by Kennedy & Graven, Chartered, of Minneapolis, Minnesota, as Bond Counsel. Bond Counsel has not participated in the preparation of this Official Statement and will not pass upon its accuracy, completeness, or sufficiency. Bond Counsel has not examined nor attempted to examine or verify, any of the financial or statistical statements, or data contained in this Official Statement and will express no opinion with respect thereto. A legal opinion in substantially the form set out in Appendix II herein will be delivered at closing.

## TAX EXEMPTION

At closing Kennedy & Graven, Chartered, of Minneapolis, Minnesota, Bond Counsel for the Bonds, will render an opinion that, at the time of their issuance and delivery to the original purchaser, under present federal and State of Minnesota laws, regulations, rulings and decisions (which excludes any pending legislation which may have a retroactive effect), the interest on the Bonds is excluded from gross income for purposes of United States income tax and is excluded, to the same extent, from taxable net income of individuals, estates and trusts for Minnesota income purposes, and is not a preference item for purposes of computing the federal alternative minimum tax or the Minnesota alternative minimum tax imposed on individuals, trusts, and estates. Such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. No opinion will be expressed by Kennedy & Graven regarding other federal or state tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of Bonds. Preservation of the exclusion of interest on the Bonds from federal gross income and state gross and taxable net income, however, depends upon compliance by the EDA and the City with all requirements of the Internal Revenue Code of 1986, as amended, (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from federal gross income and state gross and taxable net income.

The EDA and the City will covenant to comply with requirements necessary under the Code to establish and maintain the Bonds as tax-exempt under Section 103 thereof, including without limitation, requirements relating to temporary periods for investments and limitations on amounts invested at a yield greater than the yield on the Bonds.

### **Original Issue Premium**

Certain maturities of the Bonds (the "Premium Bonds") may be sold to the public at an amount in excess of their stated redemption price at maturity. Such excess of the purchase price of such Premium Bonds over the stated redemption price at maturity constitutes original issue premium with respect to such Premium Bonds. A purchaser of a Premium Bond must amortize any original issue premium over the term of such Premium Bond using constant yield principles, based on the purchaser's yield to maturity. As original issue premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or a decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any

Premium Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

### **Original Issue Discount**

Certain maturities of the Bonds (the “Discount Bonds”) may be sold at a discount from the principal amount payable on such Discount Bonds at maturity. The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is first sold to the public (the “Issue Price”) and the principal amount payable at maturity constitutes “original issue discount” under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under section 1288 of the Code is excluded from federal gross income to the same extent that stated interest on such Discount Bond would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under section 1288 is added to the owner’s federal tax basis in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption or payment at maturity).

Interest in the form of original issue discount accrues under section 1288 pursuant to a constant yield method that reflects semiannual compounding on dates that are determined by reference to the maturity date of the Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the product of (a) one-half of the yield on such Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Bonds, over (2) the amount of stated interest actually payable. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the Issue Price for such Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that semiannual accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased at a price that exceeds the sum of the Issue Price plus accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Bond.

No opinion is expressed as to state and local income tax treatment of original issue discount. It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual, and may be deemed to accrue differently than under federal law.

Holders of Discount Bonds should consult their tax advisors with respect to the computation and accrual of original issue discount for federal income tax purposes and with respect to the state and local tax consequences of owning such Discount Bonds.

## **OTHER FEDERAL AND STATE TAX CONSIDERATIONS**

### **Property and Casualty Insurance Companies**

Property and casualty insurance companies are required to reduce the amount of their loss reserve deduction by the applicable percentage of the amount of tax-exempt interest received or accrued during the taxable year on certain obligations, including interest on the Bonds.

## **Foreign Insurance Companies**

Foreign companies carrying on an insurance business in the United States are subject to a tax on income which is effectively connected with their conduct of any trade or business in the United States, including “net investment income.” Net investment income includes tax-exempt interest such as interest on the Bonds.

## **Branch Profits Tax**

A foreign corporation is subject to a branch profits tax imposed by Section 884 of the Code. A branch's earnings and profits may include tax-exempt municipal bond interest, such as interest on the Bonds.

## **Passive Investment Income of S Corporations**

Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than a certain percentage of the gross receipts of such S corporation is passive investment income.

## **General**

The preceding is not a comprehensive list of all federal or State tax consequences which may arise from the receipt or accrual of interest on the Bonds. The receipt or accrual of interest on the Bonds may otherwise affect the federal income tax (or Minnesota income tax or franchise tax) liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items of income or deductions. All prospective purchasers of the Series 2019B Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds.

## **QUALIFIED TAX-EXEMPT OBLIGATIONS**

The EDA will not designate the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

## **RATINGS**

Application for ratings of the Bonds has been made to Moody’s Investors Service (“Moody’s”), 7 World Trade Center, 250 Greenwich Street, 23<sup>rd</sup> Floor, New York, New York, and S&P Global Ratings (“S&P”), 55 Water Street, New York, New York. If ratings are assigned, they will reflect only the opinion of Moody’s and S&P. Any explanation of the significance of the ratings may be obtained only from Moody’s and S&P.

There is no assurance that a rating, if assigned, will continue for any given period of time, or that such rating will not be revised, suspended or withdrawn, if, in the judgment of Moody's or S&P, circumstances so warrant. A revision, suspension or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

### **MUNICIPAL ADVISOR**

The EDA and the City have retained Baker Tilly Municipal Advisors, LLC, of Saint Paul, Minnesota as municipal advisor in connection with certain aspects of the issuance of the Series 2019B Bonds. In preparing this Official Statement, Baker Tilly Municipal Advisors, LLC has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for this Official Statement. Baker Tilly Municipal Advisors, LLC has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. Baker Tilly Municipal Advisors, LLC is an independent advisory firm, registered as a municipal advisor, and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

### **CERTIFICATION**

The EDA and the City have authorized the distribution of the Preliminary Official Statement for use in connection with the initial sale of the Bonds and a Final Official Statement following award of the Bonds. The Underwriter will be furnished with a certificate signed by the appropriate officers of the EDA and the City stating that the EDA and the City examined each document and that, as of the respective date of each and the date of such certificate, each document did not and does not contain any untrue statement of material fact or omit to state a material fact necessary, in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

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## GENERAL AND FINANCIAL INFORMATION CONCERNING THE CITY

The Bonds are special, limited obligations of the EDA payable solely from Lease Payments to be received by the EDA from the City pursuant to the Lease and shall not constitute a debt for which the full faith and credit or taxing powers of the City, the EDA or the State will be pledged. The following information concerning the City is provided for informational purposes only and not as a representation of security for the Bonds.

## CITY PROPERTY VALUES

## Trend of Values

Assessment/ Collection Year	Assessor's Estimated Market Value	Sales Ratio <sup>(a)</sup>	Economic Market Value <sup>(b)</sup>	Market Value Homestead Exclusion	Taxable Market Value	Adjusted Taxable Net Tax Capacity
2018/19	\$12,070,143,500	91.1%	\$13,151,324,351	\$536,623,459	\$11,458,464,600	\$141,946,380
2017/18	11,159,004,000	89.0	12,557,282,072	573,502,010	10,520,543,700	131,814,434
2016/17	10,395,751,200	92.7	11,202,255,631	594,663,369	9,734,750,400	122,886,123
2015/16	9,503,861,800	90.9	10,446,869,199	626,713,156	8,828,246,200	111,775,303
2014/15	9,178,789,700	93.1	9,848,862,041	631,196,152	8,495,287,800	106,723,558

(a) Sales Ratio Study for the year of assessment as posted by the Minnesota Department of Revenue, <https://www.revenue.state.mn.us/economic-market-values>.

(b) Economic market values for the year of assessment as posted by the Minnesota Department of Revenue, <https://www.revenue.state.mn.us/economic-market-values>.

Source: Olmsted County, Minnesota, October 2019, except as otherwise noted.

## 2018/19 Adjusted Taxable Net Tax Capacity: \$141,946,380\*

Real Estate:		
Residential Homestead	\$ 64,417,303	44.6%
Commercial/Industrial, Public Utility, and Railroad	55,099,474	38.1
Non-Homestead Residential	23,283,392	16.1
Seasonal/Recreational and Agricultural	422,091	0.3
Personal Property	<u>1,294,765</u>	<u>0.9</u>
2018/19 Net Tax Capacity	\$144,517,025	100.0%
Less: Captured Tax Increment	<u>(2,570,645)</u>	
2018/19 Adjusted Taxable Net Tax Capacity	\$141,946,380	

\* Excludes mobile home valuation of \$88,159.

## Ten of the Largest Taxpayers in the City

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018/19 Net Tax Capacity</u>
Mayo Medical Center	Medical/Hospital Services	\$11,191,181
Apache Mall LLC <sup>(a)</sup>	Retail Mall	1,083,242
KAH 20 2 <sup>nd</sup> Avenue LLC	Commercial	707,606
Minnesota Energy Resources	Utility	566,614
Carpenter and Torgerson SSMR LLC	Commercial	565,288
City of Rochester	Municipal Government	551,344
Maine Land LLC	Commercial	473,650
IRET Grandville LLC	Commercial	461,750
MAR 1 <sup>st</sup> Avenue SW LLC	Commercial	460,968
BGD5 Hotel LLC	Commercial	<u>411,218</u>
Total		\$16,472,861 <sup>(b)</sup>

(a) Previously noted as MEPC-Apache Properties, Inc.

(b) Mayo Medical Center represents 7.9% of the City's 2018/19 adjusted taxable net tax capacity. The remaining nine taxpayers represent 3.7% of the City's 2018/19 adjusted taxable net tax capacity.

## CITY INDEBTEDNESS

### Legal Debt Limit and Debt Margin\*

Legal Debt Limit (2% of 2018/19 Estimated Market Value)	\$241,402,870
Less: Outstanding Debt Subject to Limit (Includes the Bonds)	<u>(52,824,000)</u>
Legal Debt Margin as of March 30, 2020	\$188,578,870

\* The legal debt margin is referred to statutorily as the "Net Debt Limit" and may be increased by debt service funds and current revenues which are applicable to the payment of debt in the current fiscal year.

NOTE: Certain types of debt are not subject to the legal debt limit.

### General Obligation Debt Supported Solely by Taxes\*

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 3-30-20</u>
10-19-10	\$26,275,000	CIP – Maintenance Facility	2-1-2036	\$19,325,000
12-28-18	2,225,000	Equipment Certificates	2-1-2028	<u>2,190,000</u>
Total				\$21,515,000

\* These issues are subject to the legal debt limit.

### General Obligation Tax Increment Debt

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 3-30-20</u>
3-15-09	\$ 8,035,000	Taxable Tax Increment Revenue	2-1-2033	\$ 1,740,000
11-16-17	21,265,000	Parking Tax Increment Revenue	2-1-2038	<u>19,980,000</u>
Total				\$21,720,000

### General Obligation Revenue Debt

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 3-30-20</u>
5-15-12	\$68,480,000	Waste Water Revenue Refunding	2-1-2022	\$11,540,000*
6-16-15	42,795,000	Lodging Tax Revenue	2-1-2035	36,710,000
6-16-15	19,805,000	Waste Water Revenue Refunding	12-1-2026	14,800,000
3-30-20	25,050,000	Waste Water Revenue Refunding (the City Bonds)	2-1-2026	<u>25,050,000</u>
Total				\$88,100,000

\* Excludes the Refunded Maturities.

The City issued \$40,880,000 General Obligation Variable Rate Sales Tax Revenue Bonds, Series 2015C dated September 9, 2015 (the "Series 2015C Bonds"), for which the interest rate is reset weekly. The Series 2015C Bonds are due in full on February 1, 2025. As of March 30, 2020, the outstanding principal amount on the Series 2015C Bonds is \$30,305,000.

The City issued \$14,156,000 General Obligation Variable Rate Demand Waste Water Revenue Refunding Bonds, Series 2015D, dated September 30, 2015 (the "Series 2015D Bonds"), for which the interest rate is reset weekly. The Series 2015D Bonds are due in full on December 1, 2026. As of March 30, 2020, the outstanding principal amount on the Series 2015D Bonds is \$9,285,000.

### Revenue Debt

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 3-30-2020</u>
5-29-13	\$ 38,370,000	Electric Utility	12-1-2043	\$ 34,800,000
11-17-15	39,970,000	Electric Utility Refunding	12-1-2030	34,180,000
2-15-17	108,255,000	Electric Utility Refunding	12-1-2047	<u>102,200,000</u>
Total				\$171,180,000

### Lease Obligations<sup>(a)</sup>

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 3-30-2020</u>
12-12-07	\$ 9,900,000	Lease	2-1-2033	\$ 5,332,000 <sup>(b)</sup>
1-9-08	6,700,000	Lease	2-1-2033	3,612,000 <sup>(b)</sup>
3-30-20	21,365,000	Lease (the Bonds)	2-1-2040	<u>21,365,000<sup>(b)</sup></u>
Total				\$30,309,000

(a) These issues are subject to the legal debt limit.

(b) These issues were issued by the EDA but are subject to annual appropriation by the City.

### Estimated Calendar Year Debt Service Payments Including the Bonds and the City Bonds and Excluding the Refunded Maturities

<u>Year</u>	<u>G.O. Debt Supported Solely by Taxes</u>		<u>G.O. Tax Increment Debt</u>	
	<u>Principal</u>	<u>Principal &amp; Interest</u>	<u>Principal</u>	<u>Principal &amp; Interest</u>
2020 (at 3-30)	(Paid)	\$ 486,611	(Paid)	\$ 349,503
2021	\$ 1,195,000	2,146,425	\$ 1,090,000	1,454,631
2022	1,220,000	2,126,161	1,145,000	1,454,881
2023	1,260,000	2,118,466	1,200,000	1,453,131
2024	1,300,000	2,109,245	1,260,000	1,449,381
2025	1,340,000	2,098,500	1,325,000	1,448,506
2026	1,380,000	2,084,157	990,000	1,450,256
2027	1,420,000	2,064,895	1,035,000	1,444,631
2028	1,470,000	2,051,883	1,090,000	1,462,856
2029	1,205,000	1,725,625	1,110,000	1,459,469
2030	1,250,000	1,711,080	1,135,000	1,454,956
2031	1,285,000	1,683,330	1,170,000	1,456,844
2032	1,335,000	1,667,830	1,200,000	1,454,256
2033	1,385,000	1,649,830	1,235,000	1,455,003
2034	1,435,000	1,628,254	1,270,000	1,453,994
2035	1,490,000	1,607,935	1,305,000	1,451,163
2036	1,545,000	1,584,784	1,345,000	1,451,413
2037			1,385,000	1,450,463
2038			<u>1,430,000</u>	<u>1,452,344</u>
Total	\$21,515,000 <sup>(a)</sup>	\$30,545,011	\$21,720,000 <sup>(b)</sup>	\$26,507,681

(a) 60.6% of this debt will be retired within ten years.

(b) 52.4% of this debt will be retired within ten years.

**Estimated Calendar Year Debt Service Payments Including the Bonds and the City Bonds  
and Excluding the Refunded Maturities (continued)**

Year	G.O. Revenue Debt		Revenue Debt	
	Principal	Principal & Interest <sup>(a)</sup>	Principal	Principal & Interest
2020 (at 3-30)	\$ 1,835,000	\$ 4,145,019	\$ 6,015,000	\$ 14,095,100
2021	9,080,000	12,689,288	6,315,000	14,094,350
2022	9,550,000	12,695,788	6,625,000	14,097,050
2023	10,420,000	12,410,725	6,955,000	14,095,800
2024	10,765,000	12,439,795	7,310,000	14,103,050
2025	10,990,000	12,393,033	7,605,000	14,093,150
2026	10,085,000	11,192,050	7,925,000	14,095,200
2027	2,430,000	3,319,413	8,270,000	14,092,100
2028	2,530,000	3,326,538	8,655,000	14,096,800
2029	2,615,000	3,321,500	9,050,000	14,093,600
2030	2,705,000	3,318,400	9,440,000	14,103,100
2031	2,800,000	3,313,563	3,825,000	8,090,300
2032	2,905,000	3,311,594	4,015,000	8,089,050
2033	3,015,000	3,310,594	4,215,000	8,088,300
2034	3,130,000	3,310,375	4,430,000	8,092,550
2035	3,245,000	3,305,844	4,630,000	8,086,850
2036			4,845,000	8,086,750
2037			5,070,000	8,086,550
2038			5,305,000	8,085,800
2039			5,555,000	8,089,000
2040			5,830,000	8,086,250
2041			6,120,000	8,084,750
2042			6,430,000	8,088,750
2043			6,750,000	8,087,250
2044			4,640,000	5,639,750
2045			4,870,000	5,637,750
2046			5,115,000	5,639,250
2047			5,370,000	5,638,500
<b>Total</b>	<b>\$88,100,000<sup>(b)</sup></b>	<b>\$107,803,519</b>	<b>\$171,180,000<sup>(c)</sup></b>	<b>\$282,756,700</b>

<sup>(a)</sup> Includes the City Bonds at an assumed average annual interest rate of 1.79%, and excludes the Refunded Maturities.

<sup>(b)</sup> 79.8% of this debt will be retired within ten years.

<sup>(c)</sup> 43.7% of this debt will be retired within ten years.

**Estimated Calendar Year Debt Service Payments Including the Bonds and the City Bonds  
and Excluding the Refunded Maturities (continued)**

<u>Year</u>	<u>Lease Obligations</u>	
	<u>Principal</u>	<u>Principal &amp; Interest<sup>(a)</sup></u>
2020 (at 3-30)	(Paid)	\$ 438,994
2021	\$ 1,371,000	2,442,713
2022	1,316,000	2,330,270
2023	1,374,000	2,330,597
2024	1,437,000	2,333,308
2025	1,491,000	2,324,496
2026	1,558,000	2,326,066
2027	1,630,000	2,329,631
2028	1,697,000	2,327,654
2029	1,764,000	2,325,321
2030	1,835,000	2,326,801
2031	1,897,000	2,319,257
2032	1,972,000	2,325,404
2033	2,037,000	2,321,633
2034	1,175,000	1,409,065
2035	1,205,000	1,407,824
2036	1,240,000	1,409,808
2037	1,270,000	1,404,978
2038	1,310,000	1,408,530
2039	1,345,000	1,405,360
2040	<u>1,385,000</u>	<u>1,405,429</u>
Total	\$30,309,000 <sup>(b)</sup>	\$40,653,139

*(a) Includes the Bonds at an assumed average annual interest rate of 2.95%.*

*(b) 51.1% of this debt will be retired within ten years.*

**Other Debt Obligations**

Operating Leases

The City is obligated under certain leases accounted for as operating leases. Lease expenditures for the year ended December 31, 2019 totaled \$639,978.

## Overlapping Debt

<u>Taxing Unit<sup>(a)</sup></u>	2018/19 <u>Adjusted Taxable Net Tax Capacity</u>	<u>Est. G.O. Debt As of 3-30-20<sup>(b)</sup></u>	<u>Debt Applicable to Tax Capacity in City</u>	
			<u>Percent</u>	<u>Amount</u>
Olmsted County	\$185,249,408	\$ 81,170,000 <sup>(c)</sup>	71.4%	\$ 57,955,380
ISD No. 531 (Byron)	9,387,385	48,690,000	0.7	340,830
ISD No. 534 (Stewartville)	10,797,584	25,595,000	7.3	1,868,435
ISD No. 535 (Rochester)	152,375,677	258,605,000	85.8	<u>221,883,090</u>
Total				\$282,047,735

(a) Only those taxing units with general obligation debt outstanding are shown here.

(b) Excludes general obligation tax and aid anticipation certificates and revenue-supported debt.

(c) Includes lease obligations issued by the Olmsted County Housing and Redevelopment Authority.

## Debt Ratios\*

	<u>G.O. Direct Debt</u>	<u>G.O. Direct &amp; Overlapping Debt</u>
To 2018/19 Estimated Market Value (\$12,070,143,500)	0.61%	2.95%
Per Capita - (117,444 - 2018 MN State Demographer Estimate)	\$626	\$3,028

\* Includes lease obligations and excludes general obligation revenue debt, revenue debt, and other debt obligations.

## CITY TAX RATES, LEVIES AND COLLECTIONS

### Tax Capacity Rates for a City Resident in Independent School District No. 535 (Rochester)

	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	
					<u>Total</u>	<u>For Debt Only</u>
Olmsted County	57.532%	57.796%	54.346%	54.837%	53.562%	2.091%
City of Rochester	50.217	51.332	51.109	52.147	52.723	1.287
ISD No. 535 (Rochester)*	<u>21.115</u>	<u>20.023</u>	<u>17.862</u>	<u>15.758</u>	<u>15.684</u>	<u>5.922</u>
Total	128.864%	129.151%	123.317%	122.742%	121.969%	9.300%

\* In addition, Independent School District No. 535 (Rochester) has a 2018/19 market value tax rate of 0.21949% spread across the market value of property in support of an excess operating levy.

NOTE: This table includes only net tax capacity-based rates. Certain other tax rates are based on market value.

## City Tax Levies and Collections

<u>Levy/Collect</u>	<u>Net Levy*</u>	<u>Collected During Collection Year</u>		<u>Collected and/or Abated As of 9-08-19</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
2018/19	\$74,671,232		(Not Yet Available)		
2017/18	68,553,789	\$68,185,479	99.5%	\$68,509,637	99.9%
2016/17	62,463,446	61,915,527	99.1	62,378,936	99.9
2015/16	57,154,566	56,810,139	99.4	57,218,815	100.1
2014/15	53,447,998	53,017,744	99.2	53,366,127	99.8

\* The net levy excludes state aid for property tax relief and fiscal disparities, if applicable. The net levy is the basis for computing tax capacity rates.

## FUNDS ON HAND As of November 30, 2019

<u>Fund</u>	<u>Cash and Investments</u>
Governmental Fund Types:	
General Fund	\$ 15,082,796
Special Revenue Funds	16,031,111
Debt Service Funds:	
PWOC General Obligation Debt	1,045,374
Capital Project Funds	<u>132,238,824</u>
Total Governmental Fund Types	\$164,398,105
Proprietary Fund Types:	
Enterprise Funds	\$162,312,351
Internal Service Fund	<u>31,163,830</u>
Total Proprietary Fund Types	\$193,476,181
Total All Funds	<u>\$357,874,286</u>

## CITY INVESTMENT POLICIES AND GUIDELINES

The City's investments are those defined by Minnesota Statutes 118A.04 and 118A.05. Investment maturities are "laddered" to match cash flow needs and are held to maturity. The City's investment guidelines state in part:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five years from the date of purchase. The average weighted maturity of the portfolio should not exceed three years.



Reserve funds may be invested in securities exceeding five years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds.

As of November 30, 2019, the maturity value of the City's investment portfolio was \$263,488,804. This does not include restricted investments for Rochester Public Utility construction and debt service reserve funds. No investment matures later than December 4, 2024.

### GENERAL INFORMATION CONCERNING THE CITY

The City is located in Olmsted County in southeastern Minnesota, 78 miles southeast of the Minneapolis/Saint Paul Metropolitan Area. The City is the third largest in the State of Minnesota and comprises an area of approximately 55 square miles (35,200 acres).

The City's population trend is shown below.

	<u>Population</u>	<u>Percent Change</u>
2018 MN State Demographer Estimate	117,444	10.0%
2010 U.S. Census	106,769	24.4
2000 U.S. Census	85,806	21.3
1990 U.S. Census	70,745	22.2
1980 U.S. Census	57,890	--

Sources: *Minnesota State Demographic Center, [mn.gov/admin/demography](http://mn.gov/admin/demography) and United States Census Bureau, <http://www.census.gov/>.*

The City's approximate population by age group for the past five years is as follows:

<u>Data Year/ Report Year</u>	<u>0-17</u>	<u>18-34</u>	<u>35-64</u>	<u>65 and Over</u>
2019/20	29,415	25,743	44,720	18,506
2018/19	29,231	25,565	44,226	17,964
2017/18	28,819	25,363	43,966	17,397
2016/17	28,317	25,528	43,481	16,805
2015/16	28,401	25,724	43,031	16,258

Sources: *Envionics Analytics, Claritas, Inc., and The Nielsen Company.*

## Major Employers

<u>Employer</u>	<u>Product/Service</u>	<u>Approximate Number of Employees</u>
Mayo Medical Center	Medical/hospital services	35,249 <sup>(a)</sup>
Independent School District No. 535	Public education	2,830 <sup>(a)</sup>
IBM Corporation	Electronics/computer equipment	2,791 <sup>(a)</sup>
Olmsted Medical Center	Medical/hospital services	1,296 <sup>(a)</sup>
City of Rochester	City government	1,291 <sup>(a)</sup>
Olmsted County	County government	1,283 <sup>(a)</sup>
McNeilus Truck and Manufacturing	Mobile concrete mixers/garbage trucks	1,200 <sup>(a)</sup>
McNeilus Steel, Inc.	Steel fabrication	1,040 <sup>(b)</sup>
Charter Communications	Cable television/internet service	896 <sup>(a)</sup>
Crenlo Inc.	Sheet metal fabrication	600
Seneca Foods Corp.	Canned and frozen vegetables	568 <sup>(c)</sup>
Benchmark Electronics	Electrical and engineering equipment	562
Rochester Community and Technical College	Post-secondary education	500
Hiawatha Homes	Residential services	480
Reichel Foods	Refrigerated lunch and snacks	450
Cardinal of Minnesota, Ltd.	Residential services	425
Kahler Hospitality Group	Hotel/Restaurant services	405
Samaritan Bethany, Inc.	Nursing home	375
Halcon	Furniture manufacturer	330
Marigold Foods (Kemps)	Food processing	329
Pace Dairy Foods	Food processing	295
Think Bank	Banking services	285
Rochester Meat Company	Meat processor	269 <sup>(a)</sup>
Rochester Catholic Schools	Education	250
Home Instead Senior Care	Home care services	247
Ability Building Center	Rehabilitation services	220
Wells Fargo	Banking services	214
Home Federal Savings Bank	Banking services	187

(a) 2018 estimate of full- and part-time employees from Rochester Area Economic Development, Inc.  
<http://www.raedi.com/doing-business-here/major-employers.php>.

(b) Includes full and part time employees.

(c) Includes seasonal and regular employees.

Source: This does not purport to be a comprehensive list and is based on a January 2020 best efforts telephone survey of individual employers. Some employers do not respond to inquiries.

The area's largest employer is the Mayo Foundation. The Mayo Medical Center is the largest medical center in the world, with hospitals located in the City as well as the cities of Scottsdale, Arizona; and Jacksonville, Florida; and regional practices in the cities of Decorah, Iowa and Eau Claire, Wisconsin. Mayo Foundation employment is 55,900 for all facilities, with the facility located in the City employing approximately 34,660. The Mayo Clinic Rochester serves nearly 528,000 unique patients each year with over 1.4 million outpatient visits annually. Altogether, the Mayo Foundation occupies approximately 13 million square feet within the City.

The IBM Corporation is the area's third-largest employer and employs approximately 2,791 people in the development, manufacturing and support of IBM eServer and storage products, including the supercomputer known as Blue Gene.

## Commerce

The City continues to emerge as a regional trade center for southeastern Minnesota, northeastern Iowa, and western Wisconsin. The City's primary trade area has a radius of approximately 100 miles and encompasses a population in excess of 631,300.

According to the City's Visitor and Convention Bureau, more than 2.7 million people visit the City each year to take advantage of the many medical, educational, retail, wholesale and recreational facilities.

## Labor Force Data

	Annual Average				December
	2016	2017	2018	2019	2019
<b>Labor Force:</b>					
City of Rochester	62,853	62,396	63,698	66,365	65,790
Olmsted County	85,455	86,722	87,757	89,730	89,063
Rochester MSA	119,171	119,972	121,708	126,213	125,420
State of Minnesota	3,033,406	3,057,014	3,070,223	3,133,673	3,119,177
<b>Unemployment Rate:</b>					
City of Rochester	3.0%	2.7%	2.3%	2.6%	2.4%
Olmsted County	3.0	2.7	2.3	2.6	2.6
Rochester MSA	3.2	3.0	2.6	2.8	3.0
State of Minnesota	3.9	3.4	2.9	3.3	3.5

Source: Minnesota Department of Employment and Economic Development, <https://apps.deed.state.mn.us/lmi/laus>. 2019 data are preliminary.

## Retail Sales and Effective Buying Income (EBI)

### City of Rochester

Data Year/ Report Year	Total EBI (\$000)	Median Household EBI	% of Households With EBIs in Excess Excess of \$50,000	Total Retail Sales (\$000)	Retail Sales Per Household
2019/20	\$4,031,166	\$65,046	63.2%	\$3,133,315	\$64,456
2018/19	3,723,337	60,411	59.4	2,991,717	62,417
2017/18	3,602,449	59,184	58.4	2,886,236	61,105
2016/17	3,418,194	57,696	56.7	2,866,101	61,597
2015/16	3,248,033	54,215	53.7	3,321,328	72,041

Olmsted County

<u>Data Year/ Report Year</u>	<u>Total EBI (\$000)</u>	<u>Median Household EBI</u>	<u>% of Households With EBIs in Excess Excess of \$50,000</u>	<u>Total Retail Sales (\$000)</u>	<u>Retail Sales Per Household</u>
2019/20	\$5,511,480	\$67,778	65.5%	\$3,785,289	\$58,994
2018/19	5,098,312	63,021	61.7	3,632,559	57,357
2017/18	4,924,408	61,636	60.7	3,353,639	53,724
2016/17	4,709,416	60,438	57.1	3,284,747	53,393
2015/16	4,451,800	56,439	55.7	3,963,285	64,974

The 2019/20 Median Household EBI for the State of Minnesota was \$60,916. The 2019/20 Median Household EBI for the United States was \$54,686.

Sources: *Envionics Analytics, Claritas, Inc., and The Nielsen Company.*

**Permits Issued by the City**

<u>Year</u>	<u>New Residential</u>		<u>Multiple Dwellings</u>	<u>Commercial/ Industrial</u>	<u>All Other*</u>	<u>Total</u>	
	<u>No.</u>	<u>Value</u>				<u>Value</u>	<u>Permits</u>
2019 (to 11-30)	260	\$ 71,910,564	\$ 29,836,955	\$ 57,186,467	\$266,427,112	\$425,361,098	2,097
2018	348	98,386,577	183,219,286	35,024,302	271,164,073	587,794,238	2,305
2017	437	119,289,902	84,791,339	114,540,532	206,068,506	542,691,279	2,665
2016	421	101,491,801	129,561,374	34,573,239	177,220,084	442,846,498	2,410
2015	371	87,513,027	142,500,263	44,009,413	210,072,534	484,095,237	2,354
2014	375	85,477,343	21,748,186	73,921,925	216,625,149	397,772,603	2,317
2013	326	77,734,195	7,151,000	56,458,191	187,768,162	329,111,548	2,192
2012	312	68,171,380	12,661,774	91,077,052	157,128,930	329,039,136	2,106
2011	208	42,051,837	15,802,248	46,656,853	101,073,974	205,584,912	1,900
2010	200	41,421,296	21,675,637	26,634,821	110,123,979	199,855,733	2,036

\* *Includes additions and renovations of existing structures.*

Source: *City of Rochester Building and Safety Department.*

**Recent Development**

Major construction projects recently completed, under construction, or being reviewed for construction in the City are given below.

Recently Completed Projects

Urban on First	\$28,380,000
Vertical Expansion Generose	23,483,000
SMHC ET	16,500,000
Saint Mary's East Tower 3rd floor	10,997,034
Ronald McDonald House	10,126,000
Discovery Square	9,322,715
Math & Science STEM Academy	8,792,297
Harvestview Place	8,365,697
Domitilla 4D	6,253,102
Sterling State Bank	6,000,000
Mayo Pharmacy	5,059,484

Recently Completed Projects - Continued

Golden Hills Shops	\$3,500,000
VA Clinic Rochester	2,900,000
NW Commercial Development	2,800,000
River Valley Power and Sport	2,500,000
Urban on First	2,428,958
Golden Hills Shops	2,118,500
Cytotheryx Barrier Facility	2,093,888
Discovery Square - U of M	2,012,000
Apache Mall	2,000,000
Castle Community	1,989,204
Pittsburgh Blue Restaurant	1,650,000
IRC Retail Centers	1,590,733
RCTC Heintz Center	1,389,979
Mayo Clinic	1,315,054
41st St Professional Building	1,307,960
Avalon Building	1,175,000
Hilton 6	1,108,408
Gustafson Office Building	1,100,000
Deutsch Amish Furniture	1,100,000
Joseph 2	1,075,000
Falcon Heights of Rochester - Building #8 (D-6)	1,015,448
YMCA ECLC	1,000,000

Projects Under Construction

2nd Street Housing (Mixed-use Development)	\$86,237,507
MAYO Clinic Franklin Heating Station	33,910,690
Civic on First	28,480,475
The Pines Luxury Apartments	18,280,122
Rochester Community and Technical College	13,221,500
Harvestview Place II	10,555,366
Jeremiah Program South-East MN Campus	9,580,589
Kahler Grand	8,500,000
Eleven02 Hotel	6,750,000
St. Mary's Campus Tower 10	6,400,000
The 324 Apartments	5,675,738
North Services Center and Police Station - BP3	5,367,000
Wells Fargo Downtown	5,250,000
St Mary's Campus - Mary Brigh 4	5,229,407
Vyriad Office	5,000,000
Rochester Public Transit Bus Garage	4,500,000
3033 41st Street Building	4,500,000
2nd Street Housing (Mixed-use Development)	4,453,215
North Service Station	3,850,000
Civic on First	3,710,000
Mayo Building	3,675,855
2nd Street Housing (Mixed-use Development)	3,447,109
2nd Street Housing (Mixed-use Development)	3,411,543
The Pines Luxury Apartments	3,275,000
Hilton Building Subway & Courtyard	3,027,660
St. Mary's Campus Joseph	3,000,000
41st Street Building	2,946,360
Guggenheim 14 & 15	2,900,005
Hilton Building	2,821,878
Tommy Express Car Wash Systems	2,800,000
First Alliance Credit Union	2,778,000
OMC NW Clinic	2,600,000
MAYO Clinic Franklin Heating Station	2,498,774

Projects Under Construction - Continued

Tap House West	\$2,300,000
St Mary's Hospital - Joseph Building	2,282,908
019-0Heartland Gun Club and Range	2,252,000
Hotel Indigo - Crave Restaurant	2,250,000
Bella Grove Apartments - Building 3	2,221,628
Bella Grove Apartments - Building 7	2,221,628
Bella Grove Apartments - Building 8	2,221,628
Berkman (Atlatus low-rise)	2,178,293
Graham Arena Complex	2,060,029
Uptown on Second	2,000,000
Mayo – St. Mary’s Hospital	1,980,000
Rochester Community and Technical College - RCTC	1,962,500
MCAS Rochester South Station	1,936,260
41st Street Building	1,888,932
The Pines Luxury Apartments	1,865,703
Wells Fargo Building	1,800,000
Prairie Care Medical Office Building	1,785,000
Rochester Public Utilities	1,780,000
Bella Grove Apartments - Building 2	1,770,303
Bella Grove Apartments - Building 4	1,770,303
Bella Grove Apartments - Building 6	1,770,303
St. Mary's Campus - Mary Brigh	1,715,303
3033 41st Street Building	1,625,000
St Mary's Campus - Joseph 2	1,536,080
Pharmaceutical Specialist, Inc	1,518,119
The Pines II	1,500,000
Residence At Discovery Square	1,460,000
Superior Drive Support Center	1,384,350
Bella Grove Apartments - Building 1	1,354,704
Bella Grove Apartments - Building 5	1,354,704
Bamber Valley Elementary School	1,323,583
Mayo Subway Wanek Family Concourse	1,322,894
Vyriad Office	1,304,955
Epic Data Center	1,268,215
Harvestview Place	1,250,000
Eisenberg	1,226,961
American Waterworks	1,220,000
John Marshall High School	1,207,806
Willow Creek Middle School	1,206,569
Harvestview Place II	1,205,713
Wells Fargo	1,200,000
SMC Mary Brigh 2	1,174,222
Discovery Square Building	1,109,744
Historic Chateau Theatre	1,092,100
GU Upper Floors AHU Rebuild	1,064,000
Christ United Methodist Church	1,062,109
St. Mary's - Joseph Building	1,041,167
St. Mary's Campus Mary Brigh	1,018,633
Falcon Heights Building 15	1,015,448

Projects Under Review

Century Heights	\$10,640,000
Two Discovery Square	7,500,000
Mayo Clinic - Harwick Building	1,750,000
Hotel Indigo - Crave Restaurant	1,000,000
Olmsted County 2122 Building Suite 300	1,000,000

## Destination Medical Center

The Destination Medical Center (DMC) is an economic development initiative implemented to enhance the Mayo Clinic's and the State of Minnesota's (the "State") status as a global medical destination. Additionally, it is anticipated that the DMC will transform the City's downtown area into a dynamic urban center that integrates Mayo Clinic's medical campus with commercial, biomedical-research-technology, residential, retail-entertainment, hotel-hospitality, educational, recreational, and cultural uses through a strategic network of streetscape, transportation, greenway, and public space amenities.

In April of 2015, the Common Council and the Destination Medical Center Board formally adopted the DMC Development Plan, a comprehensive framework for the 20-year project that to redefine the City's downtown area. The plan is a strategic business plan that addresses land use, transportation, infrastructure, business development, marketing and operational strategies over the 20-year period. The State legislature approved the DMCC law in 2014, a \$6 billion economic development initiative, to secure Minnesota's status as a global medical destination center now and in the future. This legislation secured State, City and County funding of \$585 million to help construct the significant public infrastructure needed to support this growth.

In 2019, the City certified a total of \$262,001,626, for the year ending December 31, 2018, which includes \$126,492,416 in Mayo Clinic investments and \$135,509,210 in other private investments. This annual private investment total is nearly double 2018 private investment and set single-year records for both Mayo Clinic and non-Mayo-Clinic private investment in the DMC initiative. The cumulative total of Mayo Clinic and other private investments, since 2013, is \$690,664,413, a figure that is within one percent of the DMC development plan investment forecast. The City has contributed a total of \$46,235,161 in certified expenditures from July 1, 2013, through December 31, 2018. The unaudited City contributions through 2019 bring the total amount of certified expenditures to \$57,255,483.

## **Financial Institutions\***

Banking and financial services are available to City residents at the following institutions:

	<u>Deposits</u> <u>As of 6-30-19</u>
Think Mutual Bank	\$1,369,713,000
Home Federal Savings Bank	671,601,000
Premier Bank Rochester	212,006,000
Olmsted National Bank	87,284,000
Minnesota First Credit and Savings, Inc.	<u>21,247,000</u>
Total	\$2,361,851,000

In addition, branch offices of Associated Bank, National Association; Bremer Bank, National Association; Coulee Bank; F&M Community Bank, National Association; Foresight Bank; Manufacturer's Bank and Trust Company; Merchants Bank, National Association; Minnwest Bank; Sterling State Bank; U.S. Bank National Association; Wells Fargo Bank, National Association; and West Bank are located throughout the City.

\* *This does not purport to be a comprehensive list. Most recent information available.*

Source: Federal Deposit Insurance Corporation, <https://www.fdic.gov/>.

## Health Care Services

The following is a summary of health care facilities located in and near the City:

<u>Facility</u>	<u>Type</u>	<u>No. of Beds</u>
Mayo Clinic Hospital Rochester	Hospital/Clinic	2,059 Hospital 89 Infant Bassinets
Samaritan Bethany Home on Eighth	Assisted Living	155 Nursing Home
Rochester East Health Services	Assisted Living	111 Nursing Home
Olmsted Medical Center	Hospital/Clinic	61 Hospital 28 Infant Bassinets
Edenbrook of Rochester	Assisted Living	81 Nursing Home
Madonna Towers of Rochester	Assisted Living	62 Nursing Home
Rochester Rehab and Living Center	Assisted Living	56 Nursing Home
Rochester West Health Services	Assisted Living	48 Nursing Home
Charter House Inc.	Assisted Living	32 Nursing Home
The Gables	Assisted Living	30 Supervised Living
Zumbro Valley Connections	Mental Health Care	22 Supervised Living
Community Behavioral Health Hospital	Mental Health Care	16 Psychiatric Hospital
John E. Herman Home and Treatment Facility	Mental Health Care	16 Supervised Living
REM River Bluffs Rochester SE	Assisted Living	12 Supervised Living
Allendale House	Assisted Living	6 Supervised Living
REM River Bluffs Stone Park	Assisted Living	6 Supervised Living

Source: Minnesota Department of Health, <http://www.health.state.mn.us/>.

## Education

### Public Education

Independent School District No. 535 (Rochester), owns 34 buildings and operates one early learning school, 16 elementary schools, four middle schools, three senior high schools, and ten other service centers and non - operative facilities. Current and historical enrollment figures for Independent School District No. 535 (Rochester) are set forth below.

<u>School Year</u>	<u>Kindergarten- Grade 5</u>	<u>Grades 6-8</u>	<u>Grades 9-12</u>	<u>Total*</u>
2018/19	8,668	3,918	5,576	18,162
2017/18	8,644	3,843	5,445	17,932
2016/17	8,619	3,809	5,218	17,646
2015/16	8,580	3,710	5,155	17,445
2014/15	8,404	3,696	5,044	17,144

\* 2019/20 enrollment figures are not yet available.

Source: Minnesota Department of Education, [www.education.state.mn.us](http://www.education.state.mn.us).



## Nonpublic Education

Non-public schools located within the City include:

<u>School</u>	<u>Location</u>	<u>Grades</u>	<u>2018/19* Enrollment</u>
Lourdes High School	City of Rochester	9-12	431
St. Francis of Assisi School	City of Rochester	K-8	338
Schaeffer Academy	City of Rochester	K-12	268
Rochester Central Lutheran	City of Rochester	K-8	251
Holy Spirit Catholic School	City of Rochester	K-8	237
St. John's Catholic School	City of Rochester	5-8	163
St. Pius X Catholic School	City of Rochester	K-4	126
Resurrection Lutheran School	City of Rochester	K-8	124
Rochester Montessori	City of Rochester	K-12	113
Rochester Arts and Science Academy	City of Rochester	K-5	60
Victory Baptist Academy	City of Rochester	K-12	21
Rochester Pentecostal	City of Rochester	K-12	12
Seeds of Wisdom	City of Rochester	K-7	12
Ambassador Academy	City of Rochester	K-6	10

\* 2019/20 enrollment figures are not yet available.

Source: Minnesota Department of Education, [www.education.state.mn.us](http://www.education.state.mn.us).

## **Post-Secondary and Nonpublic Education**

Rochester Community and Technical College (“RCTC”) is a public two-year college located within the City, which serves more than 7,500 students annually. RCTC’s largest areas of study include liberal arts and sciences, nursing, health information technology, business, and accounting. RCTC offers Associate in Arts, Associate in Applied Science, Associate in Science, diplomas, and certificates.

Winona State University – Rochester (“WSU-R”) offers upper-level undergraduate programs in the fields of business administration, computer science, education, nursing, individualized studies, nursing, and social work; and twenty graduate programs in the fields of counseling, education and nursing.

University of Minnesota Rochester (“UMR”) offers more than 35 doctorate, masters, and baccalaureate programs, as well as several certificate and licensure programs, and serves approximately 750 students annually.

Division of Education of the Mayo Foundation, Rochester, operates the Mayo Clinic School of Medicine, the Mayo Clinic School of Graduate Medical Education, the Mayo Clinic School of Health Sciences, the Mayo Clinic School of Biomedical Sciences, and the Mayo Clinic School of Continuous Professional Development. One hundred and ten health-related programs are offered at the School of Health Sciences and the M.D. degree is offered at the School of Medicine. In addition, these schools attract thousands of people each year for continuing education courses and workshop offerings.

In addition, residents have access to Augsburg University, St. Mary’s University, and the College of St. Scholastica, which have branches located in the City.

## GOVERNMENTAL ORGANIZATION AND SERVICES

The City is a municipal corporation, incorporated August 5, 1858, and exists under the laws of the State of Minnesota. The City is governed under a charter adopted August 22, 1904. The Common Council is comprised of seven Council members. The Mayor and Council President are elected at large and six of the Council members are elected by ward. Council members, the Council president, and the Mayor all serve four-year staggered terms, with four of these positions elected every two years.

		<u>Current Term Expires</u>
Kim Norton	Mayor	2023
Randy Staver	Council President	2021
Patrick Keane	Council Member First Ward	2023
Michael J. Wojcik	Council Member Second Ward	2021
Nick Champion	Council Member Third Ward	2023
Mark Bilderback	Council Member Fourth Ward	2021
Shaun C. Palmer	Council Member Fifth Ward	2023
Annalissa Johnson	Council Member Sixth Ward	2021

### City Departments

The Administration Office, Stephen Rymer, City Administrator, was established by ordinance in July 2017. The principal functions of the office of City Administrator are to coordinate the operations of the City government, carry out the policies adopted by the Mayor and Council, recommend the appointment and removal of department heads and appoint and remove all other subordinate personnel, recommend such measures as may be necessary for the welfare of the people and the efficient administration of City affairs, prepare and submit to the Council the annual budget, determine the disposition of all communications addressed to the Mayor and Common Council, and give general supervision to the downtown development administrator who plans, promotes, and administers the program for downtown development.

Beginning in mid-2019, the City separated its separated its planning and zoning activities from the prior City/County Consolidated Planning department. In alignment with the City's vision to be a vibrant, compassionate, innovative team, the establishment of the Community Development Department is the first phase in the City's long-term plan to create a one-stop development services center. This collaboration will bring the newly-formed Community Development Department as well as the Building Safety and Public Works Departments together under one roof to provide a more seamless customer service experience for those seeking to build, develop, and invest in the City.

The Community Development Department, led by Director Cindy Steinhauser, consists of 13 team members, including experts in planning, development, zoning compliance, sustainability, urban design and heritage preservation, communications and engagement, and administrative support.

The Finance Department, Dale R. Martinson, Director, was established January 1, 1968 by Charter amendment. Section 8.04 of the Charter provides that "the Director of Finance shall be the chief fiscal officer and treasurer of the City." The Finance Department, including the information systems division, presently maintains a staff of 33 regular employees and is responsible for the supervision and coordination of all financially related operating divisions, including finance and investment, accounting and audit, purchasing, insurance and risk management, the maintenance of the City Hall building, and the Information Systems division. The Director and the budget and accounting staff of the department analyze and assist the City Administrator in preparation of the annual budget, including the five-year capital improvement program.

## SUMMARY OF CITY FINANCIAL POLICIES AND PRACTICES

### Employee Retirement Systems

Substantially all employees of the City are covered by a state-wide defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA is the administrator of the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

The City's contributions for the past five years are as follows:

	<u>GERF</u>	<u>PEPFF</u>
2018	\$3,765,952	\$3,648,935
2017	3,721,078	3,669,622
2016	3,383,825	3,342,831
2015	3,212,117	3,140,595
2014	3,136,364	3,004,241

For more information regarding the liability of the City with respect to its employees, please reference "Note 4(E), Other Information – Employee Retirement Systems" of the City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2018, an excerpt of which is included as Appendix V of this Official Statement. (The City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2019 is not yet available.)

### GASB 68

The Government Accounting Standards Board (GASB) has issued Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and related GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment to GASB 68, which revised existing standards for measuring and reporting pension liabilities for pension plans provided to City employees and require recognition of a liability equal to the City's proportionate share of net pension liability, which is measured as the total pension liability less the amount of the pension plan's fiduciary net position.

The City's proportionate shares of the pension costs and the City's net pension liability for the GERF and the PEPFF for the past four years are as follows:

	<u>GERF</u>		<u>PEPFF</u>	
	<u>Proportionate Share of Pension Costs</u>	<u>Net Pension Liability</u>	<u>Proportionate Share of Pension Costs</u>	<u>Net Pension Liability</u>
2018	0.7471%	\$41,446,045	2.1372%	\$22,780,351
2017	0.7701	49,162,676	2.207	29,797,126
2016	0.7271	59,036,914	2.142	85,962,187
2015	0.7410	38,402,466	2.177	24,735,814

For more information regarding the liability of the City with respect to its employees, please reference "Note 4(E), Other Information – Employee Retirement Systems" and "Required Supplementary Information" of the City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2017, an excerpt of which is included as Appendix V of this Official Statement. (The City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2019 is not yet available.)

Additional and detailed information about GERP's net position is available in a separately-issued PERA financial report, which may be obtained at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, Saint Paul, Minnesota, 55103-2088; or by calling 1-800-652-9026.

### Other Post-Employment Benefits

The Government Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75), establishing new accounting and financial reporting requirements related to post-employment healthcare and other non-pension benefits (referred to as Other Postemployment Benefits or "OPEB"). The implementation of GASB 75 required the restatement of the City's beginning net position for the fiscal year ended December 31, 2017. Please see "Note 1: Summary of Significant Accounting Policies- F. Change in Accounting Principle" in the City's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2018 for this calculation.

The City provides health insurance benefits for certain retired employees under a single employer self-insured plan. The City provides benefits for retirees as required by state statute to active employees when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and if they do not participate in any other health benefits program providing similar coverage. These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the City's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The City pays for health insurance coverage for disabled police and fire fighters and their dependents (if the dependents were covered at the time of the disability) until the disabled employee reaches age 65, as required by state statute.

The following employees were covered by the benefit terms as of January 1, 2018:

Retirees currently receiving benefit payments	259
Active participants	<u>878</u>
Total	<u>1,137</u>

The City's net OPEB liability was measured as of January 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018. The discount rate used to measure the total OPEB liability was 3.30%. Components of the City's OPEB liability and related ratios for the fiscal year ended December 31, 2018 are as follows:

Service cost	\$ 762,822
Interest	347,995
Benefit payments	<u>(332,645)</u>
Net change in total OPEB liability	\$ 778,172
Total OPEB liability – beginning of year	<u>9,947,454</u>
Total OPEB liability – end of year	<u>\$10,725,626</u>
Covered Pay roll	\$70,791,125
Total OPEB Liability as a % of payroll	15%

For more information regarding the liability of the City with respect to its employees, please reference "Note 3(I), Detailed Notes on All Funds – Other Post-Employment Benefits" of the City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2018, an excerpt of which is

included as Appendix V of this Official Statement. (The City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2019 is not yet available.)

## **Employee Relations**

The City employs approximately 920 regular full-time/part-time employees and approximately 449 seasonal employees depending on the time of year.

The Minnesota Public Employee Labor Relations Act (PELRA) provides protocols for public sector bargaining practices. The City has formal collective bargaining agreements; some of which expired on December 31, 2019 and are currently in negotiations, or which will expire on December 31, 2021, with each of the following groups:

- American Federation of State, County and Municipal Employees, Local 319 (2021)
- Engineering Technicians' Association (2019)
- International Association of Firefighters, Local 520 – Firefighters (2019)
- International Union of Firefighters, Local 3908 (Fire Supervisors, 2021)
- International Association of Firefighters, Local 3869 (911 Dispatchers, 2019)
- International Union of Operating Engineers, Local 49 – Mayo Civic Center and Parks & Recreation (2019)
- International Union of Operating Engineers, Local 49 – Infrastructure & Maintenance and Fleet & Facilities (2021)
- Law Enforcement Labor Services, Local 194 (2021)
- Law Enforcement Labor Services, Local 371 (Police Supervisors, 2021)
- Law Enforcement Labor Services, Local 445 (Police Sergeants, 2021)
- International Union of Operating Engineers, Local 70 (Water Reclamation Plant, 2019)
- International Brotherhood of Electrical Workers, Local 949 (2019)
- International Brotherhood of Electrical Workers, Local 949 – Office & Clerical (2019)
- Rochester Inspectors' Association (2021)
- Rochester Supervisory Association (2021)
- Rochester Professional Employees Association (2019)

The City also bargains informally with three “meet and confer” groups which consist of the following audiences: (i) department heads; (ii) exempt/non-contract (consisting primarily of confidential human resource exempt-level staff, city attorneys, and Rochester Public Utility directors); and (iii) the non-exempt/non-contract group (confidential support staff and community service officers).

## **Tax Anticipation Borrowing**

The City has not engaged in tax anticipation borrowing, using instead its unreserved general fund balance to finance operations until ad valorem tax revenues are received. The City's 2018 unassigned general fund balance was \$35,845,807 or 44.1% of 2018 expenditures. Taxes are collected by the Olmsted County Treasurer. The first tax settlement (approximately 50%) is received by the City in June and July of the collection year. The final tax settlement is received in November and December of the collection year.

## **Lodging Tax**

A Lodging tax was implemented by the City in 1999 and applies to gross receipts from the furnishing of lodging at facilities for stays of less than 30 days in duration. The initial lodging tax rate was three cents, which was raised to four cents in 2002 with the additional funding for the Rochester Convention and Visitors Bureau. Under special legislation, the City may impose an additional tax of three percent for improvements to and related infrastructure for the Mayo Civic Center Complex, which was authorized by the Common Council in 2013 for collections beginning January 1, 2014.

Of the total 7% tax, 3% is used to fund the Mayo Civic Center Complex expansion. The legislation permits the City to collect this 3% tax to fund or repay the City's \$50 million share plus any financing costs of this expansion, which opened in 2015. Beginning in 2020, the remaining 4% is now deposited into the City's general fund. By contract, the City now pays a fixed \$3.8 million to the Rochester Convention and Visitor's Bureau (RCVB) to manage the Mayo Civic Center. The RCVB in turn subcontracts for operations (currently with ASM Global) and food and beverage services (currently with Spectra, Inc.). Oversight is maintained by the City to meet specific performance indicators and community benefit objectives. Net lodging tax revenues dedicated toward the expansion repayment totaled \$3,828,224 through October 2019, while the remaining four percentage points for general fund and Mayo Civic Center operations amounted to \$5,104,299 through the same period. An additional \$600,000 in lodging tax funds are paid directly to Rochester Sports Minnesota to market the Mayo Civic Center and the community for sports tournaments and competitions.

## **General Sales Tax**

A 0.5% local sales tax has been in place since 1983, to be used to finance specific projects authorized by City voters and special State laws. Net sales tax collections through October 31, 2019 were \$10,450,158. This tax has been authorized to increase to 0.75% by City voters and special State laws effective January 1, 2016. The 0.25% increase will be dedicated towards the Destination Medical Center projects in the City's downtown district until the year 2049. The net sales tax collections for the Destination Medical Center tax in 2018 were \$5,224,940.

## **Contingencies and Commitments**

### Federally Assisted Programs

The City participates in a number of federal agency assisted grant programs, principal of which are the Community Development Block Grant, Federal Transit, and Airport Improvement programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of certain programs for or including the year ended December 31, 2018 with no deficiency findings. The 2019 federal compliance audit will not be completed until later in 2020. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

### Self-Insurance Program

The City maintains a self-insurance program for group health coverage and workers' compensation. The group health program is limited to losses of \$315,000 per claim with a variable annual aggregate, and the workers' compensation is limited to \$500,000 per occurrence, both through the use of stop-loss policies. The City's general and auto liability policies retain a \$100,000 occurrence and \$300,000 for annual aggregate deductible exposure with a \$1,500,000 statutory limit of coverage. The City recognizes a liability on individual claims when a claim is probable and the amount can be reasonably estimated. In addition, the City recognizes an estimated liability on claims that have been incurred but have not been reported.

## City Budget Process

The Common Council begins the budget process in April by adopting its priorities, goals, and strategies for the organization and the community. The development of the budget occurs from April through August and is guided by these strategic priorities, an existing budget policies, long-range fiscal sustainability, legal mandates, and service level prioritization. Finance and Administration complete the recommended budget document in August, which is then presented to the Council. The Council adopts a maximum levy in September. Public engagement in priority budget issues are discussed through budget work sessions held from September through December. All budget sessions live-streamed and archived on the City’s website. Final budget adjustments are finalized through the end of November with budget public hearing and final adoption held in December. The appropriated budget is prepared by fund, function and department. Administration may make transfers of appropriations within departments and functions. Transfers of appropriations between funds, however, require approval of the Common Council.

## General Fund Budget Summary

	<u>2019 Budget</u>	<u>2019 Est. Actual</u>	<u>2020 Budget</u>
Fund Balance			
Beginning of the Year	\$38,563,775	\$38,563,775	\$39,768,800
Revenues:			
General property taxes	\$53,008,708	\$53,002,079	\$54,561,466
Non-property taxes	4,326,172	4,072,920	7,490,341
Licenses and Permits	4,186,655	4,412,250	5,001,477
Fines and Forfeits	409,308	487,311	409,308
Intergovernmental Revenues	11,159,137	11,557,234	11,215,543
Charges for Services	3,881,105	3,587,831	4,339,536
Interest Earnings	235,000	570,538	235,000
Net Increase (Decrease) in the Fair Value of Investments	(50,000)	210,000	(50,000)
Rental revenues	61,966	62,577	63,287
Miscellaneous Revenue	<u>201,862</u>	<u>262,342</u>	<u>222,651</u>
Total Revenues*	<u>\$77,419,913</u>	<u>\$78,225,082</u>	<u>\$83,488,609</u>
Expenditures:			
General Government	\$13,291,082	\$11,922,893	\$15,156,245
Public Safety	54,379,662	53,471,028	56,312,715
Public Works	15,934,249	17,542,067	16,491,151
Culture	1,975,483	1,972,466	1,983,487
Economic Development/Tourism	2,703,570	2,648,338	4,476,500
Community Reinvestment and Unallocated	2,078,216	<u>4,010,698</u>	<u>3,255,710</u>
Total Expenditures	<u>\$90,362,262</u>	<u>\$91,567,490</u>	<u>\$97,675,808</u>
Fund Balance			
End of the Year	\$38,563,775	\$39,768,800	\$39,768,800

\* Does not include Operating Transfers.

Source: The City.

**Major General Fund Revenue Sources**

<u>Revenue</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General property taxes	\$33,165,857	\$35,952,764	\$37,861,528	\$42,088,183	\$46,272,117
Transfers in	12,903,032	13,142,593	11,980,633	12,303,390	12,779,658
Intergovernmental revenue	9,411,211	9,678,867	10,885,770	10,982,751	11,832,667
Nonproperty taxes	4,906,667	5,029,848	4,816,507	5,093,982	5,674,880
Licenses and permits	3,644,171	4,031,809	3,908,886	4,442,343	4,765,811
Charges for services	3,423,532	3,502,073	3,855,388	3,868,449	3,916,340

*Sources: City's Comprehensive Annual Financial Reports.*

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## PROPOSED FORM OF LEGAL OPINION



Offices in 470 U.S. Bank Plaza  
 200 South Sixth Street  
 Minneapolis Minneapolis MN 55402-1458  
 Saint Paul (612) 337-9300 telephone  
 (612) 337-9310 fax  
 St. Cloud www.kennedy-graven.com  
 Affirmative Action, Equal Opportunity Employer

§ \_\_\_\_\_  
 Rochester Economic Development Authority  
 Lease Revenue Bonds (City of Rochester, Minnesota Lease Obligation)  
 Series 2020A

We have acted as bond counsel in connection with the issuance by the Rochester Economic Development Authority (the “EDA”) of its Lease Revenue Bonds (City of Rochester, Minnesota Lease Obligation), Series 2020A, originally dated March \_\_, 2020 (the “Bonds”), in the aggregate principal amount of \$ \_\_\_\_\_. The Bonds are being issued pursuant to a bond resolution adopted by the EDA on February 3, 2020 (the “Bond Resolution”), a resolution adopted by the City of Rochester, Minnesota (the “City”) on February 3, 2020, the (“City Resolution”) and a Trust Indenture, dated as of March 1, 2020 (the “Indenture”), between the EDA and U.S. Bank National Association, as trustee (the “Trustee”). Proceeds of the Bonds will be used to acquire, construct, and equip certain Facilities on a Site leased by the EDA from the City pursuant to a Ground Lease, dated as of March 1, 2020 (the “Ground Lease”). Pursuant to a Lease-Purchase Agreement, dated as of March 1, 2020 (the “Lease”), the EDA has leased the Site and the Facilities to the City. Pursuant to the Indenture, the EDA has assigned to the Trustee its interest in the Lease and the Lease Payments to be made thereunder (except for the certain rights of the EDA to indemnification and payment of expenses). Capitalized terms not defined in this opinion are as defined in the Lease.

For the purpose of rendering this opinion we have examined certified copies of certain proceedings taken by the EDA and the City in the authorization, sale and issuance of the Bonds, including the Bond Resolution, the City Resolution, the Indenture, the Ground Lease, the Lease and the form of the Bonds, and certain other proceedings and documents furnished by the EDA and the City. From our examination of such proceedings and other documents, assuming the genuineness of the signatures thereon and the accuracy of the facts stated therein and continuing compliance by the EDA and the City with the covenants in the Bond Resolution, the City Resolution, the Indenture, and the Lease to comply with the Internal Revenue Code of 1986, as amended (the “Code”), and based upon laws, regulations, rulings and decisions in effect on the date hereof, it is our opinion, as of the date hereof, that:

1. The Bonds are in due form, have been duly executed and delivered, and are valid and binding limited obligations of the EDA, enforceable in accordance with their terms, except as such enforcement may be limited by the State of Minnesota or United States laws relating to bankruptcy, reorganization, moratorium or creditors’ rights.

2. The Issuer is authorized by the Constitution and laws of the State of Minnesota to issue the Bonds, to apply the proceeds of the Bonds to acquire, construct, and equip the Facilities, to pledge the rental payments to be received pursuant to, and its interests in, the Lease as security for the payment of the principal of and interest on the Bonds.

3. The Indenture, the Ground Lease and the Lease have been duly executed and delivered by the EDA, and are valid and binding obligations of the EDA, except as such enforcement may be limited by the State of Minnesota or United States laws relating to bankruptcy, reorganization, moratorium or creditors' rights.

4. The Ground Lease and the Lease have been duly executed and delivered by the City and are valid and binding obligations of the City, enforceable in accordance with their terms, except as such enforcement may be limited by the State of Minnesota or United States laws relating to bankruptcy, reorganization, moratorium or creditors' rights.

5. The Bonds are not a general obligation of the EDA or the City, and no holder of a Bond shall ever have the power to compel the exercise of any taxing power of the EDA or the City for the payment of the Bonds. The principal of and interest on the Bonds are payable from Lease Payments to be made by the City under the Lease and from certain other revenues described in the Lease and the Indenture. The Lease Payments payable under the Lease are payable solely from moneys to be appropriated by the City Council of the City for this purpose each year in the City's annual budget, but the City Council is not required to appropriate or provide moneys for this purpose. If moneys are not appropriated by the City Council for any fiscal year, the Lease will be terminated at the end of the preceding fiscal year, and the City is not required to pay Lease Payments coming due after such termination. Neither the Lease nor the City's obligation to pay Lease Payments thereunder, nor the Bonds, are a general obligation or indebtedness of the City, and the full faith and credit of the City is not pledged for their payment.

6. Interest on the Bonds is excludable from gross income of the recipient for federal income tax purposes and, to the same extent, is excludable from taxable net income of individuals, trusts, and estates for Minnesota income tax purposes, and is not a preference item for purposes of the computation of the federal alternative minimum tax, or the computation of the Minnesota alternative minimum tax imposed on individuals, trusts and estates. However, such interest subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. The opinion set forth in this paragraph is subject to the condition that the EDA comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes and from taxable net income for Minnesota income tax purposes. The EDA has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes and taxable net income for Minnesota income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

Dated at Minneapolis, Minnesota, March \_\_, 2020.

## CONTINUING DISCLOSURE CERTIFICATE

\$ \_\_\_\_\_  
 Rochester Economic Development Authority  
 Lease Revenue Bonds (City of Rochester, Minnesota Lease Obligation)  
 Series 2020A

## CONTINUING DISCLOSURE CERTIFICATE

March \_\_, 2020

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Rochester, Minnesota (the “City”) and the Rochester Economic Development Authority (the “Issuer”), in connection with the issuance of the Lease Revenue Bonds (City of Rochester, Minnesota Lease Obligation), Series 2020A (the “Bonds”), by the Issuer in the aggregate principal amount of \$ \_\_\_\_\_. The Bonds are being issued pursuant to a bond resolution adopted by the Board of Commissioners of the Issuer on February 3, 2020 (the “EDA Resolution”) and delivered to \_\_\_\_\_, in \_\_\_\_\_ (the “Purchaser”) on the date hereof. The Issuer, pursuant to the EDA Resolution, and the City, pursuant to a resolution adopted by the Common Council of the City on February 3, 2020 (the “City Resolution”), have covenanted and agreed to provide continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events. The Issuer and the City hereby covenant and agree as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City and the Issuer for the benefit of the Holders (as defined herein) of the Bonds in order to provide for the public availability of such information and assist the Participating Underwriter(s) (as defined herein) in complying with the Rule (as defined herein). This Disclosure Certificate, together with the EDA Resolution, constitutes the written agreement or contract for the benefit of the Holders of the Bonds that is required by the Rule.

Section 2. Definitions. In addition to the defined terms set forth in the EDA Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” means any annual report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Audited Financial Statements” means annual financial statements of the City, prepared in accordance with GAAP as prescribed by GASB.

“Bonds” means the Lease Revenue Bonds (City of Rochester, Minnesota Lease Obligation), Series 2020A issued by the Issuer in the original aggregate principal amount of \$ \_\_\_\_\_.

“City” means the City of Rochester, Minnesota, which is an obligated person with respect to the Bonds.

“Disclosure Certificate” means this Continuing Disclosure Certificate.

“EMMA” means the Electronic Municipal Market Access system operated by the MSRB and designated as a nationally recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule.

“Final Official Statement” means the deemed final Official Statement, dated \_\_\_\_\_, 2020, which constitutes the final official statement delivered in connection with the Bonds, which is available from the MSRB.

“Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a Financial Obligation as described in clause (a) or (b). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Fiscal Year” means the fiscal year of the City.

“GAAP” means generally accepted accounting principles for governmental units as prescribed by GASB.

“GASB” means the Governmental Accounting Standards Board.

“Holder” means the person in whose name a Bond is registered or a beneficial owner of such a Bond.

“Issuer” means the Rochester Economic Development Authority, which is an obligated person with respect to the Bonds.

“Material Event” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board located at 1300 I Street NW, Suite 1000, Washington, DC 20005.

“Participating Underwriter” means any of the original underwriter(s) of the Bonds (including the Purchaser) required to comply with the Rule in connection with the offering of the Bonds.

“Purchaser” means \_\_\_\_\_, in \_\_\_\_\_.

“Repository” means EMMA, or any successor thereto designated by the SEC.

“Rule” means SEC Rule 15c2-12(b)(5) promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the SEC.

“SEC” means Securities and Exchange Commission, and any successor thereto.

### Section 3. Provision of Annual Financial Information and Audited Financial Statements.

(a) The Issuer shall provide to the Repository not later than 12 months after the end of the Fiscal Year commencing with the year that ends December 31, 2019, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the Audited Financial Statements of the City may be submitted separately from the balance of the Annual Report.

(b) If the Issuer is unable or fails to provide to the Repository an Annual Report by the date required in subsection (a), the Issuer shall send a notice of that fact to the Repository and the MSRB.

(c) The Issuer shall determine each year prior to the date for providing the Annual Report the name and address of each Repository.

Section 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following sections of the Final Official Statement:

1. City Property Values
2. City Indebtedness
3. City Tax Rates, Levies and Collections

In addition to the items listed above, the Annual Report shall include Audited Financial Statements submitted in accordance with Section 3 of this Disclosure Certificate.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the City, Issuer or related public entities, which have been submitted to the Repository or the SEC. If the document incorporated by reference is a final official statement, it must also be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Material Events.

(a) This Section 5 shall govern the giving of notice of the occurrence of any of the following events ("Material Events") with respect to the Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other

than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

(b) The Issuer shall file a notice of such occurrence with the Repository or with the MSRB within ten (10) business days of the occurrence of the Material Event.

(c) Unless otherwise required by law and subject to technical and economic feasibility, the Issuer shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Issuer's information.

Section 6. EMMA. The SEC has designated EMMA as a nationally recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule. Until the EMMA system is amended or altered by the MSRB and the SEC, the Issuer shall make all filings required under this Disclosure Certificate solely with EMMA.

Section 7. Termination of Reporting Obligation. The Issuer's and the City's obligations under the EDA Resolution, the City Resolution and this Disclosure Certificate shall terminate upon the redemption in full of all Bonds or payment in full of all Bonds.

Section 8. Agent. The Issuer or the City may, from time to time, appoint or engage a dissemination agent to assist it in carrying out the Issuer's obligations under the EDA Resolution or the City's obligations under the City Resolution and this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of the EDA Resolution, the City Resolution or this Disclosure Certificate, the City or the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause a violation of the Rule. The provisions of the EDA Resolution and the City Resolution requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate, or any provision hereof, shall be null and void in the event that the Issuer or the City delivers to the Repository an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which impose the continuing disclosure requirements of the EDA Resolution and the City Resolution and the execution and delivery of this Disclosure Certificate are invalid, have been repealed retroactively or otherwise do not apply to the Bonds. The provisions of the EDA Resolution and the City Resolution requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate may be amended without the consent of the Holders of the Bonds, but only upon the delivery by the Issuer or the City to the Repository of the proposed amendment and an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance of the EDA Resolution, the City Resolution and this Disclosure Certificate with the Rule.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the Issuer or the City chooses to include any information in any Annual Report or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, neither the Issuer nor the City shall have any obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Section 11. Default. In the event of a failure of the Issuer or the City to comply with any provision of this Disclosure Certificate any Holder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer or the City to comply with its obligations under the EDA Resolution or the City Resolution and this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default with respect to the Bonds and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the City, the Participating Underwriters, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, we have executed this Disclosure Certificate in our official capacities effective as of the date and year first written above.

**CITY OF ROCHESTER, MINNESOTA**

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Mayor

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City Clerk

(signature page to the Continuing Disclosure Certificate)



IN WITNESS WHEREOF, we have executed this Disclosure Certificate in our official capacities effective as of the date and year first written above.

**ROCHESTER ECONOMIC  
DEVELOPMENT AUTHORITY**

\_\_\_\_\_  
President

\_\_\_\_\_  
Secretary

(signature page to the Continuing Disclosure Certificate)

## DOCUMENT SUMMARIES

## LEASE PURCHASE AGREEMENT

The following are excerpts of certain provisions of the Lease-Purchase Agreement (the "Lease"). These excerpts do not purport to be complete and reference is made to the full text of the Lease for a complete recital of its terms.

Term of Lease or Lease Term. The Lease shall be in effect for a Term commencing March 1, 2020 thereof and extending until no Bonds remain Outstanding, or until terminated for the following reasons:

- (a) non-appropriation by the City;
- (b) the payment by the City of the Purchase Price,
- (c) the discharge by the City of its obligation to pay the Lease Payments and Additional Lease Payments required to be paid by it, pursuant to Section 8.3 of the Lease; or
- (d) a default by the City and the EDA's election to terminate the Lease pursuant to Article X of the Lease.

Representations, Covenants and Warranties of Tenant. The City and the EDA represents, covenants and warrants as follows:

- (a) The City and EDA are authorized under the Constitution and laws of the State of Minnesota and the City's home rule charter to enter into the Lease and the transactions contemplated hereby, and to perform all of its obligations under the Lease.
- (b) The officers of the City and the EDA executing the Lease have been duly authorized to do so.
- (c) The City will not pledge, mortgage or assign the Lease, or its rights, duties and obligations thereunder to any other person, firm or corporation except as provided under the terms of the Lease.
- (d) Subject to the City's rights under Section 5.6 of the Lease, the Facilities will be used until the Bonds have all been paid primarily to carry out the governmental or proprietary purposes of the City.
- (e) Subject to the provisions of Section 5.6 of the Lease, the City administration will include in the annual budget of the City submitted to the Common Council, for each Fiscal Year during the Lease Term, moneys sufficient to pay and for the purpose of paying all Lease Payments and Additional Lease Payments and other obligations of the City under the Lease, and for this purpose the City will make a reasonable estimate of Additional Lease Payments to become due in the next fiscal year, and will take all other actions necessary to provide moneys for the payment of the obligations of the City under the Lease from sources of the City lawfully available for this purpose.
- (f) Except to the extent specifically provided in the Lease, the City is not obligated to appropriate or otherwise provide moneys for the payment of the Lease Payments or any other amounts coming due; and in the event of non-appropriation or non-renewal by the City, the City shall not be liable for general, special, incidental, consequential or other damages resulting therefrom. The Lease does not constitute a general obligation of the City, and the full faith and credit and taxing

powers of the City are not pledged for the payment of the Lease Payments or other amounts coming due, or other actions required to be performed, thereunder.

(g) The City has determined that the purchase price to be paid for the Facilities under the Lease represents the fair market value of the Facilities; that Lease Payments and Additional Lease Payments thereunder during the Lease Term represent the fair value of the use of the Facilities, and that the Purchase Price represents the fair purchase price of the Facilities. The City hereby determines that the Lease Payments and Additional Lease Payments do not exceed a reasonable amount so as to place the City under an economic compulsion to renew the Lease or to exercise its option to purchase the Facilities. In making such determinations the City has given consideration to the costs of the Facilities, the uses and purposes for which the Facilities will be employed by the City, the benefit to the City by reason of the acquisition of the Facilities pursuant to the terms and provisions of the Lease and the City's option to purchase the Facilities. The City hereby determines and declares that the acquisition of the Facilities and the leasing of the Facilities pursuant to the Lease will result in facilities of comparable quality and meeting the same requirements and standards as would be necessary if the acquisition of the Facilities were performed by the City other than pursuant to the Lease. The City hereby determines and declares that the period during which the City has an option to purchase the Facilities (i.e., the Term of the Lease) does not exceed the useful life of the Facilities.

(h) The City acknowledges that regulations of the Comptroller of the Currency grant the City the right to receive brokerage confirmations of the security transactions as they occur. The City specifically waives such notification to the extent permitted by law and will receive periodic cash transaction statements that will detail all investment transactions.

(i) The City will use the Facilities during the Lease Term only to perform governmental functions of the City, and will not enter into any sublease, use agreement, management agreement or other contract which would cause the Bonds to be considered "private activity bonds" or "private loan bonds" pursuant to Section 141 of the Internal Revenue Code if the result would be that interest payable on the Bonds would become includable in gross income for federal income tax purposes.

(j) During the Term of the Lease, the City will not take or permit any of its officers to take any action with respect to the Lease or the Facilities which would cause interest on the Bonds to become includable in gross income of the recipient for federal income tax purposes under the Internal Revenue Code, and will take all actions necessary to ensure that interest on the Bonds remains excludable from gross income of the recipient under the Internal Revenue Code, insofar as it has the power and authority to take such actions.

(k) No officer of the City who is authorized to take part in any manner in making the Lease or any contract contemplated thereby has a personal financial interest in or has personally and financially benefited from the Lease or any such contract.

(l) There is not pending or overtly threatened any suit, action or proceeding against or affecting the City before or by any court, arbitrator, administrative agency or other governmental authority which materially and adversely affects the validity, as to the City, of the Lease, any of the obligations of the City thereunder or any of the transactions contemplated hereby.

(m) No event of nonappropriation or other financing lease termination has occurred in connection with any prior lease financing by the City.

(n) The obligation created by the Lease (\$\_\_\_\_\_), together with all other net debt of the City, does not cause the net debt of the City to exceed the limitation set forth in Minnesota Statutes, Section 475.53.

EDA's Interest in the Site and Facilities. Upon payment of all Lease Payments and Additional Lease Payments due, or upon prepayment of the Lease Payments and Additional Lease Payments or discharge of the City's obligation to make the Lease Payments and Additional Lease Payments in accordance with Article VIII of the Lease, and in either event, upon defeasance of the Bonds in accordance with Article X of the Indenture, full and unencumbered legal title to the Facilities shall pass to the City, and the EDA shall have no further interest therein. In such event the EDA and its officers shall take all actions necessary to authorize, execute and deliver to the City any and all documents necessary to vest in the City, all of the EDA's right, title and interest in and to the Site and Facilities, free and clear of all liens, leasehold interests, encumbrances (other than Permitted Encumbrances), including, if necessary, a release of any and all interests or liens created under the provisions of the Lease.

Maintenance and Modification of Facilities by the City. During the Term of the Lease the City shall, at its own expense, maintain, preserve and keep the Site and Facilities in good repair, working order and condition, and shall from time to time make all repairs, replacements and improvements necessary to keep the Site and Facilities in such condition. The EDA shall have no responsibility for any of these repairs, replacements or improvements.

Taxes, Other Governmental Charges and Utility Charges. During the Term of the Lease the City shall also pay or cause to be paid when due all gas, water, steam, electricity, heat, power and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Site and the Facilities. The City shall also pay all property and excise taxes and governmental charges of any kind whatsoever which may at any time be lawfully assessed or levied against or with respect to the Site and the Facilities or any part thereof or the Lease Payments, and which become due during the Term of the Lease with respect thereto; and all special assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Site and Facilities; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Lease as and when the same become due. The City shall not be required to pay any federal, state or local income, inheritance, estate, succession, transfer, gift, franchise, gross receipts, profit, excess profit, capital stock, corporate, or other similar tax payable by the EDA, its successors or assigns, unless such tax is made in lieu of or as a substitute for any real estate or other tax upon property.

The City may, at the City's expense and in the City's name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the EDA or the Trustee shall notify the City that, in the opinion of Independent Counsel, by nonpayment of any such items the interest of the EDA in the Site and Facilities will be materially endangered or the Site, the Facilities or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the EDA and the Trustee with full security against any loss which may result from nonpayment, in form satisfactory to the EDA and the Trustee.

Liability/Property Insurance. During the Term of the Lease the City shall procure and maintain continuously in effect with respect to the Site and Facilities, insurance against liability for injuries to or death of any person or damage to or loss of property arising out of or in any way relating to the maintenance, use or operation of the Site, the Facilities. The City shall also procure and maintain continuously in effect, to the extent of the full replacement value of the Facilities, other than building foundations, insurance against loss from or damage by vandalism and fire, with a uniform standard extended coverage endorsement limited only as may be provided in the standard form of extended coverage endorsement at the time in use in the State of Minnesota, in such amount as will be at least

sufficient so that a claim may be made for the full replacement cost of any part thereof damaged or destroyed.

Damage, Destruction and Condemnation. If the Facilities or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty or title to or the temporary use of the Facilities or any part thereof, or the interest of the City or the EDA in the Site or the Facilities or any part thereof is taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the City shall have the rights with respect to the Net Proceeds of any insurance or condemnation award specified in Section 7.7 of the Lease, but the City shall be obligated to continue to pay the Lease Payments and Additional Lease Payments due with respect to the Facilities. All Net Proceeds shall be applied to the prompt repair, restoration, modification, improvement or replacement of the Site and the Facilities by the City, or, if the City elects not to repair or rebuild, all Net Proceeds shall be applied to prepay the Lease Payments and Additional Lease Payments; in either event all Net Proceeds not needed for the purpose shall belong to the City. In the event Net Proceeds exceed \$100,000, they shall be held by the Trustee and disbursed in payment of costs of repair, restoration, modification, improvement or replacement substantially in accordance with the procedure for disbursement of Bond proceeds from the Project Fund in Article IV of the Indenture.

Assignment by EDA. Except as expressly provided in Section 9.1 of the Lease, the EDA's rights and obligations under the Lease, including the right to receive and enforce payment of the Lease Payments and Additional Lease Payments to be made by the City under the Lease and its interest in the Site and the Facilities, shall not be assigned, pledged, mortgaged or transferred, in whole or in part, except to the Trustee pursuant to the Indenture. The City hereby approves the assignment made by the EDA to the Trustee under the Indenture of its interest in the Site, the Facilities, the Ground Lease, the Lease and the Lease Payments to become due thereunder.

Assignment and Subleasing by the City. The rights and obligations of the City under the Lease may not be assigned by the City without the written consent of the EDA and the Trustee. The City may also sublease the Project, or any portion thereof, to any other entity, provided that the City furnishes to the EDA and the Trustee an Opinion of Counsel, who is nationally recognized bond counsel, that such sublease will not adversely affect the validity of the Outstanding Bonds or the exemption of the interest thereon from federal income taxation.

#### Events of Default Defined

(a) Failure by the City to pay any Lease Payment, Additional Lease Payment, or other payment required to be paid under the Lease at the time and from the sources specified within the Lease.

(b) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in clause (a) of Section 10.1 of the Lease, for a period of 60 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the EDA or the Trustee, unless the EDA and the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the EDA and the Trustee shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected.

(c) The occurrence of any of the following events:

(i) The City shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the City or of all or a substantial part of its property, (b) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), or (c) file a petition seeking to take advantage of any other

law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(ii) A proceeding or case shall be commenced, without the application or consent of the City, as the case may be, in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding-up, or the composition or adjustment of debts, of the City, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the City, or (c) similar relief in respect of the City under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or case has not been dismissed within 60 days of the filing thereof.

If by reason of force majeure either party is unable in whole or in part to carry out its obligations under the Lease, it shall not be deemed in default during the continuance of such inability or during any other delays which are a direct consequence of the force majeure inability, and the time for such performance shall be extended to cover such delays. The term "force majeure" as used herein shall mean, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or any civil or military authority, or the State of Minnesota or any of its departments, agencies or officials; insurrections; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; breakage or accident to machinery, transmission pipes or canals; or any other cause or event not reasonably within the control of a party and not resulting from its negligence. Each party to the Lease agrees, however, to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements.

Remedies on Default. Whenever any Event of Default shall have happened and be continuing, the Trustee may take, but only upon not less than 5 days' written notice to the City, one or any combination of the following remedial steps:

(a) Without terminating the Lease, re-enter and take possession of the Site and the Facilities and exclude the City from using it until the Event of Default is cured; or

(b) Subject to the provisions of Section 5.6 of the Lease, take any action at law or in equity which may appear necessary or desirable to: (i) collect the Lease Payments and Additional Lease Payments then due for the Fiscal Year then in effect, (ii) collect any Lease Payments and Additional Lease Payments to become due and payable during the current Fiscal Year, or (iii) enforce performance and observance of any obligation, agreement or covenant of the City under the Lease; or

(c) Terminate the Term of the Lease, exclude the City from possession of the Facilities, and use its best efforts to lease the Facilities to another for the account of the City, holding the City liable for the difference between the rentals received and the Lease Payments and Additional Lease Payments which would have been receivable hereunder for the Fiscal Year then in effect.

## TRUST INDENTURE

The following are excerpts of certain provisions of the Trust Indenture (the “Indenture”). These excerpts do not purport to be complete and reference is made to the full text of the Indenture for a complete recital of its terms.

Establishment of Trustee. The EDA hereby employs the Trustee to receive, hold, invest, and disburse moneys to be paid to the Trustee pursuant to the Lease for credit to the various accounts in the Trust Estate established by the Indenture; to prepare, execute, deliver and deal with the Bonds; and to apply and disburse the Lease Payments received from the City to the owners of the Bonds; and to perform certain other functions; all as provided in the Indenture and subject to the terms and conditions of the Indenture. Application of Rental Payments. All Lease Payments will be paid directly to the Trustee and will be deposited in the Bond Fund and applied by the Trustee solely for the benefit of registered owners of the Bonds.

Investment of Funds. To the extent authorized by applicable law, moneys on deposit to the credit of the Project Fund and the Bond Fund shall be invested by the Trustee, upon request by an Authorized Officer of the City, in Permitted Investments. Investments permitted under the Indenture may be purchased from the Trustee or from any of its affiliates. Investments so made shall be deemed at all times to be a part of the respective Fund, but may from time to time be sold or otherwise converted into cash, whereupon the proceeds derived from such sale or conversion shall be credited to such Fund. Any interest accruing on and any profit realized from such investment shall be credited to the respective Fund. All funds and accounts shall be valued in relation to the market value by the Trustee on a semiannual basis no fewer than 15 days prior to each Interest Payment Date. Any investments purchased with amounts on deposit in any Fund under the Indenture may be exchanged for cash or investments of equal value credited to any other Fund. The Trustee shall redeem or sell, at the best price obtainable, any investments so made, whenever it shall be necessary to do so in order to provide moneys to meet any payment from the respective Fund. Neither the Trustee nor the EDA shall be liable for any loss resulting from any such investment, nor from failure to preserve rights against endorsers or other prior parties to instruments evidencing any such investment. Investment of funds pursuant to Section 5.03 of the Indenture shall be limited as to amount and yield of investment in such manner that no part of the Outstanding Bonds shall be deemed “arbitrage bonds” under Section 148 of the Internal Revenue Code and regulations thereunder. The Trustee shall be entitled to rely on the Tax Certificate delivered in connection with the issuance of the Bonds. Investment of funds pursuant to Section 5.03 of the Indenture shall comply with all procedures required under applicable Treasury Regulations to qualify the purchase price of an investment as the fair market value of such investment.

Funds and Accounts. Pursuant to the provisions of the Indenture, the EDA assigns to the Trustee, and to its successor(s), all of the right, title and interest of the EDA in the Lease. There shall be established with the Trustee the following funds:

*Project Fund.* The EDA hereby establishes a fund (the “Project Fund”) with the Trustee and, on the Closing Date, there shall be deposited with the Trustee to the credit of the Project Fund proceeds of the Bonds. As provided in Section 4.05 of the Indenture, Construction Period income and profit from the investment of moneys in the Project Fund shall be credited to the Project Fund. In addition to such proceeds of the Bonds, income and profit, the City has covenanted in the Lease that, upon request of the Trustee, it will deposit in the Project Fund the additional moneys, if any, which, together with such proceeds, income and profit will be sufficient to finance the total Project Costs. The EDA has no obligation to deposit any moneys in the Project Fund or to apply moneys to Project Costs except proceeds of Bonds or funds made available by the City.

*Bond Fund.* The EDA hereby establishes and shall maintain with the Trustee, so long as any Bonds are Outstanding, a separate Fund to be designated “Rochester Economic Development Authority Lease Revenue Bonds (City of Rochester, Minnesota Lease Obligation) Bond Fund” (the “Bond Fund”), into which the Trustee shall deposit:

- (i) An amount, if any, equal to the accrued interest on the Bonds.
- (ii) On August 1, 2020 and each February 1 and August 1, or as soon after the due date as received from the City, all payments by the City as Lease Payments under Section 4.2 of the Lease.
- (iii) All other moneys received by the Trustee from the City when accompanied by directions of the City that such moneys are to be paid into the Bond Fund or used for purposes for which moneys in the Bond Fund may be used.
- (iv) All other moneys required to be deposited in the Bond Fund pursuant to any provision of the Indenture, the Ground Lease, the Lease or the Bond Resolution.

Trustee; Duties, Removal and Resignation. The Trustee, prior to the occurrence of an Event of Default and after the curing of all such Events of Default as may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture. During the existence of any Event of Default which has not been cured, the Trustee shall exercise such rights and powers, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Trustee shall not be required to take notice or be deemed to have notice of any Default or Event of Default thereunder except Default in the deposits or payments specified, or failure by the EDA or the City to file with it any of the documents required or to deposit with it evidence of the insurance policies required thereunder or under the Lease, unless the Trustee shall be specifically notified in writing of such Default or Event of Default by the City, by the EDA or by the Owners of at least a majority in aggregate principal amount of Bonds Outstanding hereunder, and in order to be effective, all notices or other instruments required by the Indenture to be delivered to the Trustee must be delivered at the office of the Trustee, and in the absence of such notice so delivered, the Trustee may conclusively assume that there is no Default or Event of Default, except as aforesaid. The Trustee may resign and be discharged from the trusts created by the Indenture by giving to the City 30 days’ notice in writing, and to the Owners notice by first class mail at their addresses as set forth on the registration books, of such resignation, specifying a date when such resignation shall take effect. Such resignation shall take effect no earlier than the date on which a successor trustee shall have been appointed as hereinafter provided.

Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or otherwise shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver of the Trustee or of its property shall be appointed, or if a public supervisory office shall take charge or control of the Trustee or of its property or affairs, a vacancy shall forthwith and ipso facto be created in the office of such Trustee hereunder, and a successor may be appointed by either (i) the EDA and the City or (ii) the Owners of a majority in principal amount of the Bonds hereby secured and then Outstanding, by an instrument or instruments in writing filed with the Trustee and executed by the EDA and the City or by such Owners, as applicable, notification thereof being given to the City, but in the event the Trustee has been removed by action of the Owners, until a new Trustee shall be appointed by the Owners as therein authorized, the EDA may, subject to the provisions thereof, appoint a Trustee to fill such vacancy. After any appointment by the EDA, the Trustee so appointed shall cause notice of its appointment to be mailed within 30 days after such appointment to the registered Owners of the Bonds, but any new Trustee



appointed by the EDA shall immediately and without further act be superseded by a Trustee appointed in the manner above provided by the Owners of a majority in principal amount of the Bonds whenever such appointment by the Owners shall be made. If, in a proper case, no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of Section 8.16 of the Indenture within 6 months after a vacancy shall have occurred in the office of Trustee, the Owner of any Bond hereby secured or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Issuance of Additional Bonds. The EDA, upon request of the City, may issue Additional Bonds of any series in amounts which are sufficient to pay the cost of completing the Project, acquiring, constructing or equipping Improvements and refunding Outstanding Bonds, to pay the costs of issuing such Additional Bonds and in the case of Additional Bonds issued to pay the cost of Improvements, to fund interest payable on such Additional Bonds for a period of time not to exceed 6 months beyond the completion of any Improvements financed with the proceeds thereof.

Additional Bonds to Pay the Cost of Improvements. Additional Bonds of any series may be issued, at one time or from time to time, subject to the conditions described in the Indenture, in an aggregate amount sufficient with any other funds available and committed therefor, to pay the cost of any Improvements, including Improvements located on real property contiguous with the Site, if such real property is to be acquired by the City and leased to the EDA pursuant to the Ground Lease; provided, however, that such real property, whether or not financed with the proceeds of Additional Bonds shall, as a condition to the issuance of such Additional Bonds, be subjected to the Ground Lease and the Lease and become part of the Site, and the City, the Trustee and the EDA shall take all action necessary to so provide.

Additional Bonds for Refunding Purposes. Additional Bonds may be issued at any time or from time to time, subject to the conditions described in the Indenture, for the purpose of providing funds, with any other funds available and committed therefor, for paying at their stated maturities or earlier optional redemption date all the Outstanding Bonds of any one or more series, including the payment of any interest which will accrue on such Bonds to the stated maturities or earlier optional redemption date thereof, and any expenses in connection with such refunding.

Amendments to the Lease and the Ground Lease Not Requiring Consent of Owners. The EDA, the City and the Trustee are permitted, without the consent of or notice to the Owners, to consent to any amendment, change or modification of the Lease or the Ground Lease as may be required (i) by the provisions of the Lease or the Ground Lease or this Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with the issuance of Additional Bonds as provided herein, or (iv) in connection with any other change in the Lease or the Ground Lease which, in the Opinion of Counsel, does not materially adversely affect the interests of the Trustee or the Owners of the Bonds.

## GROUND LEASE

The following is an excerpt of certain provisions of the Ground Lease (the “Ground Lease”). The excerpt does not purport to be complete and reference is made to the full text of the Ground Lease for a complete recital of its terms.

The Ground Lease, is made and entered into as of March 1, 2020 by and between the City, as Lessor and the EDA, as Lessee.

Subject to and upon the terms, conditions, covenants and undertakings set forth in the Ground Lease, the City leases and permits the use to, and the EDA leases from the City, the Site.

Warranties. City covenants and warrants to EDA:

- (1) That the City has good and merchantable title to the Site, has authority to enter into, execute and deliver the Ground Lease, has duly authorized the execution and delivery of the Ground Lease and has duly executed and delivered the Ground Lease;
- (2) That the Site is not subject to any dedication, easement, right-of-way, reservation in patent, covenant, condition, restriction, lien or encumbrance which would prohibit or materially interfere with the construction of certain facilities, including the Facilities on the Site, as contemplated by the Lease;
- (3) That all taxes, assessments or impositions of any kind with respect to the Site, except current taxes, have been paid in full;
- (4) That the Land is properly zoned for the purpose of the Facilities.
- (5) That the City has authority to enter into, execute and deliver the Lease, has duly authorized its execution and delivery, and has duly executed and delivered the Lease.

Term. The term of the Ground Lease shall commence as of March 1, 2020, and shall end on February 1, 2050, subject to earlier termination as provided in the Lease.

Rent. The rent shall be One Dollar (\$1.00) payable in advance on the Closing Date, as defined in the Lease. Use. EDA shall not use or permit the use of the Site for any unlawful purpose.

**EXCERPT OF 2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Data on the following pages was extracted from the City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2018. (The City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2019 is not yet available.) The reader should be aware that the complete financial statements may contain additional information which may interpret, explain or modify the data presented here.

The City's comprehensive annual financial reports for the years ending 1968 through 2018 were awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the City Council  
City of Rochester, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the electric and water enterprise funds, both of which are major enterprise funds, which represent 58 percent, 49 percent, and 80 percent, respectively, of the total assets and deferred outflows of resources, net position, and revenues of the business-type activities. We did not audit the financial statements of the Destination Medical Center Corporation (DMCC) (a blended component unit), which represent 1 percent, 0 percent, and 0 percent, respectively, of the total assets, fund balance, and revenues of the aggregate remaining fund information. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for the electric and water enterprise funds and the DMCC, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's 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 entity's 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 opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota, as of December 31, 2018, and the respective changes in financial position and cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 of the notes to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for the Post-Employment Benefits Other Than Pensions*, during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 4 through 19, and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Matters (continued)

Other Information (continued)

The introductory section, supplementary information, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2019, on our consideration of the City of Rochester, Minnesota'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. 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 Rochester, Minnesota's 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 Rochester, Minnesota's internal control over financial reporting and compliance.

*Smith, Schopf and Associates, Ltd.*

Rochester, Minnesota  
June 14, 2019

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City of Rochester's basic financial statements. The City of Rochester's basic financial statements comprise three components:

1. Government-wide financial statements, providing information for the City as a whole.
2. Fund financial statements, providing detailed information for the City's significant funds.
3. Notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Additional explanation of these sections of the financial statements follows.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Rochester's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Rochester's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Rochester is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned, but not used, compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Rochester that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Rochester include general government, public safety, public works, airport, transit, culture, park and recreation/Mayo Civic Center, economic development/tourism, and community reinvestment. The business-type activities of the City of Rochester include parking, electric utility, water utility, sewer utility, and the storm water utility. The electric and water utilities, comprising the Rochester Public Utilities (RPU), are under the direction of the Board of Public Utilities.

The government-wide financial statements can be found on pages 19-21 of this report.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Rochester, Minnesota, we offer readers of the City of Rochester's financial statements this narrative overview and analysis of the financial activities of the City of Rochester for the fiscal year ended December 31, 2018, with comparative data for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, found on pages i - v of this report.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the City of Rochester exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$1,330,806,394 (*net position*). Of this amount, \$247,504,039 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position increased by \$66,024,574.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$179,455,102, an increase of \$33,042,728 in comparison with the prior year. Approximately 18 percent of this total amount, or \$33,010,373, is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance (the total of the *committed, assigned, and unassigned* components of fund balance) for the general fund was \$37,576,416 or approximately 46 percent of total general fund expenditures. This is slightly above the City's target of 42 percent of expenditures.
- The City of Rochester decreased total outstanding long term debt obligations by \$19,448,793 during the current fiscal year.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Rochester, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Rochester can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Rochester maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital improvement fund, both of which are considered to be major funds. Data from the other seventeen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided with the *combining statements* on pages 94-103 of this report.

The City of Rochester adopts an annual appropriated budget for its general fund and certain special revenue funds. Budgetary comparison statements have been provided for the general fund (pages 26-27) and the special revenue funds (pages 98-103) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 22-27 of this report.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Proprietary funds.** The City of Rochester maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Rochester uses enterprise funds to account for its parking, electric, water, sewer, and storm water utilities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Rochester's various functions. The City of Rochester uses internal service funds to account for its fleet of vehicles, its risk management program, and for its management information systems. Because all of these services predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the parking, electric, water, sewer and storm water utilities, all of which are considered to be major funds of the City of Rochester. Conversely, all three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 28-35 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36-88 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds, individual nonmajor fund information, and internal service funds can be found on pages 94-108 of this report.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Rochester, assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$1,330,806,394 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net position (77 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Rochester uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Rochester's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Rochester's Net Position

	Governmental Activities			Business-Type Activities			Totals
	2018	2017	2016	2018	2017	2016	
Current and other assets	\$ 246,802,961	\$ 214,293,006	\$ 229,964,740	\$ 468,148,574	\$ 444,257,748	\$ 444,257,748	
Capital assets	789,288,717	759,955,961	683,711,711	635,719,482	1,433,000,628	1,394,775,353	
Total assets	1,016,091,678	973,248,967	885,057,324	865,994,232	1,901,149,002	1,839,033,099	
Deferred outflows of resources	47,571,960	65,261,318	6,782,555	10,287,993	54,354,415	75,559,301	
Total assets and deferred outflows of resources	1,063,663,538	1,038,510,185	891,840,879	875,982,215	1,955,513,417	1,914,592,400	
Long-term liabilities							
outstanding	151,449,097	163,857,208	294,691,868	301,334,334	436,140,955	465,191,542	
other liabilities	74,039,142	78,163,591	42,405,597	42,738,318	116,444,739	120,901,909	
Total liabilities	225,488,239	242,020,799	337,097,465	344,072,652	552,585,694	586,093,451	
Deferred inflows of resources	62,209,488	70,149,009	9,911,941	9,897,342	72,121,329	80,046,351	
Total liabilities and deferred inflows of resources	287,697,727	312,169,808	337,009,296	353,969,994	624,707,023	666,139,802	
Net position:							
Net investment in capital assets	630,541,436	612,735,024	395,350,061	373,588,626	1,025,891,517	986,324,950	
Restricted	56,933,634	49,594,765	477,204	455,000	57,410,638	49,039,755	
Unrestricted	88,490,741	65,120,598	159,013,298	147,967,295	247,504,039	213,067,893	
Total net position	\$ 775,965,811	\$ 726,440,377	\$ 554,840,563	\$ 522,012,221	\$ 1,330,806,394	\$ 1,248,452,598	

An additional portion of the City of Rochester's net position (4.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$247,504,039) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Rochester is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**Governmental activities.** Governmental activities increased the City of Rochester's net position by \$53,196,212. Most of this increase can be attributable to the capital grants and contributions (primarily street contributions, grants for the Airport Terminal expansion, transit grants, and state grants for Destination Medical Center capital projects). Additional net position growth resulted from increased operating grants and contributions, program revenues over budget, and unused contingency.

**Business-type activities.** Business-type activities increased the City of Rochester's net position by \$32,828,362. This increase is due to contributions of assets in the storm water, sewer, electric utilities, and water utilities as well as program revenues which exceeded expenses in all business activities.

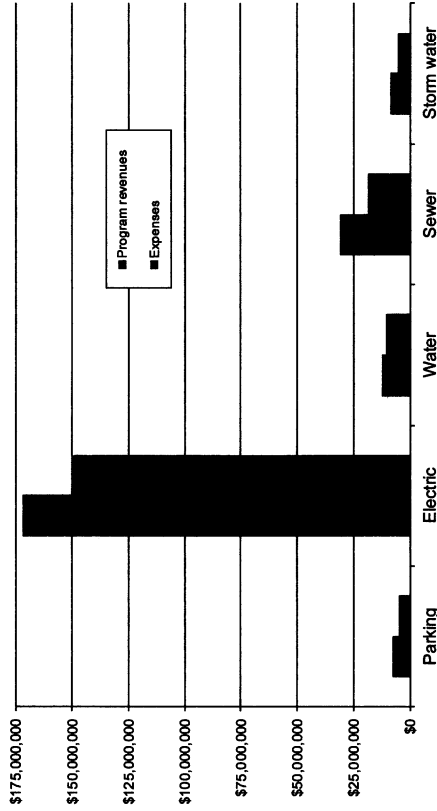
A condensed version of the Statement of Activities follows:

	City of Rochester's Change in Net Position			Totals
	2018	2017	2016	
Revenue:				
Program revenues:				
Charges for services	\$ 29,720,776	\$ 27,078,310	\$ 225,194,131	\$ 254,894,907
Operating grants and contributions	14,941,118	13,029,859	14,941,118	13,029,859
Capital grants and contributions	48,387,645	33,520,270	4,403,270	82,790,915
General revenues:				
Property taxes	68,993,874	62,455,775	68,993,874	62,455,775
Other taxes	33,692,258	31,342,830	33,692,258	31,342,830
Grants and contributions not restricted to specific programs	7,487,955	7,215,571	7,487,955	7,215,571
Local government aid	3,094,471	3,126,534	9,796	3,194,844
Other	4,633,188	3,079,749	3,072,884	7,706,072
Miscellaneous	210,371,285	180,849,698	232,850,081	443,021,366
Total revenues	12,026,232	12,510,037	12,026,232	12,510,037
Expense:				
General government	53,173,580	56,914,220	53,173,580	56,914,220
Public safety	30,766,446	26,746,592	30,766,446	26,746,592
Public works	6,899,809	6,865,354	6,899,809	6,865,354
Airport	11,340,008	10,130,590	11,340,008	10,130,590
Transit	11,241,814	11,220,102	11,241,814	11,220,102
Culture	23,832,446	22,342,306	23,832,446	22,342,306
Park and recreation/Mayo Civic Center	15,050,315	16,622,500	15,050,315	16,622,500
Economic development/tourism	811,063	787,312	811,063	787,312
Community reinvestment/unallocated	5,135,625	3,868,556	5,135,625	3,868,556
Interest on long-term debt	4,649,288	4,387,159	4,649,288	4,387,159
Parking	146,047,715	146,079,727	146,047,715	146,079,727
Electric	9,967,628	9,717,620	9,967,628	9,717,620
Water	18,222,587	20,473,740	18,222,587	20,473,740
Sewer	5,013,106	5,189,351	5,013,106	5,189,351
Storm water	186,930,624	180,407,997	186,930,624	180,407,997
Total expenses	170,065,188	169,016,599	170,065,188	169,016,599
Increase in net position before transfers	40,965,117	11,833,129	45,719,457	35,959,792
Transfers	12,891,095	(9,887,033)	(12,891,095)	86,024,574
Increase in net position	53,196,212	1,946,096	58,610,552	86,024,574
Net position - beginning, as originally stated	726,440,377	32,828,362	55,223,871	57,199,677
Change in accounting principle	(3,670,778)	724,484,281	522,012,221	1,248,452,598
Net position - beginning, as restated	722,769,599	724,484,281	468,788,640	1,191,282,921
Net position, end of year	\$ 775,965,811	\$ 726,440,377	\$ 554,840,563	\$ 522,012,221
				\$ 1,330,806,394

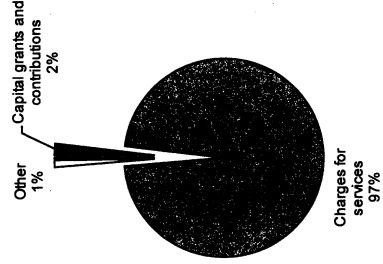
**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs relate the various business-type activities' program revenues with their expenses. Since all five of these activities require significant physical assets to operate, any excess revenues are held for planned capital improvements to keep pace with growing demand for services.

**Expenses and Program Revenues - Business-Type Activities**



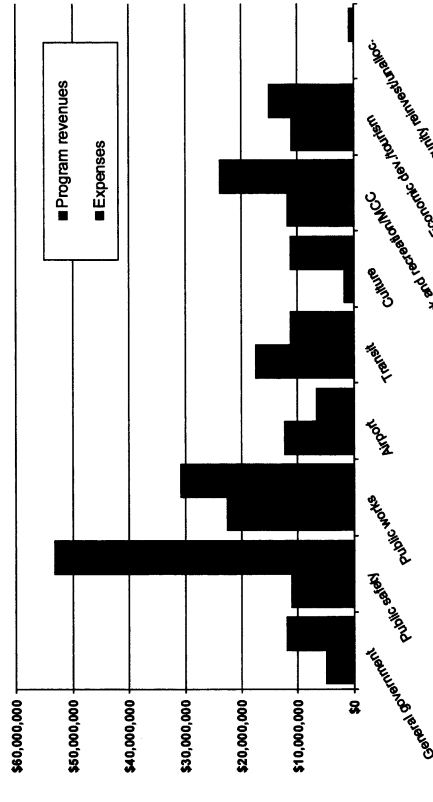
**Revenues by Source - Business-Type Activities**



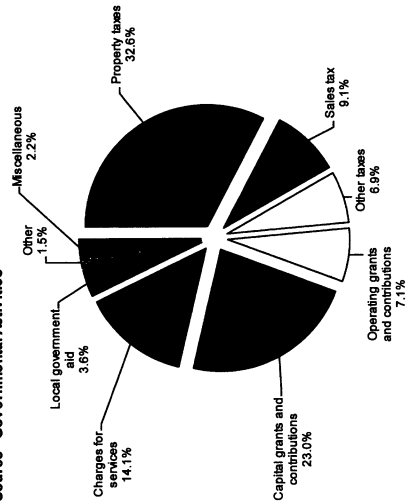
**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

**Expenses and Program Revenues - Governmental Activities**



**Revenues by Source - Governmental Activities**





CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Government's Funds

As noted earlier, the City of Rochester uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Rochester's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Rochester's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Fund balances are classified as follows:

**Nonspendable** – represents the portion of fund balance that is not in a spendable form. Included in this category are advances to other funds, prepaid items and inventory.

**Restricted** – resources that have external constraints placed upon their use.

**Committed** – resources committed for a specific purpose by Council action. The constraints cannot be changed or removed without Council action.

**Assigned** – amounts the City intends to use for a specific purpose. The Council has authorized the City Administrator to assign fund balance.

**Unassigned** – amount available for any purpose. However, only the General Fund may report a positive unassigned fund balance. Fund balance in other governmental funds will fall into one or more of the categories listed above, unless a fund has a negative fund balance.

Detailed information regarding the fund balance classifications is found in Note 3 in the Notes to Financial Statements.

As of the end of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$179,455,102, an increase of \$33,042,728 from the prior year. The general fund increased fund balance by \$3.8 million due to high building permit revenue, operational savings of various departments, and remaining contingency balance. The capital improvement fund increased fund balance by \$28.1 million, largely due to sales tax collections, the Airport Terminal expansion, and state money for Destination Medical Center. Additionally, all other governmental funds reflected a net increase of \$122,611 in fund balance, largely showing up in the Airport fund.

Approximately 18 percent of the total fund balance, or \$33,010,373, constitutes unassigned fund balance, which is available for spending at the government's discretion. \$1,213,725 is considered to be nonspendable (prepaid or inventory). \$60,110,922 has been restricted by grantors, donors, debt covenants, or regulation. \$71,419,206 has been committed by council action for CIP projects, and \$13,700,876 represents assigned fund balance, the portion of fund balance that reflects the amounts the City intends to use for a specific purpose.

**Governmental funds (continued).**

The general fund is the chief operating fund of the City of Rochester. The general fund increased its total fund balance by \$3,799,689 from the prior year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$35,845,807 while total fund balance amounted to \$38,563,776. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 44 percent of total general fund expenditures, while total fund balance represents 47 percent of that same amount. The City's financial policies set a target of five months of total expenditures, or 42 percent.

The library fund increased its fund balance by \$189,959 for the year after transferring \$22,446 to the capital improvement fund for future equipment purchases. Much of this gain was the result of new gift appropriations. Additionally, operational expenditures were held \$922,123 below the approved budget. Of that amount, \$685,701 related to rollover of gift appropriations which are not reflected in the budget.

The municipal recreation fund decreased its fund balance by \$372,755 as a net gain in the National Volleyball Center was not enough to offset losses in the Park Operations, Golf, Graham Arena, and Rec Center programs. The losses can be attributed to \$509,730 being transferred out for capital improvement needs.

The Mayo Civic Center fund increased its fund balance by \$741,625, which can be attributed to revenues exceeding budget due to strong bookings in the expanded facility.

The airport fund increased its total fund balance by \$1,431,777 for the year to \$4,529,798 due to an increase in fee and rental revenues. Additionally, Council provided \$521,992 in budgeted tax levy for the airport in 2018 and capital improvement transfers were held to just \$89,394 all in an effort to restore fund balance in this area.

The transit fund saw an increase in fund balance of \$499,775 due to an increase in grant revenue, user fee revenue, and lower than expected supply costs.

Minnesota Bio Science Center fund increased fund balance by \$277,056 as the facility has maintained a consistently high occupancy level.

Debt service fund balances decreased by \$2,635,428.

The capital improvement fund increased fund balance by \$29,120,428 due in large part to the sales tax collections, the Airport Terminal expansion grant funds, and state money for Destination Medical Center projects.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Proprietary funds.** The City of Rochester's *proprietary funds* statements found on pages 28-35 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position in the respective proprietary funds are Parking - \$20,875,479 Electric - \$77,299,816, Water - \$6,155,222, Sewer - \$37,710,370 and Storm water - \$15,972,957. All proprietary funds reported increases in total net position for the year.

The Sewer Utility reported a \$9.0 million increase in net position for the year as revenues improved from prior year due to scheduled rate increases. The Sewer Utility's rates were increased based upon a rate study completed during 2015, and the city council adopted a six-year schedule of rate adjustments through 2021. In addition, the "plant investment fee" was increased to \$3,300 in 2018. The schedule of rate increases was necessary as sewer flows continued to fall below plan and funding is needed for significant capital needs.

The Water Utility's net position increased \$2.3 million in 2018. This utility's rates were increased by 6.0% in January of 2018 and 6.0% in January of 2019. A water utility cost of service study was completed during 2015, with the Utility Board and City Council accepting a three year schedule of rate adjustments. The last year in the three year schedule was 2018. However, the Utility Board and City Council approved the 2019 rate increase.

The Electric Utility net position growth of \$15.1 million occurred after rates were increased 1.5% in January of 2018. They were further increased by 1.9% for 2019 based on a cost of service study accepted by the Utility Board and City Council in November of 2017.

The Parking Enterprise growth in net position of \$1.5 million was due to increased parking revenues. Parking rates were increased in 2017 based on City Council approval. During 2018, the City Council approved a rate study setting rates for 2019 through 2023. The plan calls for rate increases every other year with the goal of continual support of operations and capital needs.

The Storm Water Utility's net position increased \$5.2 million in 2018. Storm Water rates increased 10.75% in January 2018 based on a storm water rate study completed in 2015. This rate study approved by the City Council created a five-year rate adjustment plan. Prior to 2016, this utility's last increase was in 2011, an increase of 3% following the rate structure approved by Council for years 2008 through 2011.

**Internal Service funds.** The City of Rochester's *internal service funds* account for its fleet of vehicles, its risk management program, and for its management information systems.

The equipment revolving fund's net position increased \$422,076 in 2018 primarily due to an increase in tax levy support.

The information technology revolving fund's net position decreased \$72,656 primarily due to transfers to the capital improvement projects fund for future equipment purchases.

The self-insurance fund's net position decreased \$466,691 in 2018 primarily due to high health insurance claims and an increase in property and liability insurance claims.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**General Fund Budgetary Highlights**

The City approved the 2018 general fund budget anticipating a decrease in fund balance.

Differences between the original budget and the final budget can be briefly summarized as follows:

- Increase in the public safety expenditures due to drug enforcement administration and fire hazmat grant appropriations.
- Increase in the city attorney and planning and zoning budget to address unplanned expenditures for legal consultants and professional services.
- Reductions in unallocated contingency account to offset increases in city attorney, planning and zoning, and other smaller unplanned costs.
- Economic development budget was increased to reflect the higher than expected lodging tax.

At the close of the year, general fund total expenditures were \$4,025,579 below final budget while actual revenues were above final budget by \$2,443,909. These variances to budget can be traced to higher than expected lodging tax, police and fire state aid, permit revenues, and savings in police and fire budgets due to a delay in hiring of approved positions and lower than expected overtime usage.

**Capital Asset and Debt Administration**

**Capital assets.** The City of Rochester's investment in capital assets for its governmental and business-type activities as of December 31, 2018, amounts to \$1,433,000,428 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Rochester's reported investment in capital assets for the current fiscal year was \$38,225,075, or 2.7 percent. This increase is a result of significant construction activities in building expansions and infrastructure including streets, underground mains, and continued improvements to the electric distribution and transmission systems.

	City of Rochester's Capital Assets (net of depreciation)			
	2018	2017	2018	2017
	Governmental Activities	Business-Type Activities	Totals	
Land	\$ 75,482,308	\$ 74,962,362	\$ 22,161,442	\$ 22,062,917
Buildings	262,625,849	250,861,154	269,597,413	259,731,992
Improvements other than buildings	24,101,261	25,211,563		
Machinery and equipment	37,494,183	31,124,467	311,792,106	258,229,471
Infrastructure	340,816,172	331,529,574		
Construction in progress	23,786,944	45,566,721	60,160,750	95,665,112
Total	\$ 769,286,717	\$ 759,055,861	\$ 663,711,711	\$ 635,719,482
			\$ 97,643,760	\$ 97,025,279
			532,223,262	510,393,146
			24,101,261	25,211,563
			349,286,269	289,353,938
			340,816,172	331,529,574
			88,929,694	141,261,633
			\$ 1,433,000,428	\$ 1,394,775,353

Additional information on the City of Rochester's capital assets can be found in Note 3.E. on pages 57-59 of this report.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Long-term debt.** At the end of the current fiscal year, the City of Rochester had \$386,484,000 in bonds and notes outstanding. Of this amount, \$199,675,000 comprises debt backed by the full faith and credit of the government, and \$186,809,000 represents bonds and notes secured solely by specified revenue sources. The City provides general obligation backing to the sewer utility bonds even though utility charges are the source of bond repayment.

	General Obligation and Revenue Bonds, and Notes Payable			
	2018	2017	2018	2017
	Governmental Activities		Business-Type Activities	
	2018	2017	2018	2017
General obligation bonds	\$ 6,330,000	\$ 6,600,000	\$ 6,330,000	\$ 6,600,000
General obligation tax increment revenue bonds	21,265,000	21,265,000	21,265,000	21,265,000
General obligation lodging tax revenue bonds	39,345,000	40,390,000	39,345,000	40,390,000
General obligation equipment certificates of indebtedness	2,320,000	185,000	2,320,000	185,000
General obligation taxable Build America bonds	21,255,000	22,195,000	21,255,000	22,195,000
General obligation sales tax revenue bonds	35,360,000	37,780,000	35,360,000	37,780,000
General obligation revenue crossover refunding bonds	9,604,000	12,940,000	73,800,000	81,635,000
Revenue bonds			176,905,000	162,965,000
Energy loan payable		577,793		196,305,000
<b>Total</b>	<b>\$ 135,779,000</b>	<b>\$ 141,932,793</b>	<b>\$ 250,705,000</b>	<b>\$ 264,000,000</b>
			<b>\$ 386,484,000</b>	<b>\$ 405,932,793</b>

The City of Rochester's total bonds and notes payable decreased by \$19,448,793 during the current fiscal year.

There was one bond issuance by the City during 2018. A General Obligation Equipment Certificate of Indebtedness Bond was issued in the amount of \$2,225,000 related to the acquisition of certain items of capital equipment which is expected to include multiple fire safety vehicles for the City's Equipment Revolving Fund.

Other principal reductions occurred as a result of scheduled debt service payments on existing debt and a partial call on the EDA Lease Revenue Bonds. A more detailed breakdown of these obligations can be found in Note 3.H., beginning on page 63.

The City of Rochester maintains a AAA bond rating on its general obligation bonds from both Moody's Investors Service and Standard and Poors. Rochester Public Utility has Aa3 bond rating from Moody's Investors Service and an AA- rating from Fitch.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Economic Factors and Next Year's Budgets and Rates**

- Rochester's unemployment rate increased by 0.2 percent to 3.6 percent by the end of March 2019. This remains below the state and U.S. averages of 4.1 percent and 3.9 percent, respectively. A gain of 4,224 jobs brought the total employment figure through March 2019 to 122,065 from the March 2018 level of 117,841.
- Building activity grew in 2018. Commercial and residential building permits issued for 2018 totaled \$587,794,238. Permit totals were up 12 percent from a year ago and up 32.7 percent over 2016. Permit values for the first quarter of 2019 totaled \$82,165,474. This represents a decrease of 27.2 percent over first quarter 2018 and an increase of 10.5 percent over the first quarter of 2017.
- The DMCC plan adopted by the City Council and the Destination Medical Center Board in 2015 is a strategic business plan to address land use, transportation, infrastructure, business development, marketing and operational strategies over the 20 year period. It outlines a \$6 billion economic development initiative to secure Minnesota's status as a global medical destination center now and in the future.
- This legislation secured State, City and County funding of \$585 million to help construct the significant public infrastructure needed to support this growth. An additional 0.25% local option sales tax dedicated towards the City's share of this funding became effective January 1, 2016. Improvement design work for "Heart of the City" and "Discovery Walk" areas of the downtown are complete and moving towards bid package development. The transportation studies are complete and an important step in securing federal funding that will be needed for those significant projects envisioned in the plan. Transit hub locations have been identified and land is being secured. Electric buses and charging stations are being secured for use on the circulator routes to bring riders from the transit hubs to the downtown DMCC district and back.
- A number of projects under the voter-approved extension of Rochester's 1/2-cent sales tax were completed. Further road and transit facility projects are planned for 2019.
- Funding is being sought for important reconstruction work on the City's main runway 2/20 at the Rochester International Airport for current design with construction in 2020. This project is estimated to cost \$54 million and will require a mix of state, City, and federal funds to complete.
- The City's tax levy was increased by approximately \$6.1 million or 8.9 percent for pay 2019 to keep pace with a growing community and to fill back demand from prior years when council held down levies due to a lagging economy.
- Interest rates have remained at historical lows since 2010 but are just now beginning to increase somewhat. This continues to make earnings of the City's investment portfolio fall significantly below prior levels, impacting our reserve funds.
- Expansion and remodeling of the City's north precinct police facility is being considered for 2019/2020 at an estimated cost of just over \$23.5 million.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Economic Factors and Next Year's Budgets and Rates (continued)**

- Full staffing and tooling of the City's new Community Development department will be in place and operational by mid-2019 with the "one-stop-shop" for development services of planning, building safety, and engineering services all being co-located during 2020 to better serve the developers and builders serving the people of Rochester.

All of these factors were considered in preparing the City of Rochester's budget for the 2019 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Rochester's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, 201 4<sup>th</sup> Street SE, Room 204, Rochester, MN 55904.

**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF NET POSITION**

December 31, 2018

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,988,875	\$ 15,765,865	\$ 27,754,740
Investments	193,989,090	147,135,151	341,124,241
Land held for resale	625,000		625,000
Receivables (net of allowance for uncollectibles)	24,957,865	15,504,549	40,462,414
Internal balances	(2,688,802)	2,688,802	
Due from other governmental units	16,678,198	10,429	16,688,627
Accrued utility revenues		6,776,921	6,776,921
Restricted cash and investments	39,010	14,244,662	14,283,672
Restricted funds held in trust		121	121
Inventory	987,451	5,608,889	6,596,340
Prepaid items	226,274		226,274
Other assets		13,610,224	13,610,224
Capital assets:			
Nondepreciable	104,251,252	82,322,192	186,573,444
Depreciable, net	665,037,465	581,389,519	1,246,426,984
Total Assets	<u>1,016,091,678</u>	<u>885,057,324</u>	<u>1,901,149,002</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows from OPEB activity	408,344		408,344
Deferred outflows from pension activity	47,163,516	5,651,847	52,815,363
Unamortized deferred amount on refunding		1,140,708	1,140,708
Total Deferred Outflows of Resources	<u>47,571,860</u>	<u>6,792,555</u>	<u>54,364,415</u>
<b>LIABILITIES</b>			
Accounts and contracts payable	6,133,145	14,717,464	20,850,609
Deposits payable	1,781,666	1,575,890	3,357,556
Accrued interest payable	1,727,005	1,690,134	3,417,139
Accrued compensation and payroll taxes	2,223,015	678,676	2,901,691
Accrued claims	2,856,439	6,000	2,862,439
Due to other governmental units	1,395,699	40,046	1,435,745
Unearned revenue	232,499	6,435,039	6,667,538
Noncurrent liabilities:			
Due within one year	12,918,000	16,132,017	29,050,017
Due in more than one year	138,531,097	268,559,841	407,090,938
Other post-employment benefit liability	10,725,626		10,725,626
Net pension liability	46,964,048	17,262,348	64,226,396
Total Liabilities	<u>225,488,239</u>	<u>327,097,455</u>	<u>552,585,694</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows from pension activity	62,209,488	6,952,515	69,162,003
Unamortized deferred amount on refunding		1,839,409	1,839,409
Solar choice deferred inflows of resources		508,842	508,842
Advance payments on leases		611,075	611,075
Total Deferred Inflows of Resources	<u>62,209,488</u>	<u>9,911,841</u>	<u>72,121,329</u>
<b>NET POSITION</b>			
Net investment in capital assets	630,541,436	395,350,081	1,025,891,517
Restricted for:			
Airport	4,529,798		4,529,798
CDBG loans	3,804,709		3,804,709
Economic development loan	329,856		329,856
Civic music endowment	39,010		39,010
Park and recreation	108,819		108,819
Debt service	1,788,107	477,083	2,265,190
Children's playgrounds	666,517		666,517
Flood control	17,225,838		17,225,838
Tax increment financing	4,536,611		4,536,611
Sales tax authorized projects	23,904,369		23,904,369
Funds held in trust		121	121
Unrestricted	88,490,741	159,013,298	247,504,039
Total Net Position	<u>\$ 775,965,811</u>	<u>\$ 554,840,583</u>	<u>\$ 1,330,806,394</u>

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 12,026,232	\$ 538,828	\$ 100,939	\$ 4,344,528	\$ (7,041,937)	\$	\$ (7,041,937)
Public safety	53,173,580	7,898,948	3,170,207		(42,104,425)		(42,104,425)
Public works	30,766,446	551,026	1,559,761	20,380,936	(8,274,723)		(8,274,723)
Airport	6,688,809	4,980,582	315,187	7,069,346	5,676,306		5,676,306
Transit	11,340,008	3,048,065	7,841,955	6,616,444	6,166,456		6,166,456
Culture	11,241,614	304,986	1,449,720		(9,486,908)		(9,486,908)
Park and recreation/Mayo Civic Center	23,832,446	8,995,314	286,440	2,422,448	(12,128,244)		(12,128,244)
Economic development/tourism	15,050,315	3,403,027	216,909	7,553,943	(3,876,436)		(3,876,436)
Community reinvestment/unallocated	811,093				(811,093)		(811,093)
Interest on long-term debt	5,135,625				(5,135,625)		(5,135,625)
<b>Total governmental activities</b>	<b>170,066,168</b>	<b>29,720,776</b>	<b>14,941,118</b>	<b>48,387,645</b>	<b>(77,016,629)</b>		<b>(77,016,629)</b>
<b>Business-Type activities:</b>							
Parking	4,649,288	7,377,258				2,727,970	2,727,970
Electric utility	149,047,715	169,295,233		2,060,369		22,307,907	22,307,907
Water utility	9,997,928	10,817,298		1,172,532		1,991,902	1,991,902
Sewer utility	18,222,587	30,199,908		401,090		12,378,411	12,378,411
Storm water utility	5,013,106	7,474,434		769,259		3,230,587	3,230,587
<b>Total business-type activities</b>	<b>186,930,624</b>	<b>225,164,131</b>		<b>4,403,270</b>		<b>42,636,777</b>	<b>42,636,777</b>
<b>Total</b>	<b>\$ 356,996,792</b>	<b>\$ 254,884,907</b>	<b>\$ 14,941,118</b>	<b>\$ 52,790,915</b>	<b>(77,016,629)</b>	<b>42,636,777</b>	<b>(34,379,852)</b>
<b>General revenues:</b>							
General property taxes					68,593,874		68,593,874
Tax increments collection					2,400,058		2,400,058
Sales tax					19,071,085		19,071,085
Nonproperty taxes					12,031,115		12,031,115
Grants and contributions not restricted to specific programs:							
Local government aid					7,497,955		7,497,955
Other					3,094,471		3,094,471
Interest earnings					3,336,532	9,796	3,104,267
Gain on disposition of property					109,900	2,614,226	5,950,758
Net increase in the fair value of investments					477,223	40,529	150,429
Miscellaneous					709,533	297,400	774,623
Transfers					12,891,095	120,729	830,262
Total general revenues and transfers					130,212,841	(9,808,415)	120,404,426
Change in net position					53,196,212	32,828,362	86,024,574
Net position - beginning, as originally stated					726,440,377	522,012,221	1,248,452,598
Change in accounting principle					(3,670,778)		(3,670,778)
Net Position - beginning, as restated					722,769,599	522,012,221	1,244,781,820
Net position - ending					\$ 775,965,811	\$ 554,840,583	\$ 1,330,806,394

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2018

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,219,692	\$ 5,994,641	\$ 2,495,992	\$ 10,710,325
Investments	35,066,512	114,479,900	16,848,078	166,394,490
Land held for resale		625,000		625,000
Accrued interest receivable	466,513	524,032	80,860	1,071,405
Accounts receivable (net of allowance for uncollectibles)	785,590	732,130	2,412,551	3,930,271
Loans receivable		525,700	3,804,709	4,330,409
Taxes receivable delinquent	422,266	46,752	132,391	601,409
Special assessments receivable:				
Deferred		14,654,793		14,654,793
Delinquent	29,871	106,123	84,193	220,187
Due from other funds	996,783	1,083,518	168,078	2,248,379
Advances to other funds			14,527	14,527
Due from other governmental units	3,078,437	12,832,198	764,343	16,674,978
Prepaid items	31,805		194,469	226,274
Restricted cash and investments	39,010			39,010
Inventory	916,544		70,907	987,451
<b>TOTAL ASSETS</b>	<b>\$ 44,053,023</b>	<b>\$ 151,604,787</b>	<b>\$ 27,071,098</b>	<b>\$ 222,728,908</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>				
Liabilities:				
Accounts and contracts payable	\$ 1,802,971	\$ 2,376,361	\$ 1,510,762	\$ 5,690,094
Deposits payable	503,374	517,743	799,359	1,820,476
Accrued compensation and payroll taxes	1,833,000		390,013	2,223,013
Due to other funds	576,024	314,827	267,690	1,158,541
Advances from other funds		8,360,325	2,779,186	11,139,511
Unearned revenue			57,637	57,637
Due to other governmental units	321,742	195,467	860,527	1,377,736
Total Liabilities	<u>5,037,111</u>	<u>11,764,723</u>	<u>6,665,174</u>	<u>23,467,008</u>
Deferred Inflows of Resources:				
Unavailable revenue				
Property taxes	422,266	46,752	132,391	601,409
Special assessments	29,871	14,760,916	84,193	14,874,980
Loans receivable		525,700	3,804,709	4,330,409
Total Deferred Inflows of Resources	<u>452,137</u>	<u>15,333,368</u>	<u>4,021,293</u>	<u>19,806,798</u>
Fund Balance:				
Nonspendable	948,349		265,376	1,213,725
Restricted	39,010	53,087,490	6,984,422	60,110,922
Committed		71,419,206		71,419,206
Assigned	1,730,609		11,970,267	13,700,876
Unassigned	35,845,807		(2,835,434)	33,010,373
Total Fund Balance	<u>38,563,775</u>	<u>124,506,696</u>	<u>16,384,631</u>	<u>179,455,102</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 44,053,023</b>	<b>\$ 151,604,787</b>	<b>\$ 27,071,098</b>	<b>\$ 222,728,908</b>

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**RECONCILIATION OF NET POSITION IN THE**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES**  
**IN THE FUND BASIS FINANCIAL STATEMENTS**

December 31, 2018

Amounts reported for governmental activities in the statement of net position are different because:

Total governmental fund balances (page 22)		\$ 179,455,102
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 1,104,271,452	
Less: Accumulated depreciation	<u>(351,896,016)</u>	752,375,436
Some receivables are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes and special assessments	\$ 821,596	
Deferred special assessments and utility connection agreements	14,654,793	
Loans receivable	<u>4,330,409</u>	19,806,798
Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
		37,091,691
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		
Deferred outflows related to pensions	\$ 47,163,516	
Deferred inflows related to pensions	<u>(62,209,488)</u>	(15,045,972)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (133,359,000)	
Net pension liability	(46,964,048)	
Compensated absences	(11,527,845)	
Accrued interest	(1,724,099)	
Unamortized bond premium	<u>(4,142,252)</u>	<u>(197,717,244)</u>
Net position of governmental activities (page 19)		<u>\$ 775,965,811</u>



**CITY OF ROCHESTER, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2018

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
General property taxes	\$ 46,272,117	\$ 6,242,298	\$ 15,827,247	\$ 68,341,662
Tax increments collection		1,767,448	632,610	2,400,058
Sales tax		19,071,085		19,071,085
Special assessments		1,911,530		1,911,530
Utility connection and availability		405,397		405,397
Nonproperty taxes	5,674,880	4,524,378	1,831,857	12,031,115
Licenses and permits	4,765,811			4,765,811
Fines and forfeits	495,352			495,352
Intergovernmental revenues	11,832,667	39,603,384	9,821,075	61,257,126
Charges for services	3,916,340	767,449	15,049,666	19,733,455
Interest earnings	370,551	2,233,577	239,039	2,843,167
Net increase in the fair value of investments	125,423	206,900	30,800	363,123
Rental revenues	63,989	818,585	4,499,656	5,382,230
Miscellaneous revenues	425,167	2,617,278	902,166	3,944,611
Total Revenues	<u>73,942,297</u>	<u>80,169,309</u>	<u>48,834,116</u>	<u>202,945,722</u>
<b>EXPENDITURES</b>				
Current:				
General government	10,867,824			10,867,824
Public safety	49,849,174		7,882	49,857,056
Public works	14,803,307			14,803,307
Airport operations			4,341,670	4,341,670
Transit			9,693,405	9,693,405
Culture	1,810,762		7,949,091	9,759,853
Park and recreation/Mayo Civic Center			17,114,987	17,114,987
Economic development/tourism	3,077,774		4,444,039	7,521,813
Community reinvestment and unallocated	811,093			811,093
Debt service			13,065,843	13,065,843
Capital outlay		48,347,750		48,347,750
Total Expenditures	<u>81,219,934</u>	<u>48,347,750</u>	<u>56,616,917</u>	<u>186,184,601</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,277,637)</u>	<u>31,821,559</u>	<u>(7,782,801)</u>	<u>16,761,121</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	12,779,658	6,846,392	10,392,029	30,018,079
Transfers out	(1,702,332)	(9,547,523)	(2,486,617)	(13,736,472)
Total other financing sources (uses)	<u>11,077,326</u>	<u>(2,701,131)</u>	<u>7,905,412</u>	<u>16,281,607</u>
Net change in fund balances	3,799,689	29,120,428	122,611	33,042,728
Fund Balance - beginning	34,764,086	95,386,268	16,262,020	146,412,374
Fund Balance - ending	<u>\$ 38,563,775</u>	<u>\$ 124,506,696</u>	<u>\$ 16,384,631</u>	<u>\$ 179,455,102</u>

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 24)		\$ 33,042,728
<p>Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay-capitalized	\$ 36,113,978	
Depreciation expense	<u>(25,310,997)</u>	10,802,981
<p>Infrastructure is contributed from governmental activities to business-type activities and from developers to governmental activities. The amounts affect governmental net position but do not affect fund balance.</p>		
		1,640,420
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.</p>		
		(2,913,964)
<p>Some revenues which will not be collected for several months after fiscal year ends are not considered "available" and are reported as deferred inflows of resources. Unavailable revenues increased by this amount this year.</p>		
		989,081
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences December 31, 2018	\$ (11,527,845)	
Compensated absences December 31, 2017	<u>11,259,695</u>	(268,150)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal retirement on long-term debt	\$ 8,238,793	
Change in pension activity	1,810,032	
Amortization of bond premium	245,792	
Change in accrued interest	<u>(547,425)</u>	9,747,192
<p>Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities</p>		
		<u>155,924</u>
Change in net position of governmental activities (pages 20 and 21)		<u>\$ 53,196,212</u>

**CITY OF ROCHESTER, MINNESOTA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2018

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 46,147,332	\$ 46,147,332	\$ 46,272,117	\$ 124,785
Nonproperty taxes	4,715,668	5,121,013	5,674,880	553,867
Licenses and permits	3,994,476	3,994,476	4,765,811	771,335
Fines and forfeits	430,600	525,793	495,352	(30,441)
Intergovernmental	10,960,563	11,365,057	11,832,667	467,610
Charges for services	3,507,498	3,725,448	3,916,340	190,892
Interest earnings	235,000	235,501	370,551	135,050
Net increase (decrease) in the fair value of investments	(50,000)	(50,000)	125,423	175,423
Rental revenues	62,486	62,486	63,989	1,503
Miscellaneous revenues	286,000	371,282	425,167	53,885
Total Revenues	<u>70,289,623</u>	<u>71,498,388</u>	<u>73,942,297</u>	<u>2,443,909</u>
<b>EXPENDITURES</b>				
Current:				
General Government:				
Mayor and Council	859,209	870,615	825,132	45,483
City Administrator	1,361,164	1,371,463	1,263,547	107,916
Development District Administration	181,791	181,791	79,001	102,790
City Clerk	552,396	601,036	629,607	(28,571)
Elections and Voter Registration	241,726	241,726	286,091	(44,365)
Finance Department	1,735,381	1,763,349	1,676,898	86,451
Information Systems	2,019,937	2,028,477	1,961,018	67,459
City Attorney	1,706,937	1,944,969	1,878,807	66,162
Human Resources	1,730,044	1,730,044	1,648,188	81,856
Planning and Zoning	44,380	259,380	50,070	209,310
City Hall Maintenance	606,820	609,130	569,465	39,665
Total General Government	<u>11,039,785</u>	<u>11,601,980</u>	<u>10,867,824</u>	<u>734,156</u>
Public Safety:				
Police Department	27,964,561	28,405,339	27,440,862	964,477
Fire Department	17,351,043	17,477,505	17,114,904	362,601
Fire Hazmat Response Team		82,219	80,774	1,445
Building Safety	3,831,379	3,831,379	3,745,277	86,102
Animal Control	437,467	444,509	413,497	31,012
Drug Enforcement Administration		430,935	97,542	333,393
Flood Control	628,622	628,622	676,469	(47,847)
Emergency Mgmt/Safety Council	304,452	304,452	279,849	24,603
Total Public Safety	<u>50,517,524</u>	<u>51,604,960</u>	<u>49,849,174</u>	<u>1,755,786</u>

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)**  
For the Year Ended December 31, 2018

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>EXPENDITURES (continued)</b>				
Current:				
Public Works:				
Engineering	\$ 3,352,324	\$ 3,356,624	\$ 3,174,908	\$ 181,716
PWTOC Building/Site Operations	48,315	48,710	57,504	(8,794)
Traffic Engineer	1,377,362	1,378,546	1,225,710	152,836
Infrastructure Maintenance	9,479,424	9,484,078	9,010,210	473,868
City Lighting	1,332,206	1,332,206	1,334,975	(2,769)
Total Public Works	<u>15,589,631</u>	<u>15,600,164</u>	<u>14,803,307</u>	<u>796,857</u>
Culture:				
Art Center/Theatre/Senior Center	773,700	773,700	790,016	(16,316)
Music Department	1,081,441	1,273,965	1,020,746	253,219
Total Culture	<u>1,855,141</u>	<u>2,047,665</u>	<u>1,810,762</u>	<u>236,903</u>
Economic Development/Tourism	<u>2,625,000</u>	<u>3,154,995</u>	<u>3,077,774</u>	<u>77,221</u>
Community Reinvestment and Unallocated	<u>1,809,391</u>	<u>1,235,749</u>	<u>811,093</u>	<u>424,656</u>
Total Expenditures	<u>83,436,472</u>	<u>85,245,513</u>	<u>81,219,934</u>	<u>4,025,579</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(13,146,849)</u>	<u>(13,747,125)</u>	<u>(7,277,637)</u>	<u>6,469,488</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	12,556,934	12,556,934	12,779,658	222,724
Transfers out	<u>(167,994)</u>	<u>(349,140)</u>	<u>(1,702,332)</u>	<u>(1,353,192)</u>
Total other financing sources (uses)	<u>12,388,940</u>	<u>12,207,794</u>	<u>11,077,326</u>	<u>(1,130,468)</u>
Net change in fund balances	<u>(757,909)</u>	<u>(1,539,331)</u>	<u>3,799,689</u>	<u>5,339,020</u>
Fund Balance - beginning	<u>34,764,086</u>	<u>34,764,086</u>	<u>34,764,086</u>	
Fund Balance - ending	<u>\$ 34,006,177</u>	<u>\$ 33,224,755</u>	<u>\$ 38,563,775</u>	<u>\$ 5,339,020</u>

See Notes to the Financial Statements

CITY OF ROCHESTER, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 December 31, 2016

	Business-Type Activities -			Enterprise Funds		Governmental Activities- Internal Service Funds
	Parking Fund	Electric Utility Fund	Water Utility Fund	Sewer Utility Fund	Storm Water Utility Fund	
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 680,367	\$ 11,657,118	\$ 1,390,572	\$ 1,453,389	\$ 575,419	\$ 15,765,865
Investments	18,572,052	67,163,063	7,954,236	38,267,400	15,178,400	147,135,151
Accrued interest receivable	80,438			169,426	65,320	315,184
Accounts receivable	246,707	14,147,188	643,620	116,544	35,306	15,189,365
Accrued utility revenues		6,593,483	183,438			6,776,921
Taxes receivable delinquent				2,995		2,995
Inventory, material, supplies and fuel		5,407,106	188,788	2,479,695	668,412	5,608,889
Advances to other funds	2,779,186					3,148,107
Due from other governmental units		1,174,279		10,429		2,778,186
Due from other governmental units		1,041,164				1,174,279
Restricted and reserved cash		107,183,401	71,019			1,174,279
Other assets						1,112,183
Total Current Assets	22,377,750	107,183,401	10,431,673	42,495,976	16,522,857	198,015,559
<b>Noncurrent Assets:</b>						
Capital assets:						
Nondepreciable						
Depreciable	38,532,573	28,820,161	4,358,700	5,078,928	4,631,430	82,322,192
Less: Accumulated depreciation	38,504,137	462,890,078	145,668,728	394,155,162	65,041,792	1,096,760,698
Net capital assets	(25,310,242)	(218,969,917)	(141,310,028)	(171,721,158)	(15,980,051)	(488,331,179)
Restricted and reserved cash	51,023,668	271,716,634	98,043,106	168,412,332	73,713,171	683,711,711
Restricted investments	114,546					114,546
Restricted funds held in trust		12,955,835				12,955,835
Other assets		12,487,247				12,487,247
Total Noncurrent Assets	51,141,016	297,159,837	96,843,106	168,423,126	73,713,171	685,280,256
Total Assets	73,518,766	404,343,238	109,274,779	210,923,004	90,236,028	888,295,815
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred charge on refunding		1,140,708				1,140,708
Deferred outflow from OPEB activity	77,246	4,213,417	495,934	752,446	112,604	5,651,847
Deferred outflow from pension activity	77,246	5,354,125	495,934	752,446	112,604	6,792,555
Total Deferred Outflows of Resources						408,344
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Accounts and contracts payable	1,288,817	12,334,311	633,680	325,956	155,400	14,717,484
Accounts payable	38,511	1,397,880	129,534	9,098	5,098	1,575,890
Accrued interest payable		697,196		962,146	792	1,660,134
Accrued compensation and payroll taxes	6,880	480,176	60,132	116,158	782	678,678
Accrued compensated absences	22,023	1,696,715	286,753	247,438	29,088	2,262,017
Due to other funds	431	2,812,158	1,154,198	208,969	62,191	4,237,945
Due to other governmental units	35,660			4,237	149	40,046
Unearned revenue						17,963
Accrued claims						131,631
Current maturities of long term debt		5,725,000		8,125,000		13,244,740
Total Current Liabilities	1,372,322	25,143,416	2,264,295	10,029,189	262,950	38,072,172
<b>Noncurrent Liabilities:</b>						
Bonds payable, net of unamortized premium		192,075,967		74,692,897		266,768,764
Accrued compensated absences	13,122	1,300,053	205,628	258,486	13,778	1,791,077
Net pension liability	215,751	12,828,293	1,484,728	2,445,652	279,524	17,262,348
Unearned revenue		6,495,039				6,495,039
Accrued claims		6,000				6,000
Post employment benefit obligation	228,973	212,643,252	1,703,356	77,397,045	293,702	262,263,228
Total Noncurrent Liabilities	1,501,195	237,786,668	3,396,951	87,426,234	596,652	331,395,400
Total Liabilities						
Current Liabilities						
Noncurrent Liabilities						
Total Liabilities						
Deferred Inflows of Resources						
Advance payments on leases		410,435	200,640			611,075
Deferred charge on refunding		508,842		1,839,409		1,839,409
Solar choice deferred inflows of resources		5,202,088	605,964	944,411		508,842
Deferred inflows from pension activity	92,970	5,121,365	807,934	2,783,820	106,152	6,952,515
Total Deferred Inflows of Resources	92,970	5,121,365	807,934	2,783,820	106,152	9,911,841
<b>NET POSITION</b>						
Net investment in capital assets	51,026,468	88,012,310	98,843,106	83,755,026	73,713,171	395,350,081
Restricted						
Debt service		477,083				477,083
Funds held in trust		121				121
Unrestricted	20,875,479	77,298,816	6,155,222	37,710,370	15,972,957	158,013,844
Total Net Position	71,901,947	165,789,330	104,998,328	121,465,396	89,686,128	553,841,129
						\$
Amounts reported by business-type activities in the statement of net position (page 19) are different because:						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds						969,454
Net position of business-type activities						\$ 554,840,583

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION**  
For the Year Ended December 31, 2018

	Business-Type Activities -				Enterprise Funds		Governmental Activities- Internal Service Funds
	Parking Fund	Electric Utility Fund	Water Utility Fund	Sewer Utility Fund	Storm Water Utility Fund	Total	
<b>Operating Revenues:</b>							
Sales and charges for services	\$ 7,377,258	\$	\$	\$	\$ 7,013,135	\$ 14,390,393	\$ 25,055,823
Sales and charges for services, pledged as security for revenue bonds		156,649,641	9,600,577	30,024,898		196,275,116	
Miscellaneous		12,645,592	1,216,721	175,010	461,299	14,498,622	
<b>Total Operating Revenues</b>	<u>7,377,258</u>	<u>169,295,233</u>	<u>10,817,298</u>	<u>30,199,908</u>	<u>7,474,434</u>	<u>225,164,131</u>	<u>25,055,823</u>
<b>Operating Expenses:</b>							
Purchased power		94,983,904				94,983,904	
Maintenance and operations	3,585,576	34,100,278	7,270,108	9,915,342	3,389,963	58,261,267	22,788,911
Amortization of regulatory assets		430,553				430,553	
Depreciation	1,058,428	12,538,019	2,673,736	6,365,560	1,619,467	24,255,210	3,392,862
<b>Total Operating Expenses</b>	<u>4,644,004</u>	<u>142,052,754</u>	<u>9,943,844</u>	<u>16,280,902</u>	<u>5,009,430</u>	<u>177,930,934</u>	<u>26,181,773</u>
<b>Operating Income (Loss)</b>	<u>2,733,254</u>	<u>27,242,479</u>	<u>873,454</u>	<u>13,919,006</u>	<u>2,465,004</u>	<u>47,233,197</u>	<u>(1,125,950)</u>
<b>Nonoperating Revenues (Expenses):</b>							
General property taxes	577					9,796	315,757
Intergovernmental revenues	411,884	1,315,976	122,699	548,752	214,915	2,614,226	1,237
Interest earnings							493,367
Net increase in the fair value of investments	65,400	56,300	23,000	120,300	32,400	297,400	114,100
Interest and fiscal charges		(5,851,480)	(233)	(1,891,807)		(7,743,520)	(7,342)
Amortization of regulatory assets		(87,243)				(87,243)	
Gain on disposal of property				40,529		40,529	65,550
Other income (expense)	28,189	(864,755)	(30,977)	73,219	19,321	(775,003)	
<b>Total Nonoperating Revenues (Expenses)</b>	<u>506,050</u>	<u>(5,431,202)</u>	<u>114,489</u>	<u>(1,099,786)</u>	<u>266,636</u>	<u>(5,643,815)</u>	<u>982,669</u>
<b>Income (Loss) Before Transfers and Capital Contributions</b>	<u>3,239,304</u>	<u>21,811,277</u>	<u>987,943</u>	<u>12,819,218</u>	<u>2,731,640</u>	<u>41,589,382</u>	<u>(143,281)</u>
Capital contributions							
Transfers in	25,992	2,060,389	1,657,094	1,092,029	3,010,280	7,819,792	125,535
Transfers out	(1,757,911)	(8,724,766)	(367,989)	(4,918,034)	(1,069,304)	(16,838,004)	(99,525)
<b>Change in net position as originally stated</b>	<u>1,507,385</u>	<u>15,146,900</u>	<u>2,277,048</u>	<u>8,997,608</u>	<u>5,172,616</u>	<u>33,101,557</u>	<u>(117,271)</u>
<b>Net Position - Beginning of Year as restated</b>	<u>70,394,562</u>	<u>150,642,430</u>	<u>102,721,280</u>	<u>112,467,788</u>	<u>84,513,512</u>	<u>41,879,194</u>	<u>41,879,194</u>
<b>Change in accounting principle</b>							<u>(3,670,778)</u>
<b>Net Position - Beginning of Year as restated</b>							<u>38,208,416</u>
<b>Net Position - End of Year</b>	<u>\$ 71,901,947</u>	<u>\$ 165,789,330</u>	<u>\$ 104,998,328</u>	<u>\$ 121,465,396</u>	<u>\$ 89,686,128</u>	<u>\$</u>	<u>\$ 38,091,145</u>
<b>Amounts reported by business-type activities in the statement of activities (pages 20-21) are different because:</b>							
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.							
(273,195)							
<u>\$ 32,828,362</u>							

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2018

	Business-Type Activities -		Enterprise Funds		Governmental Activities- Internal Service Funds
	Parking Fund	Electric Utility Fund	Water Utility Fund	Total	
<b>Cash Flows From Operating Activities:</b>					
Cash received from customers	\$ 7,337,606	\$ 166,089,742	\$ 10,657,262	\$ 223,025,437	\$ 23,396,364
Cash received from other City funds	50,404	6,945,404	189,012	7,531,279	1,289,357
Cash received from employees	(447,611)	(16,488,768)	(1,866,687)	(23,763,392)	(22,315,511)
Cash paid to employees	(2,811,210)	(117,912,829)	(5,370,734)	(133,990,362)	
Cash paid to suppliers		(344,577)		(344,577)	
Service territory acquisition				19,321	
Other income	28,189			120,729	
Net Cash Provided By Operating Activities	4,157,378	40,288,972	3,608,853	72,579,114	2,370,210
<b>Cash Flows From Noncapital Financing Activities:</b>					
General property taxes				9,796	317,279
Intergovernmental revenues	577			530,387	1,237
Transfers in	25,992			500,000	125,535
Transfers out	(1,757,911)	(8,720,009)	(369,452)	(1,069,304)	(89,525)
Net Cash Provided By (Used In) Noncapital Financing Activities	(1,731,342)	(8,720,009)	(369,452)	(569,304)	344,526
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Proceeds from the sale of property				40,529	285,989
Proceeds from the issuance of bonds					2,225,000
Principal payments on bonds		(5,460,000)		(13,285,000)	(140,000)
Interest and fiscal charges		(8,632,000)		(1,524)	(9,160)
Repayment of developer agreements				(103,646)	
Capital contributions received		2,060,389		2,060,389	
Acquisition of capital assets	(18,614,416)	(22,005,888)	(1,172,842)	(45,001,825)	(4,313,539)
Net Cash Used In Capital and Related Financing Activities	(18,614,416)	(34,037,499)	(1,172,842)	(68,428,861)	(1,951,700)
<b>Cash Flows From Investing Activities:</b>					
Investment income	394,548	1,372,276	145,467	2,613,922	473,458
Net increase in investments	(396,500)	(18,233,414)	(1,823,008)	(2,460,100)	(296,854)
Net Cash Provided By (Used In) Investing Activities	(1,952)	(16,861,138)	(1,677,541)	(22,739,600)	(176,604)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(16,190,332)	(19,329,674)	389,018	(34,883,874)	939,640
<b>Cash and Cash Equivalents, Beginning of Year</b>	17,004,247	32,161,071	991,554	51,938,566	273,396
<b>Cash and Cash Equivalents, End of Year</b>	813,915	12,831,397	1,380,572	17,054,692	1,213,036
<b>Classified As:</b>					
Cash and Cash Equivalents	\$ 699,367	\$ 11,657,118	\$ 1,380,572	\$ 15,765,865	\$ 1,213,036
Restricted and Reserved Cash	114,548	1,174,279		1,288,827	
<b>Total Cash and Cash Equivalents, End of Year</b>	\$ 813,915	\$ 12,831,397	\$ 1,380,572	\$ 17,054,692	\$ 1,213,036

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
For the Year Ended December 31, 2018

Reconciliation of Operating Income (Loss) to Net Cash  
Provided By Operating Activities

	Business-Type Activities -			Enterprise Funds		Governmental Activities- Internal Service Funds
	Parking Fund	Electric Utility Fund	Water Utility Fund	Sewer Utility Fund	Storm Water Utility Fund	
Operating Income (Loss)	\$ 2,733,254	\$ 27,242,479	\$ 873,454	\$ 13,919,006	\$ 2,465,004	\$ 47,233,197
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:						
Depreciation and amortization expense	1,058,428	12,968,572	2,673,736	6,365,560	1,619,467	24,685,763
Other income (expense)	28,189	(864,755)	(30,977)	73,219	19,321	(775,003)
Service territory payments		(344,577)				(344,577)
Bad debts		422,232	28,029			450,261
(Increase) Decrease In:						
Accounts receivables and accrued utility revenues	15,422	(1,415,618)	(190,450)	(51,512)	(21,056)	(1,663,214)
Inventory		(538,344)	(15,133)	(206)	(553,683)	(553,683)
Due from other funds				(166,301)	(140,044)	(306,345)
Advances due from other funds	5,501			(1,281)	5,501	(1,281)
Prepaid items			(8,658)			(8,658)
Deferred outflows from pension activity	48,697	2,485,324	289,431	428,416	68,167	3,320,035
Deferred outflows from OPEB activity						
Other assets		(21,731)		1,199		(20,532)
Increase (Decrease) In:						
Accounts and contracts payable, operations	410,926	(598,877)	241,766	143,683	10,932	208,430
Deposits payable	(10,247)	527,955	48,734	5,375		571,817
Accrued expenses and other liabilities	(45,259)			3,812	10,456	(30,991)
Post employment benefit obligations	(6,247)	(144,076)	(18,704)	(1,966)	(6,925)	(177,918)
Deferred inflows from pension activity	(60,813)	(2,234,373)	(262,051)	(214,872)	7,016	(2,765,093)
Net pension liability		2,332,339	(20,324)			2,312,015
Unearned revenues		508,842				508,842
Solar choice deferred inflow		(36,420)				(36,420)
Deferred lease revenue						
Accrued claims				(12,990)	753	(12,161)
Due to other funds	76			(354)	32	(20,871)
Due to other governmental units	(20,549)					
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 4,157,378</b>	<b>\$ 40,288,972</b>	<b>\$ 3,608,853</b>	<b>\$ 20,490,788</b>	<b>\$ 4,033,123</b>	<b>\$ 72,579,114</b>
<b>Non Cash Transactions:</b>						
Increase in fair value of investments	\$ 65,400	\$ 56,300	\$ 23,000	\$ 120,300	\$ 32,400	\$ 297,400
Allowance for funds used during construction		717,398				717,398
Amortization of bond premiums, discounts, and refunding		(2,052,535)				(2,052,535)
Amortization of bond issue costs		87,243				87,243
Receipt of contributed property			1,657,094	1,092,029	3,010,280	5,759,403
Capital assets in accounts payable at year end						7,377

See Notes to the Financial Statements



CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies

The financial statements of the City of Rochester, Minnesota have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City of Rochester, Minnesota (the City) is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted in 1904.

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Rochester. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Rochester.

The accompanying financial statements present the primary government and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus blended component units are appropriately presented as funds of the primary government.

The City of Rochester has two component units, the Rochester Economic Development Authority (REDA) and the Destination Medical Center Corporation (DMCC). The REDA was created to account for development allowable only under specific State statutes. The board of directors of the REDA is comprised of City Council members and the REDA directly provides all of its services to the City. There were no activities in the REDA in 2018 other than the accumulation of resources and debt service on outstanding bonds issued by the REDA which is reported in the Economic Development Authority Bond nonmajor debt service fund. The REDA is reported as a blended component unit. The other component unit is the DMCC which was incorporated in 2013 as a nonprofit corporation with the City of Rochester as its sole member. The Corporation was established to benefit the City, and more broadly, Olmsted County and the State of Minnesota by researching, preparing, and implementing a master development plan, including facilitating public infrastructure projects and a variety of development and redevelopment projects, all to promote and provide for the establishment of the City, the County, and the State as a world destination medical center. The DMCC is fiscally dependent on the City as the DMCC is required to have its annual budget approved by the City Council. Also, the City has a financial benefit or burden relationship with the DMCC as it is the beneficiary and sole member of the DMCC and the recipient of all residual assets upon liquidation. The DMCC is reported as a blended component unit.

Separate audited financial statements for the year ended December 31, 2018 are available from the DMCC.

CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the primary government (the City). For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, hotel-motel taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year in which the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements other than time requirements are met are recorded as unearned revenue. Grants received before time requirements are met are recorded as a deferred inflow of resources.

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *capital improvement fund* accounts for the financial resources to be used for streets and infrastructure other than that financed by proprietary funds.

The City reports the following major proprietary funds:

The *parking fund* accounts for the operation of the parking enterprise.

The *electric utility fund* accounts for the operations of the City owned electric utility system.

The *water utility fund* accounts for the operation of the City owned water utility system.

The *sewer utility fund* accounts for the operations of the City owned water reclamation plant.

The *storm water utility fund* accounts for the storm water management services of the City.

Additionally, the City reports the following fund types:

*Internal service funds* account for insurance, data processing equipment and fleet management services provided to other departments of the City on a cost reimbursement basis.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position

1. Deposits and investments

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of applicable cash balance participation by each fund.

Investments are stated at fair value, based upon quoted market prices at the reporting date.

Cash and cash equivalents for purposes of the basic financial statements includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

2. Receivables, payables, and deferred inflows of resources

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property tax levies are set by the City Council in December of each year and are certified to Olmsted County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1, of the following year, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectible, net of delinquencies.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of January, June and December.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable, net of an allowance for uncollectible taxes currently estimated at 3.0% of the outstanding balance. The net amount of delinquent taxes receivable are fully offset by deferred inflow of resources in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures. Assessments are levied at various times upon City Council resolution for property owner improvements made by the City. Generally, assessment collections are deferred over periods ranging from one to fifteen years with interest charges ranging from 5.0% to 7.5%. Revenue from these assessments is recognized when assessed in the government-wide financial statements and as the annual installments become collectible in the governmental funds of the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are carried net of an allowance for uncollectible assessments estimated at 3.0% of the outstanding balance. The net amount of delinquent assessments receivable are fully offset by deferred inflow of resources in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

3. Other assets

Other Assets includes regulatory assets consisting of bond issue costs and service territory acquisition costs.

4. Inventory

The materials and supplies inventories are valued at cost or moving average cost. Fossil fuel inventories in the Enterprise Funds are valued at cost, using the last-in, first-out method. Purchases are reported as expenditures when the inventory items are consumed (consumption method).

5. Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has three items that qualify for reporting in this category. The deferred charge on advance refunding of revenue bonds, deferred outflows from pension activity, and deferred outflows from OPEB activity. The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt. This difference is being amortized and charged to operations over the bond term using the interest method.

6. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

6. Capital assets (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period.

Property, plant and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	Useful Life in Years
Buildings	10 - 40
Infrastructure	15 - 80
Other Improvements	5 - 40
Machinery and Equipment	2 - 20

7. Utility connection charges

The City enters into utility connection agreements with certain residential property owners that elect to convert to City utilities. Under these agreements, property owners may elect to pay connection charges in full or make payments to the City as special assessments over ten years as reimbursement for City made improvements. Utility connection charges are based on a flat rate per frontage foot and are limited to a maximum amount per lot based on lot size. Revenue from utility connection agreements is recognized when the City enters into agreements with property owners in the government-wide financial statements and as the charges become collectible in the governmental funds of the fund financial statements.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

8. Compensated absences benefits

Vacation, sick pay and compensatory overtime are accrued when earned in the government-wide financial statements and the proprietary fund types. In the Governmental Funds of the fund financial statements, vacation, sick pay and compensatory overtime are recorded as expenditures and accrued as current liabilities only if they have matured, for example, as a result of employee's resignations and retirements.

The City compensates employees upon termination, for 40% of their unused sick leave, after meeting certain qualifications based upon length of service. The compensation is computed at the employee's rate of pay at the time of termination, and is deposited in a healthcare savings plan. The sick leave liability is estimated based on the City's past experience of making termination payments for sick leave.

Unused vacation pay in excess of two times the annual vacation accrual rate expires each December after the last pay date. Under certain conditions vacation pay will be paid upon termination in good standing. Most employees are also allowed to accumulate compensatory overtime up to a maximum of 80 hours per anniversary period. Certain other employees are allowed to accumulate compensatory overtime up to a maximum of 240 hours.

9. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position.

Bond premiums and discounts 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 or discount. In the electric utility fund, bond issuance costs are recorded as a regulatory asset and amortized over the term of the bond issue.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as debt service expenditures.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

10. Deferred inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents receipt of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The City has received advance payments on leases, deferred inflows from pension activity and solar choice, and an unamortized amount on refunding that qualifies for reporting in this category. The lease revenues are being recognized ratably over the lease term.

Under the modified accrual basis of accounting, the City reports unavailable revenues in the governmental funds balance sheet as deferred inflows of resources. These amounts will be recognized as revenue in the period the corresponding tax, assessment and loan repayment revenues become available.

11. Unearned revenues

Under the terms of a 2015 agreement, the Electric Utility constructed a substation to meet the specifications of a large customer. The customer paid a Contribution in Aid of Construction (CIAC) for redundant facilities for reliability purposes and for substation capacity in excess of current needs. Per the agreement, the customer can earn a refund of a portion of the CIAC related to excess capacity based on their measured load over the term from 2018 through 2027. A portion of the excess capacity payment becomes ineligible for refund in each of those years if the load requirement specified in the agreement is not achieved. During 2018, \$228,000 of the potential refund became ineligible for refund as the load requirement was not met and, as of December 31, 2018, \$2,052,000 of the potential refund remained recorded as an unearned revenue. The amount of unearned revenue will be reduced each year through the ten year term, having either been refunded to the customer if load requirement has been met, or recorded as a contribution in aid of construction if not met. The substation went in service in May, 2017.

As described in Note 4C under Contingent Liabilities, the Electric Utility is engaged in an administrative hearing before the Federal Energy Regulatory Commission (FERC) involving the recovery of RPU's Annual Transmission Revenue Requirement (ATRR) from transmission customers in the Midcontinent Independent System Operator, Inc. region. The final resolution has not yet been determined however, as of December 31, 2018, RPU has received \$4,330,456 in ATRR payments. The payments are subject to refund if the ultimate outcome is that RPU is not eligible for recovery of its ATRR. Until the final resolution is determined, RPU is recording the amounts received as unearned revenue.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

12. Fund equity

In the government-wide and proprietary financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

In accordance with Governmental Accounting Standards, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted – includes fund balance amounts restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Committed – includes fund balance amounts that are committed for specific purposes that are internally imposed by the City Council through formal action (resolution) and remain binding unless removed by the City Council by subsequent formal action.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The City Council, by resolution, has delegated the power to assign fund balances to the city administrator.

Unassigned – includes positive fund balances within the General Fund which have not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts when expenditures are made.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

12. Fund equity (continued)

The City Council has formally adopted a fund balance policy for the general fund requiring a minimum unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of fund balance) of 5 months or 42% of annual operating expenditures.

E. Pensions

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

F. Change in accounting principle

During the year ended December 31, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits - Other Than Pensions*. This statement included major changes in how plans and employers account for OPEB benefit obligations. This statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses/expenditures. Certain amounts necessary to fully restate fiscal year 2017 financial information are not determinable; therefore, prior year comparative amounts have not been restated. The implementation of the new GASB statement in the current year resulted in the restatement of net position as of December 31, 2017. The details of the restatement are as follows:

Activities/Fund	Net Position	Restatement for	Net Position
	December 31, 2017 as Previously Reported	Change in Accounting Principle	December 31, 2017 as Restated
Governmental Activities	\$ 726,440,377	\$ (3,670,778)	\$ 722,769,599
Proprietary Fund: Self Insurance Fund	\$ 18,283,112	\$ (3,670,778)	\$ 14,612,334

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**NOTE 2: Stewardship, Compliance, and Accountability**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General and Special Revenue Funds with the exception of the Community Development Projects Fund and the Minnesota Bio Science Center Fund, which adopt project length budgets.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Formal budgetary integration is not employed for the Debt Service Funds because effective budgetary control is alternately achieved through general obligation bond indenture provisions. Budgetary control for the Capital Improvement Funds is based on a project completion time cycle rather than an annual basis, therefore budgetary comparisons on an annual basis would not present meaningful information.

The City follows these legal compliance procedures in establishing the budgetary data reflected in the financial statements:

1. The City Administrator submits a proposed operating budget to the City Council prior to the end of each year for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to December 28, the budget is legally enacted through the passage of a budget resolution.
4. Any changes to the budget at the functional level must be by formal resolution of the City Council. Generally, budget amendments result in utilization of contingency appropriations and do not alter the total expenditure budget of the City. Monitoring of budgets is maintained at the department level by departments or divisions. However, expenditures in excess of the departmental budget require administrative approval.
5. All budgeted appropriations lapse at the end of the fiscal year. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is at the functional level.

All budget amounts presented in the accompanying supplementary information reflect the original budget and the final budget (which have been adjusted for legally authorized revisions of the annual budgets during the year).

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**NOTE 2: Stewardship, Compliance, and Accountability (continued)**

**A. Budgetary Information (continued)**

Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

**NOTE 3: Detailed Notes on All Funds**

**A. Deposits and Investments**

The City maintains a pooled cash and investment portfolio that is used by substantially all City funds using the pooled deposit and investment concept. This concept provides the City with the ability to maximize earnings on idle fund monies while ensuring the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved. This pool is governed by an investment policy established by the City Council.

Investment income derived from the pooled funds is allocated to respective funds on the basis of applicable cash balance participation by each fund.

**Deposits**

In accordance with Minnesota Statutes, the City maintains deposits with national banks, insured state banks or thrift institutions as authorized by the City Council.

Minnesota Statutes requires that all City deposits be insured, secured by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state or local government obligations and legal investments described in the following paragraphs. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

The City's deposits in banks at December 31, 2018 were entirely covered by federal depository insurance or by collateral held by the City or its agent in the City's name.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investment Policy

The City has an adopted investment policy, conforming to all applicable laws of the State of Minnesota, which serves as the guide to the deposit and investment of operating funds which are managed within the City's pooled cash and investment portfolio.

This policy sets forth the City's investment objectives as well as authorized and suitable deposits and investments, and serves as a guide for proper diversification, maturity constraints, internal controls, and performance measurement. The foremost objective of the City's investment program as set forth by the investment policy is preservation of capital and protection of investment principal. Investment decisions are made under the assumption that, except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

Separate investment policies or agreements may exist to address proceeds from certain bond issues or debt service funds in accordance with arbitrage rebate requirements.

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- (a) Direct obligations or obligations guaranteed by the United States or its agencies.
- (b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (c) General obligations of the State of Minnesota or its municipalities.
- (d) Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- (h) Guaranteed investment contract (gic's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance company and with a credit quality in one of the top two highest categories.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Under the City's investment policy the City is required to mitigate its exposure to interest rate risk as follows:

- purchasing a combination of shorter term and longer term investments
- reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with expected use of funds
- timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operations
- monitoring the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio
- unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five (5) years from the date of purchase
- the average weighted maturity of the portfolio should not exceed three (3) years

The following is a summary of the City of Rochester's cash and investment portfolio as of December 31, 2018, including weighted average maturities and investment ratings by type of investment.

Investment Type	December 31, 2018 Amount	Weighted Average Maturity (in years)	Investment Rating as of Year End	
			S&P	MOODY
Commercial Paper	\$ 21,387,391	0.47	A-1	P1
Municipal Bonds	2,286,890	4.64	AAA	Aa2
US Government and Agency Securities:				
Federal Farm Credit Bank	36,662,505	3.57	AA+	Aaa
Federal Home Loan Bank	62,775,570	3.26	AA+	Aaa
Federal Home Loan Mortgage Corporation	28,951,644	3.05	AA+	Aaa
Federal National Mortgage Association	41,776,459	3.06	AA+	Aaa
Treasury Note	141,730,035	2.41	AA+	Aaa
Sub-total Investments	335,570,494			
Cash and Deposits	47,592,280			
Total	\$ 383,162,774			



**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments. The investment policy of the City limits their investment options to those authorized by Minnesota Statute as described on the previous page.

Concentration of Credit Risk

The investment policy of the City contains no limitation on the amount that can be invested in any one issuer. Investments in any one issuer that represent 5% or more of total investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal Agency Securities	36,662,505
Federal Home Loan Bank	Federal Agency Securities	\$ 62,775,570
Federal Home Loan Mortgage Corporation	Federal Agency Securities	28,951,644
Federal National Mortgage Association	Federal Agency Securities	41,776,459
Treasury Note	United States Treasury Securities	141,730,035

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. At December 31, 2018 all investments were insured or registered or the securities were held by the City or its agent in the city's name.

A reconciliation of cash and investments as shown on the Statement of Net Position:

Cash and cash equivalents	\$ 27,754,740
Investments	341,124,241
Restricted cash and investments	14,283,672
Restricted funds held in trust	121
<b>Total Cash and investments</b>	<b>\$ 383,162,774</b>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Fair Value Measurements

Fair value measurements are determined utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.
- Level 2: Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets
  - Quoted prices for identical assets or liabilities in inactive markets
  - Inputs other than quoted prices that are observable for the asset or liability
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means
 If the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

- A. Deposits and Investments (continued)  
Fair Value Measurements (continued)

The City's investments within the fair value hierarchy at December 31, 2018 and 2017 were as follows:

	At December 31, 2018			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Commercial Paper	\$ 21,387,391	\$ 21,387,391	\$	
Municipal Bonds	2,286,890	2,286,890		
US Government and Agency Securities:				
Federal Farm Credit Bank	36,662,505	36,662,505		
Federal Home Loan Bank	62,775,570	62,775,570		
Federal Home Loan Bank	28,951,644	28,951,644		
Federal Home Loan Mortgage Corporation	41,776,459	41,776,459		
Federal National Mortgage Association	141,730,035	141,730,035		
Treasury Note				
Total	\$ 335,570,464	\$ 335,570,464	\$	
	At December 31, 2017			
Assets Measured at Fair Value	Fair Value Hierarchy Level			Level 3
Level 1	Level 2	Level 3		
Commercial Paper	\$ 4,951,200	\$ 4,951,200	\$	
Municipal Bonds	4,979,120	4,979,120		
US Government and Agency Securities:				
Federal Farm Credit Bank	34,585,745	34,585,745		
Federal Home Loan Bank	60,591,540	60,591,540		
Federal Home Loan Bank	32,529,331	32,529,331		
Federal Home Loan Mortgage Corporation	28,247,132	28,247,132		
Federal National Mortgage Association	117,856,705	117,856,705		
Treasury Note				
Total	\$ 283,740,773	\$ 283,740,773	\$	

- B. Land Held for Resale

In 2009, 2011, 2012, 2014, and 2016 the City acquired parcels of land from private parties for a total purchase price of \$2,270,000. The City intends to resell these properties in connection with the expansion of the University of Minnesota Rochester Campus and for private development. In 2014 and 2017, the City sold certain parcels of land with a cost basis totaling \$895,000 and \$750,000, respectively. The remaining parcels held for resale totaling \$625,000, are reported in the Capital Improvement Fund. The City's estimate of net realizable value is in excess of the amount recorded at December 31, 2018.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

- C. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2018 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 92,320	\$ 2,133,235	\$ 812,833	\$ 40,049	\$ 3,078,437
Special Revenue	159,022	399,413	189,289	3,409	751,133
Capital Project	1,794,130	10,277,510	760,558		12,832,198
Debt Service			13,210		13,210
Enterprise		1,652	8,777		10,429
Internal Service	661		2,559		3,220
Totals	\$ 2,046,133	\$ 12,811,810	\$ 1,787,226	\$ 43,458	\$ 16,688,627

Amounts due to other governmental units as of December 31, 2018 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 1,700	\$ 99,555	\$ 216,639	\$ 3,948	\$ 321,742
Special Revenue	5	669,007	185,056	6,459	860,527
Capital Project		180,647	14,820		195,467
Enterprise		809	39,237		40,046
Internal Service		17,963			17,963
Totals	\$ 1,705	\$ 967,981	\$ 455,752	\$ 10,307	\$ 1,435,745

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

**D. Restricted Cash and Investments**

Restricted cash are deposits held for specifically required purposes. Descriptions of the items and balances as of December 31, 2018 are as follows:

<i>Restricted Cash -</i>	
General Fund	
Civic Music Endowment:	
Rochester Area Foundation Endowment	\$ 39,010
Enterprise Funds:	
Parking Fund:	
Bioscience Building Debt Service	114,548
Electric Fund:	
Debt Service Fund	1,174,279
<i>Restricted Investments -</i>	
Electric Fund	
Debt Service Reserve Accounts	12,955,835
<i>Restricted Funds Held in Trust -</i>	
Electric Fund	
CapX2020 Transmission Line Project	121
Total	<u>\$ 14,283,793</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

**E. Capital Assets**

Governmental capital asset activity, including internal service fund capital assets, for the year ended December 31, 2018 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 74,962,362	\$ 519,946	\$	\$ 75,482,308
Construction in progress	45,566,721	36,560,220	53,357,997	28,769,944
Total capital assets, not being depreciated	<u>120,529,083</u>	<u>37,080,166</u>	<u>53,357,997</u>	<u>104,251,252</u>
Capital assets, being depreciated:				
Buildings	342,722,269	20,760,575	1,736,381	361,746,463
Improvements other than buildings	51,257,074	441,228	30,476	51,667,826
Infrastructure	505,231,782	23,606,560	3,717,687	525,120,655
Machinery and equipment	93,388,728	13,617,261	3,151,471	103,854,518
Total capital assets, being depreciated	<u>992,599,853</u>	<u>58,425,624</u>	<u>8,636,015</u>	<u>1,042,389,462</u>
Less accumulated depreciation for:				
Buildings	92,061,115	8,646,278	1,566,779	99,120,614
Improvements other than buildings	26,045,491	1,551,550	30,476	27,566,565
Infrastructure	173,702,208	11,556,284	954,009	184,304,483
Machinery and equipment	62,264,261	6,949,747	2,853,673	66,360,335
Total accumulated depreciation	<u>354,073,075</u>	<u>28,703,859</u>	<u>5,424,937</u>	<u>377,351,997</u>
Total capital assets, being depreciated, net	<u>638,526,778</u>	<u>29,721,765</u>	<u>3,211,078</u>	<u>665,037,465</u>
Governmental activities capital assets, net	<u>\$ 759,055,861</u>	<u>\$ 66,801,931</u>	<u>\$ 56,569,075</u>	<u>\$ 769,288,717</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2018 was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 22,062,917	\$ 175,000	\$ 76,475	\$ 22,161,442
Construction in progress	85,695,112	37,570,543	73,104,905	60,160,750
Total capital assets, not being depreciated	117,758,029	37,745,543	73,181,380	82,322,192
Capital assets, being depreciated:				
Buildings and improvements	462,969,973	19,594,523		482,564,496
Machinery and equipment	517,073,213	68,966,250	1,843,261	584,196,202
Total capital assets, being depreciated	980,043,186	88,560,773	1,843,261	1,066,760,698
Less accumulated depreciation for:				
Buildings and improvements	203,237,981	9,729,102		212,967,083
Machinery and equipment	259,843,742	14,526,108	965,754	272,404,096
Total accumulated depreciation	462,081,723	24,255,210	965,754	485,371,179
Total capital assets, being depreciated, net	517,961,463	64,305,563	877,507	581,369,519
Business-type activities capital assets, net	\$ 635,719,492	\$ 102,051,106	\$ 74,058,887	\$ 663,711,711

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense for the year ended December 31, 2018 was charged to functions/programs as follows:

<u>Governmental Activities:</u>	
General government	\$ 659,585
Public safety	2,984,096
Public works	10,631,547
Airport operations	2,076,071
Transit	1,506,133
Culture	1,186,817
Park and recreation/Mayo Civic Center	5,519,044
Economic development/tourism	747,704
Subtotal	<u>25,310,987</u>
Internal Service Funds:	
Equipment revolving	3,157,096
Information technology	235,766
Total depreciation expense - governmental activities	<u>\$ 28,703,859</u>
<u>Business-Type Activities:</u>	
Parking	\$ 1,058,428
Electric utility	12,538,019
Water utility	2,673,736
Sewer utility	6,365,560
Storm water utility	1,619,467
Total depreciation expense - business type activities	<u>\$ 24,255,210</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The amounts due to and due from other funds as of December 31, 2018, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
<b>Major Governmental Funds:</b>		
General	\$ 996,783	\$ 576,024
Capital Improvement	1,083,518	314,827
Subtotal	<u>2,080,301</u>	<u>890,851</u>
<b>Non-Major Governmental Funds:</b>		
Special Revenue -		
Library		6,908
Municipal Recreation System		67,830
Mayo Civic Center	944	57,193
Edward Byrne Memorial JAG		262
Airport Operations		33,211
Transit		993
Community Development Projects	167,134	50,293
DMCC		51,000
Subtotal	<u>168,078</u>	<u>267,690</u>
Total Governmental Funds	<u>2,248,379</u>	<u>1,158,541</u>
<b>Proprietary Funds:</b>		
Enterprise -		
Parking		431
Electric Utility		2,812,158
Water Utility		1,154,196
Sewer Utility	2,479,695	208,969
Storm Water Utility	668,412	62,191
Total Proprietary Funds	<u>3,148,107</u>	<u>4,237,945</u>
Total All Funds	<u>\$ 5,396,486</u>	<u>\$ 5,396,486</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

The amounts advanced to and from other funds as of December 31, 2018, at the individual fund level are summarized below:

Funds	Advanced To Other Funds	Advanced From Other Funds
<b>Governmental Funds:</b>		
Capital Improvement		\$ 8,360,325
FE Williams Estate	\$ 14,527	
Economic Development Authority Bond		2,779,186
<b>Proprietary Fund:</b>		
Parking	2,779,186	
Internal Service Fund:		
Self-Insurance	8,345,798	
Total All Funds	<u>\$ 11,139,511</u>	<u>\$ 11,139,511</u>

Transfers during the year ended December 31, 2018 were as follows:

Funds	Transfers In	Transfers Out
<b>General</b>	<u>\$ 12,779,658</u>	<u>\$ 1,702,332</u>
<b>Capital Improvement</b>	<u>6,846,392</u>	<u>9,547,523</u>
<b>Other Governmental Funds</b>		
Library		22,446
Municipal Recreation System	4,250	509,730
Mayo Civic Center		122,105
Airport Operations		89,394
Minnesota Bio Science Center		929,726
Transit		793,216
F. E. Williams Estate		20,000
DMCC	2,581,655	
TIF Revenue Bond	540,678	
Facility Energy Improvements Loan	566,967	
GO Variable Rate Sales Tax Bond	3,172,952	
Lodging Tax Revenue Bond	2,595,801	
Economic Development Authority Bond	929,726	
Subtotal Other Governmental Funds	<u>10,392,029</u>	<u>2,486,617</u>
Subtotal Governmental Funds	<u>30,018,079</u>	<u>13,736,472</u>
Enterprise	530,387	16,838,004
Internal Service	125,535	99,525
Totals	<u>\$ 30,674,001</u>	<u>\$ 30,674,001</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

**F. Interfund Balances and Transfers (continued)**

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amount provided as subsidies or matching funds for various grant programs, 3) payments in lieu of tax from enterprise funds.

In the government-wide statement of net position, transfers in/out are comprised of:

Governmental Funds:	
Transfer in	\$ 30,018,079
Transfers out	(13,736,472)
Internal Service Funds:	
Transfer in	125,535
Transfers out	(99,525)
Capital assets transferred from Govt-activities to Business-type activities	<u>(3,416,522)</u>
Government-wide Statement of Activities - Transfers in/out	<u>\$ 12,891,095</u>

**G. Operating Leases**

The City is obligated under certain leases accounted for as operating leases. Expenditures under these operating leases for the year ended December 31, 2018 totaled \$639,340.

Following is a schedule, by years, of estimated future minimum rental payments, for the Building Safety department's building rental at Olmsted County's campus, required under operating leases that have remaining non-cancelable lease terms in excess of one year. All scheduled rent increases are intended to cover inflationary increases or decreases in costs.

Years ending December 31:	
2019	\$ 47,065
2020	48,242
2021	49,448
2022	50,684
2023	51,951

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

**H. Long-term Debt**

A summary of long-term debt obligations outstanding at December 31, 2018, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/18
General Obligation Bonds:				
GO Taxable Tax Increment Bonds District 36, Series 2009A	\$ 8,035,000	4.7-6.0%	2033	\$ 6,330,000
GO Tax Increment Revenue Bond Series 2017A	21,285,000	2.0-5.0%	2038	21,285,000
GO Lodging Tax Revenue Bonds: Bonds, Series 2015A	42,795,000	2.5-5.0%	2035	39,345,000
GO Revenue Bonds:				
Revenue Crossover Refunding Bonds, Series 2012A	60,840,000	4.0-5.0%	2026	46,725,000
Revenue Crossover Refunding Bonds, Series 2015B	19,805,000	5.0%	2028	16,550,000
Revenue Refunding Bonds, Series 2015D	14,156,000	Variable	2026	10,525,000
GO Taxable Build America Bonds:				
Direct Pay, Series 2010A - Public Works	26,275,000	2.875-5.15%	2036	21,155,000
GO Variable Rate Sales Tax Revenue Bonds, Series 2015C	425,000	2.875-3.70%	2020	100,000
GO Equipment Certificates of Indebtedness, Series 2009B	40,432,813	Variable	2025	35,360,000
GO Equipment Certificates of Indebtedness, Series 2018A	815,000	3.5%	2019	95,000
Revenue Bonds:				
GO Equipment Certificates of Indebtedness, Series 2018A	2,225,000	3.25%	2028	2,225,000
Electric Utility Revenue Bonds, Series 2013B	38,370,000	3.0-5.0%	2043	35,965,000
Bonds, Series 2015E	36,970,000	3.0-5.0%	2030	36,550,000
Bonds, Series 2017A	108,255,000	2.0-5.0%	2047	104,790,000
Rochester Economic Development Authority Lease Bonds, Series 2007	9,900,000	4.70%	2033	5,904,000
Lease Bonds, Series 2008	6,700,000	4.71%	2033	4,000,000
Compensated Absences				15,600,939
Less: Unamortized premium				<u>34,056,016</u>
Total Long-term Debt				<u>\$ 436,140,955</u>

For governmental activities, compensated absences have been generally liquidated by the general, library, and municipal recreation funds.

The post-employment benefit obligation is generally liquidated by the self-insurance internal service fund.

For governmental activities, the net pension liability has generally been liquidated by the general, library, transit, and municipal recreation funds.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Taxable Tax Increment Bonds

In 2009, the City issued \$8,035,000 of Taxable General Obligation Tax Increment Revenue Bonds, Series 2009A. The proceeds of the issue are to assist in the funding of the Minnesota Bio Business Center. The debt is to be repaid using tax increments and lease payments from tenants of the Business Center.

In 2017, the City issued \$21,265,000 of General Obligation Tax Increment Revenue Bonds, Series 2017A. The proceeds of the issue are to assist in the funding of the Parking Ramp #6 Project. The debt is to be repaid using tax increments and parking revenues and is backed by the full faith credit and taxing power of the City.

General Obligation Revenue Bonds

General Obligation Revenue Bonds are recorded as liabilities in the Sewer Utility Enterprise Fund. The bonds are payable from revenues derived from the operation of the Sewer Utility Enterprise Fund and are backed by the full faith, credit and taxing power of the City. In 2012, the Sewer Utility issued \$60,840,000 of General Obligation Waste Water Revenue Crossover Refunding Bonds to refinance the 2004A Waste Water Revenue Bonds. In 2015, the Sewer Utility issued \$19,805,000 of General Obligation Waste Water Revenue Refunding Bonds to refinance the 2007A Waste Water Revenue Bonds and \$14,156,000 of General Obligation Variable Rate Waste Water Revenue Refunding Bonds to refinance the 2007B Variable Rate Demand Revenue Bonds.

Revenue Bonds – Electric Utility

Revenue Bonds are recorded as liabilities in the Electric Utility Enterprise Fund. The bonds are payable from revenues derived from the operation of the Electric Utility Enterprise Fund.

Revenue Lease Bonds – Economic Development Authority

Revenue Lease Bonds issued in 2007 and 2008 by the Rochester Economic Development Authority (REDA) are payable from lease revenues paid by the City of Rochester to the REDA. The City derives the funds for these payments from subleases of the Bio Science Building that was built, at least partially, with the proceeds of this bond.

General Obligation Lodging Tax Revenue Bonds

In 2015, the City issued General Obligation Lodging Tax Revenue Bonds. These bonds are backed by the full faith, credit, and taxing power of the City, however, the City does not anticipate the need to levy taxes for repayment of the Series 2015A Bonds. The City will pledge the Lodging Tax Revenues collected for repayment of the bonds, which will be sufficient to pay 105% of the debt service due on the Series 2015A bonds in each year.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Sales Tax Revenue Bonds

In 2015, the City issued General Obligation Sales Tax Revenue Bonds. These bonds are backed by the full faith, credit and taxing power of the City. The City will pledge the Sales Tax Revenues collected for repayment of the Series 2015C bonds.

General Obligation Equipment Certificates of Indebtedness

In 2009, the City issued \$815,000 of General Obligation Equipment Certificates of Indebtedness, Series 2009B. The proceeds of the issue were used to purchase and equip two new fire trucks for the City's Equipment Revolving Fund. In 2018, the City issued \$2,225,000 of General Obligation Equipment Certificates of Indebtedness, Series 2018A. The proceeds of the issue were used to finance the acquisition of certain items of capital equipment which is expected to include multiple fire safety vehicles for the City's Equipment Revolving Fund. Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included as part of the totals for governmental activities. The bonds are payable from the general tax levy and is backed by the full faith, credit and taxing power of the City.

General Obligation Taxable Build America Bonds

In 2010, the City issued \$26,700,000 of General Obligation Taxable Build America Bonds, Series 2010A. Of the issue, \$26,275,000 was used to construct a combined Public Works/Mass Transit Operations and Maintenance Center and \$425,000 was used to purchase a new fire truck for the City's Equipment Revolving Internal Service Fund. Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included in the totals for governmental activities. General tax levy will provide the resources for the bond repayment. The bonds are backed by the full faith, credit and taxing power of the City. City interest payable on these bonds is reimbursed to the City through a federal grant.

Energy Loan Payable

In 2006, the City entered into a contract to finance certain energy efficiency improvements in the amount of \$5,715,795. The contract requires semi-annual payments of \$297,810, including interest at 4.1% and was repaid through the savings in energy costs that the improvements produce. The loan matured on September 30, 2018.

Bond Indentures

There are a number of limitations and restrictions contained in the various bond indentures and note agreements and the City remains in compliance with these requirements.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

H. Long-term Debt (continued)

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2018:

In 2015, the Sewer Utility issued \$14.2 million in Refunding Revenue Bonds, Series 2015D, to be used for a refunding of the outstanding Series 2007B bonds. The crossover refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,878,134. This difference, reported in the financial statements as a deferred refunding balance, is being amortized and charged to operations over the bond term using the interest method. As of December 31, 2018, the balance totaled \$1,839,409.

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2018, excluding accrued compensated absences over the life of the debt, are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Notes Payable:					
General Obligation Bonds and Notes:					
GO Taxable Tax Increment Bonds	\$ 6,600,000	\$ 270,000	\$ 6,330,000	\$ 285,000	
GO Tax Increment Revenue Bond Series 2017A	21,265,000		21,265,000	550,000	
GO Lodging Tax Revenue Bonds, Series 2015A	40,390,000	1,045,000	39,345,000	1,255,000	
GO Equipment Certificates of Indebtedness, Series 2009B	185,000	90,000	95,000 (1)	95,000	
GO Taxable Build America Bonds Direct Pay, Series 2010A - Equipment	22,045,000	890,000	21,155,000	905,000	
GO Variable Rate Sales Tax Revenue Bonds, Series 2015C	150,000	50,000	100,000 (1)	50,000	
GO Equipment Certificates of Indebtedness, Series 2018A	37,780,000	2,420,000	35,360,000	2,490,000	
Revenue Bonds:		2,225,000	2,225,000 (1)		
REDA Lease Revenue Bonds, Series 2007	7,715,000		1,811,000	5,904,000	280,000
REDA Lease Revenue Bonds, Series 2008	5,225,000		1,225,000	4,000,000	188,000
Municipal Loan Payable:					
Plus: Unamortized Premium on Bonds	677,793		677,793		
Other Liabilities:	4,388,044		246,782	4,142,252	
Compensated Absences	11,259,695	7,133,378	6,895,228	11,527,845	6,820,000
Governmental Activities Long-term Liabilities	157,590,532	9,358,378	15,489,813	151,449,097	12,918,000
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant Revenue Crossover Refunding Series 04A Bonds, Series 2012A	51,665,000		4,940,000	46,725,000	5,135,000
Revenue Crossover Refunding Bonds, Series 2015B	18,215,000		1,665,000	16,550,000	1,750,000
Revenue Refunding Bonds, Series 2015D	11,755,000		1,230,000	10,525,000	1,240,000
Revenue Bonds:					
Electric Utility Revenue Bonds - Series 2013B	36,300,000		735,000	35,565,000	765,000
Electric Utility Revenue Refunding Bonds - Series 2015E	38,810,000		2,260,000	36,550,000	2,370,000
Electric Utility Revenue Bonds - Series 2017A	107,255,000		2,465,000	104,790,000	2,590,000
Plus: Unamortized Premium	33,366,135	5,774	3,478,145	29,913,764	
Other Liabilities:	3,948,189	672,654	547,639	4,073,194	2,282,017
Compensated Absences	307,330,324	678,308	17,320,784	286,687,858	16,132,017
Business-type Activities Long-term Liabilities	\$ 458,914,965	\$ 10,036,696	\$ 32,810,597	\$ 436,140,965	\$ 23,056,017
<b>Total</b>					

(1) Debt recorded in the internal service funds.

	General Obligation Revenue		Revenue Bonds	
	Principal	Interest*	Principal	Interest
<b>Governmental Activities</b>				
2019	\$ 5,630,000	\$ 4,443,241	\$ 468,000	\$ 454,881
2020	5,990,000	4,261,323	492,000	432,301
2021	6,440,000	4,031,642	516,000	408,593
2022	6,735,000	3,785,464	536,000	383,850
2023	7,060,000	3,524,570	564,000	357,978
2024-2028	47,375,000	12,356,220	3,248,000	1,355,892
2029-2033	29,065,000	6,367,909	4,080,000	497,123
2034-2038	17,590,000	1,116,568		
<b>Totals</b>	<b>\$ 125,875,000</b>	<b>\$ 39,886,637</b>	<b>\$ 9,904,000</b>	<b>\$ 3,890,618</b>

	General Obligation Revenue		Utility Revenue Bonds	
	Principal	Interest*	Principal	Interest
<b>Business-Type Activities</b>				
2019	\$ 8,125,000	\$ 3,138,544	\$ 5,725,000	\$ 8,366,350
2020	8,505,000	2,757,048	6,015,000	8,080,100
2021	8,845,000	2,357,946	6,315,000	7,779,350
2022	9,195,000	1,942,236	6,625,000	7,472,050
2023	9,555,000	1,508,924	6,955,000	7,140,800
2024-2028	29,575,000	1,912,145	39,785,000	30,715,300
2029-2033			30,545,000	21,919,350
2034-2038			24,280,000	16,158,500
2039-2043			30,685,000	9,751,000
2044-2047			19,995,000	2,560,250
<b>Totals</b>	<b>\$ 73,800,000</b>	<b>\$ 13,616,843</b>	<b>\$ 176,905,000</b>	<b>\$ 119,943,050</b>

\* Interest on variable rate debt was estimated using the rate in effect at December 31, 2018.



**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. As of December 31, 2018, the City had not utilized \$207,353,050 of its net legal debt margin.

The City has issued several conduit debt obligations. These obligations do not constitute an indebtedness of the City and are not a charge against its general credit or taxing powers. The obligations are payable solely from revenues of the respective companies to which the proceeds were remitted. The original amount of the current issues totals \$2,696,763,988 and the balance outstanding at December 31, 2018 totals \$2,503,120,780.

Revenue Pledged

Future revenue pledged for the payment of long-term debt is as follows:

Bond Issue - Revenue Bonds	Use of Proceeds	Revenue Pledged		Term of Pledge	Resolving Principal and Interest	Current Year
		Type	Total Debt Service			
General Obligation Bonds - Part						
Revenue Crossflow Refunding Series 04A Bonds, Series 2012A	Refund 2007A issue	Utility Revenue	100%	2012 - 2028	\$5,501,625	\$ 7,276,150
Revenue Crossflow Refunding Series 2015B	Refund 2007A issue	Utility Revenue	100%	2015 - 2028	20,477,250	2,575,750
Revenue Refunding Bonds, Series 2015D	Refund 2007B issue	Utility Revenue	100%	2015 - 2028	11,437,668 *	1,461,550
REDA Lease Revenue Bonds, Series 2007 Bc Science building		Lease Revenue	100%	2007 - 2033	8,231,100	689,733
REDA Lease Revenue Bonds, Series 2008 Bc Science building		Lease Revenue	100%	2008 - 2033	5,573,516	465,799
Electric Utility Revenue Bonds - Series 2013B	Southwest Metro to Rochester to La Crosse transmission line project	Utility Revenue	100%	2013 - 2043	61,288,400	2,448,750
Electric Utility Revenue Refunding Bonds - Series 2015E	Advance refund a portion of 2007C issue	Utility Revenue	100%	2015 - 2030	45,760,150	3,815,500
Electric Utility Revenue Bonds - Series 2017A	Finance Westside Energy Station, transmission, distribution and improvements	Utility Revenue	100%	2017 - 2047	199,798,500	7,627,750

\* Interest on variable rate debt was estimated using the rate in effect at December 31, 2018.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits

A. Plan Description

The City provides health insurance benefits for certain retired employees under a single-employer self-insured plan. The City provides benefits for retirees as required by state statute to active employees when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and if they do not participate in any other health benefits program providing similar coverage. These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the City's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of January 1, 2018 there were 878 active participants, 259 retirees receiving benefits.

The City pays for health insurance coverage for disabled police and fire fighters and their dependents (if the dependents were covered at the time of the disability) until the disabled employee reaches age 65, as required by state statute.

B. Net OPEB Liability

The City's net OPEB liability was measured as of January 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the City at year-end were as follows:

Total OPEB liability	\$ 10,725,626
Covered payroll	\$ 70,791,125
Total OPEB liability as a % of payroll	<u>15%</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

C. Funded Status and Funding Progress

As of January 1, 2018, the most recent valuation date, the actuarial accrued liability for benefits was \$10,725,626 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$70,791,125 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15 percent. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

D. Methods and Assumptions

In the January 1, 2018 actuarial valuation, the entry age level percentage of pay method was used. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

D. Methods and Assumptions (continued)

The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.30%
20-year Municipal Bond Yield	3.30%
Inflation rate	2.50%
Mortality	Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
Medical trend rate	6.50% as of January 1, 2018 grading to 5.00% over 6 years. The medical trend rates have been chosen based on a review of historical health care increase rates, projected health care increase rates, and projected health care expenditures as a percentage of GDP. The components of health care costs were considered when developing the aggregate set of trend rates.

E. Changes in Net OPEB Liability

	<u>Total OPEB Liability</u>
Beginning Balance 1/1/2018	\$ 9,947,454
Changes for the year:	
Service cost	762,822
Interest	347,995
Benefit payments	(332,645)
Net Changes	<u>778,172</u>
Balance End of Year 12/31/2018	<u>\$ 10,725,626</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

F. Net OPEB Liability Sensitivity to Discount and Health-Care Trend Rate Changes

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it would be calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	<u>Net OPEB Liability</u>
1% decrease in Discount Rate (2.30%)	\$ 11,527,856
Current Discount Rate (3.30%)	10,725,626
1% increase in Discount Rate (4.30%)	9,975,749

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it would be calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	<u>Net OPEB Liability</u>
1% decrease in Trend Rates	\$ 9,680,098
Current Trend Rates	10,725,626
1% increase in Trend Rates	11,941,883

G. OPEB Expense and Related Deferred Outflows/Inflows of Resources of Resources

As of the year ended December 31, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>
Contributions paid to OPEB subsequent to the measurement date	\$ 408,344

Contributions subsequent to the measurement date of \$408,344 will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

J. Governmental Fund Balance Classifications

The City's governmental fund balances as of December 31, 2018 were classified as follows:

	<u>General Fund</u>	<u>Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Nonspendable:</u>				
Prepaid Items	\$ 31,805	\$ 194,469	\$ 226,274	
Inventory	916,544	70,907	987,451	
Total Nonspendable	<u>948,349</u>	<u>265,376</u>	<u>1,213,725</u>	
<u>Restricted for:</u>				
Civic Music Endowment	39,010			39,010
Flood Control		17,225,838		17,225,838
Economic Development Loans		329,886		329,886
Park and Recreation		108,819		108,819
Tax Increment Financing		4,536,611		4,536,611
Sales Tax Authorized Projects		23,904,369		23,904,369
Destination Medical Center		6,981,997		6,981,997
Airport Operations			4,529,798	4,529,798
Children's Playgrounds			666,517	666,517
Debt Service		1,788,107		1,788,107
Total Restricted	<u>39,010</u>	<u>53,087,490</u>	<u>6,984,422</u>	<u>60,110,922</u>
<u>Committed to:</u>				
Capital Improvement		71,419,206		71,419,206
Total Committed		<u>71,419,206</u>		<u>71,419,206</u>
<u>Assigned to:</u>				
Subsequent Years Budgets	377,806			377,806
Encumbrances	1,352,803			1,352,803
Library Operations			3,091,043	3,091,043
Parks and Recreation			3,229,589	3,229,589
Mayo Civic Center			1,511,158	1,511,158
Transit			2,842,368	2,842,368
Minnesota Bio Science Center			1,296,109	1,296,109
Total Assigned	<u>1,730,609</u>	<u>11,970,267</u>	<u>13,700,876</u>	<u>13,700,876</u>
<u>Unassigned</u>	<u>35,845,807</u>	<u>(2,835,434)</u>	<u>(2,835,434)</u>	<u>33,010,373</u>
Total Fund Balances	<u>\$ 38,563,775</u>	<u>\$ 124,506,696</u>	<u>\$ 16,384,631</u>	<u>\$ 179,455,102</u>

Encumbrances are valid and executed contracts for equipment purchases as of December 31, 2018 for which performance is expected in the subsequent years. Such encumbrances are included in assigned fund balance of the general fund.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

**K. Restricted Net Position**

	Restricted Net Position Imposed By			Legally Enforceable
	Grantors	Donors	Debt Service	
Governmental Activities				
Major Governmental Funds:				
General Fund:				
Civic Music Endowment	\$	\$ 39,010	\$	\$
Capital Improvement Fund:				
Flood Control	329,856			17,225,838
Economic Development Loans				
Park and Recreation		108,819		4,536,611
Tax Increment Financing				23,904,369
Sales Tax Authorized Projects				
Nonmajor Governmental Funds:				
Special Revenue Funds:				
Children's Playgrounds	666,517			
CDBG Loans	3,804,709			4,529,798
Airport Operations				
Debt Service Funds:				
Debt Service			1,788,107	
Total Governmental Restricted Net Position	4,801,082	147,829	1,788,107	50,196,616
Business-Type Activities				
Debt Service			477,083	
Funds Held in Trust			121	
Total Business-Type Restricted Net Position			477,204	
Total Government Wide Restricted Net Position	\$ 4,801,082	\$ 147,829	\$ 2,265,311	\$ 50,196,616

**L. Deficit Fund Balance**

Special Revenue Fund:		
Edward Byrne Memorial Justice Assistance Grant Fund	\$	262
Community Development Projects		1,797
Tax Increment Bonds		1,250
Economic Development Authority Bond		2,640,728

The City intends to fund this accumulated deficit through additional revenue sources.

**M. Excess Expenditures over Appropriations**

At December 31, 2018, excess of expenditures over appropriations, all the result of a planned process, were as follows:

Special Revenue Funds	Expenditures	Appropriation	Excess
Mayo Civic Center	\$ 6,040,816	\$ 5,644,895	\$ 395,921

NOTE 4: Other Information

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (LMCIT) to provide its general liability and property coverage. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota cities. All cities in the LMCIT are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to the participating cities if a deficiency occurs. The City purchases commercial insurance for property values in excess of the LMCIT policy limits and all other risks of loss. Settled claims have not exceeded the LMCIT or commercial coverage in any of the past three fiscal years.

The City maintains a self-insurance program for employee group health coverage and worker's compensation. The City has established a Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program the Self-Insurance Fund provides coverage for up to a maximum of \$315,000 per group health claim (with a variable annual aggregate) and \$1,000,000 for each worker's compensation claim.

The City purchases commercial insurance for claims in excess of the coverage provided by the Self-Insurance Fund. All funds of the City participate in the program and make payments to the Self-Insurance Fund. The claim liability of \$2,856,439 reported in the Fund at December 31, 2018 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, as amended by Governmental Accounting Standards Board Statement No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claim liabilities are based on the estimated ultimate cost of settling claims, including specific and incremental expenses, salvage, and subrogation. The claim liability does not include other allocated or unallocated claim adjustment expenses.

Changes in the Fund's claims liability amount during the years ended December 31, 2018 and 2017 were as follows:

Year Ended	Beginning of Year Liability	Current Year		End of Year Liability
		Claims and Changes to Estimates	Claim Payments	
2018	\$ 3,069,194	\$ 18,129,059	\$ (18,341,814)	\$ 2,856,439
2017	3,434,712	18,730,802	(19,096,320)	3,069,194

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

B. Commitments

Power Sales Agreement

The Electric Utility has a Resource Management Agreement with the Energy Authority, Inc. as its market participant in the Midcontinent Independent System Operator energy and operating reserves market for the Cascade Creek combustion turbines and Westside Energy Station reciprocating engines.

Service Territory Settlements

Under settlement agreements with People's Energy Cooperative (PEC), the Electric Utility is required to make payments to PEC related to the acquisitions of certain electric service rights from PEC. The payment is based on kilowatt hours (kWh) sold in acquired areas and varies by each settlement agreement. The kWh compensation rate ranges from 14.61 mills (tenths of a cent) per kWh to 25.50 mills per kWh. These commitments expire over various periods with a maximum term of ten years for each acquisition. Costs are recognized under these agreements as service is provided and are recorded as a regulatory asset for utility rate-making purposes under the provisions of GASB Statement No. 62 and amortized over 40 years.

Southern Minnesota Municipal Power Agency

The Electric Utility is a voting member of the Southern Minnesota Municipal Power Agency (SMMMPA). The Utility has entered into a power purchase contract with SMMMPA, whereby SMMMPA will provide all Utility power requirements up to 216 megawatts, the contract rate of delivery. This contract expires in the year 2030. In 1999, the Utility and SMMMPA agreed to a contract rate of delivery (CROD) that began in 2000. The CROD caps the amount of power SMMMPA must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The Utility purchased 1,225,107,617 kilowatt hours totaling \$93,617,747 from SMMMPA during the year ended December 31, 2018.

The Utility leases a portion of its electrical transmission system, known as the North Loop, to SMMMPA under a noncancellable operating lease through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of \$1,500,000 in 1989 and lease revenues of \$36,420 are being recognized ratably over the lease term.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

B. Commitments (continued)

Central Minnesota Municipal Power Agency

The Electric Utility has an agreement with Central Minnesota Municipal Power Agency (CMMPA) for the purchase of capacity. The remaining contract quantities and prices are as follows:

Planning Year	Megawatts (per month)	Contract Price (\$ per MW)	Purchase Price
June 1, 2018 - May 31, 2019	8	\$ 2,400	\$ 230,400
June 1, 2019 - May 31, 2020	11	\$ 2,900	\$ 382,800
June 1, 2020 - May 31, 2021	11	\$ 3,400	\$ 448,800
June 1, 2021 - May 31, 2022	11	\$ 4,000	\$ 528,000

Lake Zumbro Restoration

Lake Zumbro is a reservoir on the Zumbro River formed by the Zumbro Dam which was placed in service in 1919. RPU is the owner and operator of the Zumbro Dam & Hydroelectric Facility and owns in fee title much of the lake bed. Over the years sedimentation has filled in portions of the lake. In December, 2015, RPU along with Olmsted County, Wabasha County, and the Lake Zumbro Improvement District executed an agreement where each party committed to providing funding that in total matched \$3,500,000 originally committed by the State of Minnesota to dredge sediment from portions of the lake. RPU's committed amount is \$1,167,000. Olmsted County is acting as the project manager and fiscal agent for the parties committed in the agreement. As of December 31, 2018, RPU had provided \$399,662 in funding leaving a committed balance of \$767,338. Funding by RPU occurs only as project expenditures are incurred.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

**B. Commitments** (continued)

**Purchase Commitments/Encumbrances:**

The City has active construction projects and equipment purchase commitments. As of December 31, 2018, the City's commitments with contractors and vendors were as follows:

	Remaining Commitment
Construction Projects	\$ 2,868,825
Major Street Projects	1,490,282
Sewer and Water Projects	395,529
Sidewalk Projects	300,470
Traffic Projects	303,772
Storm Water / Storm Sewer Projects	390,555
Flood Control	173,482
Water Reclamation Projects	2,757,155
Parking Ramp Rehabilitation	364,820
Airport Projects	552,244
Civic Center Improvements	10,897
Golf Projects	10,350
Recreation Center	192,257
Parks Projects - Various	93,617
Destination Medical Center	8,274,466
Electric Projects	263,582
Water Projects	\$ 18,442,303
Total Construction Projects	\$ 8,930
Equipment Purchase Commitments	42,442
Police Precinct #2-Office Chairs	746
Energy Performance Improvements	88,043
City Hall Carpet Replacement	188,662
City Hall Security Upgrades	6,411
Dispatch Work Stations @ LEC	48,360
Public Safety Camera System	96,297
Library Information Technology/Software	154,080
LEC Electronic Citation System	1,319
Identity Mgmt & Video Mgmt	3,000
In-squad Video Recording Equipment	273,787
Replace Auto External Defib (AED)	8,474
City Wide IT Integration	111,855
City Wide Area Network	21,550
Transit Vehicle Location System	126,692
Bus Shelters	\$ 1,180,638
Bus Equipment-Fareboxes, Smart Hub, AVL	\$ 417,836
Bus Equipment Purchase Commitments	\$ 417,836
Total Equipment Purchase Commitments	\$ 417,836
General Fund Encumbrances	\$ 417,836
*General Fund Equipment Purchase Commitments	\$ 417,836
Total General Fund Encumbrances	\$ 417,836

\*See additional disclosures regarding encumbrances in footnote 3.J.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

**C. Contingent Liabilities**

**General Litigation:**

There are several pending lawsuits in which the City is involved. It is the opinion of management that substantially all of these claims would be covered by the liability insurance of the City and that potential claims against the City would not materially affect the financial statements.

The Electric Utility is engaged in an administrative hearing before the Federal Energy Regulatory Commission involving the recovery of RPU's Annual Transmission Revenue Requirement from transmission customers in the Midcontinent Independent System Operator, Inc. (MISO) region. During 2018 FERC issued an order affirming the Administrative Law Judge's 2017 ruling that RPU was entitled to recovery of its revenue requirement related to its investment in MISO Zone 16. However, FERC's order is subject to requests for rehearing and possible appeals to the United States Court of Appeals. This case will not be final until either the time for filing of a petition for review lapses with no such petition having been filed, or upon final order of the Court of Appeals. The related payments MISO has made and will make to RPU until the final determination is known remain subject to refund. As of December 31, 2018, RPU had \$4,330,456 recorded as an unearned revenue related to this matter. The matter does not involve a claim or assessment against RPU.

**Federally Assisted Programs:**

The City participates in a number of federal agency assisted grant programs, principal of which are the Community Development Block Grant, Neighborhood Stabilization Program, Federal Transit, and Airport Improvement Programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of certain programs for or including the year ended December 31, 2018, have not yet been completed. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

**D. Deferred Compensation**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is generally not available to employees until termination, retirement, death, or unforeseeable emergency.

CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Fund

All full-time and certain part-time employees of the City of Rochester, Minnesota are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Public Employees Police and Fire Fund

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

1. General Employees Plan Benefits (continued)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 90 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Contributions

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$3,765,952. The City's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Plan Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary and the City was required to contribute 16.20 percent of pay for members in fiscal year 2018. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$3,648,935. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$41,446,045 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$1,359,493. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was 0.7471 percent which was a decrease of 0.023 percent from its proportionate share measured at June 30, 2017.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

City's proportionate share of the net pension liability	\$41,446,045
State of Minnesota's proportionate share of the net Pension liability associated with the City	<u>1,359,493</u>
Total	<u>\$42,805,538</u>

For the year ended December 31, 2018, the City recognized pension expense of \$89,336 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$317,031 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,129,267	\$ 1,176,443
Changes in actuarial assumptions	3,853,159	4,755,038
Difference between projected and actual investment earnings	5,173,879	9,720,785
Changes in proportion	1,745,686	1,281,316
Contributions paid to PERA subsequent to the measurement date	1,927,415	
Total	<u>\$ 13,829,406</u>	<u>\$ 16,933,582</u>

\$1,927,415 reported as deferred outflows of resources related to pensions is resulting from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

		Pension Expense Amount
Year ending June 30:		
2019	\$	1,515,666
2020		(1,889,805)
2021		(3,792,399)
2022		(865,053)



**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

2. Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$22,780,351 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was 2.1372 percent which was a decrease of 0.0698 percent from its proportionate share measured at June 30, 2017. The City also recognized \$192,348 for the year ended December 31, 2018, as revenue and offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2018, the City recognized pension expense of \$1,343,673 for its proportionate share of the Police and Fire Fund's pension expense.

At December 31, 2018, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 935,528	\$ 5,626,942
Changes in actuarial assumptions	28,385,248	34,606,003
Difference between projected and actual investment earnings	6,046,474	11,011,315
Changes in proportion	1,800,245	984,161
Contributions paid to PERA subsequent to the measurement date	1,818,462	
Total	<u>\$ 38,985,957</u>	<u>\$ 52,228,421</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

2. Police and Fire Fund Pension Costs (continued)

\$1,818,462 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2019	\$ (619,951)
2020	(1,697,400)
2021	(3,410,251)
2022	(9,101,150)
2023	(232,174)

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2018 was \$1,942,388.

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method the following actuarial assumptions:

Inflation	2.50%	Per year
Active Member Payroll Growth	3.25%	Per year
Investment Rate of Return	7.50%	

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disability for all plans were based on RP 2014 tables for males and females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan and 1.0 percent per year for the Police and Fire Plan.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Actuarial Assumptions (continued)

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- Mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0 percent per year through 2044 and 2.5 percent per year thereafter to 1.25 percent per year.

Police and Fire Fund

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%
Total	100%	

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
City's proportionate share of the General Employees Fund net pension liability at different discount rates	\$ 67,355,129	\$ 41,446,045	\$ 20,058,836
City's proportionate share of the PEPFF net pension liability at different discount rates	48,842,500	22,780,351	1,228,035
Total Net Pension Liability	\$ 116,197,629	\$ 64,226,396	\$ 21,286,871

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**CITY OF ROCHESTER, MINNESOTA  
Schedules of City Pension Contributions  
December 31, 2018**

NOTE 5: Accounting for the Effects of Rate Regulation

The Electric and Water funds are subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 10, 1989 FASB and AICPA Pronouncements*. In order for a rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the criteria as outlined by the Statement. Based upon the Utilities' management evaluation of the criteria in relation to its operations, and the effect of competition on its ability to recover its costs, the Electric and Water funds believe that GASB Statement No. 62 continues to apply.

NOTE 6: Tax Abatement Agreements

As of December 31, 2018, the City only provides tax abatements through Pay-as-You-Go (PAYG) Tax Increment Financing (TIF) District agreements under Minnesota Statutes, Sections 469.174 through 469.179. The PAYG TIF Districts in the City pay a developer up to 95% of the previous six months tax increment collected in order to assist with funding a development project. As of December 31, 2018, the City had fifteen said Districts in which \$1,523,287 of tax revenue was paid out to developers under these agreements.

**PERA General Employees Retirement Fund  
Last Ten Years\***

Year Ended December 31	Statutory Required Contribution (a)	Contributions in Relation to Statutory Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 3,212,117	\$ 3,212,117	\$	\$ 42,828,227	7.5%
2016	3,383,825	3,383,825		45,117,667	7.5%
2017	3,721,078	3,721,078		49,614,373	7.5%
2018	3,765,952	3,765,952		50,212,693	7.5%

**PERA Public Employees Police and Fire Fund Pension Plan  
Last Ten Years\***

Year Ended December 31	Statutory Required Contribution (a)	Contributions in Relation to Statutory Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 3,140,595	\$ 3,140,595	\$	\$ 19,386,389	16.2%
2016	3,342,831	3,342,831		20,634,759	16.2%
2017	3,669,622	3,669,622		22,651,988	16.2%
2018	3,648,935	3,648,935		22,524,290	16.2%

\* This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

**CITY OF ROCHESTER, MINNESOTA**  
**Schedules of City and Non-Employer Proportionate Share of Net Pension Liability**  
**December 31, 2018**

**Other Post-Employment Benefits Plan**  
**Schedule of Changes in the District's Net OPEB**  
**Liability and Related Ratios**  
**December 31, 2018**

**PERA General Employees Retirement Fund**  
**Last Ten Years\***

Fiscal Year Ended June 30	City's Proportionate Share (Percentage) of Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the City (a+b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of the Total Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of the Total Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of the Total Pension Liability (Asset)
2015	0.7410%	\$ 38,402,466	\$ 38,402,466	\$ 46,112,718	83.3%	76.20%	76.20%
2016	0.7271%	59,036,914	771,048	43,972,947	136.0%	68.90%	68.90%
2017	0.7701%	49,162,676	618,213	49,780,889	105.1%	75.90%	75.90%
2018	0.7471%	41,446,045	1,359,493	42,805,538	85.8%	79.53%	79.53%

**Total OPEB Liability**

Service cost	\$ 762,822
Interest cost	347,995
Benefit payments	(332,645)
Net change in total OPEB liability	<u>778,172</u>
Total OPEB Liability - beginning of year	9,947,454
Total OPEB Liability - end of year	<u>\$ 10,725,626</u>

**Covered Payroll**

	\$ 70,791,125
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**Total OPEB Liability as a % of payroll**

	15%
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See Note 3i, Post-Employment Benefits, for more information.

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

**PERA Public Employees Police and Fire Fund Pension Plan**  
**Last Ten Years\***

Fiscal Year Ended June 30	City's Proportionate Share (Percentage) of Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the City (a+b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of the Total Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of the Total Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of the Total Pension Liability (Asset)
2015	2.1770%	\$ 24,735,814	\$ 195,930	\$ 24,931,744	119.1%	86.60%	86.60%
2016	2.1420%	85,962,187	192,780	86,154,967	430.5%	63.90%	63.90%
2017	2.2070%	29,797,126	198,630	29,995,756	138.6%	85.40%	85.40%
2018	2.1372%	22,780,351	192,348	22,972,699	101.7%	88.84%	88.84%

\* This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

**Rochester Economic Development Authority**  
**\$21,365,000\* Lease Revenue Bonds**  
**(City of Rochester, Minnesota Lease Obligation), Series 2020A**

For the Bonds of this Issue which shall mature and bear interest at the respective annual rates, as follow, we offer a price of \$ \_\_\_\_\_ (which may not be less than \$21,365,000 (Par)) plus accrued interest, if any, to the date of delivery.

<u>Year</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>Dollar Price</u>	<u>Year</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>Dollar Price</u>
2021	_____ %	_____ %	_____ %	2031	_____ %	_____ %	_____ %
2022	_____ %	_____ %	_____ %	2032	_____ %	_____ %	_____ %
2023	_____ %	_____ %	_____ %	2033	_____ %	_____ %	_____ %
2024	_____ %	_____ %	_____ %	2034	_____ %	_____ %	_____ %
2025	_____ %	_____ %	_____ %	2035	_____ %	_____ %	_____ %
2026	_____ %	_____ %	_____ %	2036	_____ %	_____ %	_____ %
2027	_____ %	_____ %	_____ %	2037	_____ %	_____ %	_____ %
2028	_____ %	_____ %	_____ %	2038	_____ %	_____ %	_____ %
2029	_____ %	_____ %	_____ %	2039	_____ %	_____ %	_____ %
2030	_____ %	_____ %	_____ %	2040	_____ %	_____ %	_____ %

**Designation of Term Maturities**

Years of Term Maturities \_\_\_\_\_

In making this offer on the sale date of March 2, 2020 we accept all of the terms and conditions of the Terms of Proposal published in the Preliminary Official Statement dated February 13, 2020 including the EDA’s right to modify the principal amount of Bonds. (See “Terms of Proposal” herein.) In the event of failure to deliver these Bonds in accordance with said Terms of Proposal, we reserve the right to withdraw our offer, whereupon the deposit accompanying it will be immediately returned. All blank spaces of this offer are intentional and are not to be construed as an omission.

By submitting this proposal, we confirm that we have an established industry reputation for underwriting municipal bonds such as the Bonds.

Not as a part of our offer, the above quoted prices being controlling, but only as an aid for the verification of the offer, we have made the following computations:

NET INTEREST COST: \$ \_\_\_\_\_

TRUE INTEREST RATE: \_\_\_\_\_ %

The Bidder  will not  will purchase municipal bond insurance from \_\_\_\_\_.

Account Members

\_\_\_\_\_  
Account Manager

By: \_\_\_\_\_

Phone: \_\_\_\_\_

.....  
The foregoing proposal has been accepted by the EDA.

Attest: \_\_\_\_\_

Date: \_\_\_\_\_

.....  
\* Preliminary; subject to change.