

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 20, 2020

NEW ISSUE

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

Interest on the Bonds is includable in gross income of the recipient for United States and State of Minnesota income tax purposes according to present federal and Minnesota laws, regulations, rulings and decisions. The City will NOT designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Internal Revenue Code of 1986, as amended, which permits financial institutions to deduct interest expenses allocable to the Bonds to the extent permitted under prior law. (See "TAXABILITY OF INTEREST" herein.)

\$25,050,000*
City of Rochester, Minnesota
Taxable General Obligation Waste Water
Revenue Refunding Bonds, Series 2020B
(the "Bonds")
(Book Entry Only)

Dated Date: Date of Delivery

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

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

| | | | | | | | |
|------|-------------|------|-------------|------|-------------|------|-------------|
| 2023 | \$6,540,000 | 2024 | \$6,620,000 | 2025 | \$6,565,000 | 2026 | \$5,325,000 |
|------|-------------|------|-------------|------|-------------|------|-------------|

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.

The Bonds will not be subject to redemption in advance of their respective stated maturity dates.

The Bonds are general obligations of the City for which the City pledges its full faith and credit and power to levy direct general ad valorem taxes. In addition, the City will pledge net revenues of the City's Sewer Utility Fund for repayment of the Bonds. The proceeds of the Bonds will be used to refund the February 1, 2023 through February 1, 2026 maturities of the City's General Obligation Waste Water Revenue Refunding Bonds, Series 2012A, dated May 15, 2012.

Proposals shall be for not less than \$24,924,750 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 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.) The Director of Finance of the City will serve as registrar (the "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: Council meeting commencing at 7:00 P.M., CT on Monday, March 2, 2020



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.

CITY OF ROCHESTER, MINNESOTA

CITY COUNCIL

| | |
|-------------------|------------------------------|
| Kim Norton | Mayor |
| Randy Staver | Council President |
| Patrick Keane | Council Member – First Ward |
| Michael J. Wojcik | Council Member – Second Ward |
| Nick Champion | Council Member – Third Ward |
| Mark Bilderback | Council Member – Fourth Ward |
| Shaun C. Palmer | Council Member – Fifth Ward |
| Annalissa Johnson | Council Member – Sixth Ward |

CITY ADMINISTRATOR

Stephen Rymer

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 City 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 City.

By awarding the Bonds to any underwriter or underwriting syndicate submitting a Proposal therefor, the City 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 City 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 City.

Certain information contained in the Preliminary Official Statement or the Final Official Statement may have been obtained from sources other than records of the City 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 CITY 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 City. The City 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 City 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 CITY 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

\$25,050,000*

CITY OF ROCHESTER, MINNESOTA

**TAXABLE GENERAL OBLIGATION WASTE WATER
REVENUE REFUNDING BONDS, SERIES 2020B**

(BOOK ENTRY ONLY)

Proposals for the above-referenced obligations (the “Bonds”) will be received by the City of Rochester, Minnesota (the “City”) 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 Common Council at its meeting commencing at 7:00 P.M., Central Time, of the same day.

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 City 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 City, 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 City, 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 City 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 City.

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, 2nd Floor, New York, New York 10018
Customer Support: (212) 849-5000

* *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:

| | | | | | | | |
|------|-------------|------|-------------|------|-------------|------|-------------|
| 2023 | \$6,540,000 | 2024 | \$6,620,000 | 2025 | \$6,565,000 | 2026 | \$5,325,000 |
|------|-------------|------|-------------|------|-------------|------|-------------|

* *The City 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 City 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.

REGISTRAR

The Director of Finance of the City will serve as registrar for the Bonds.

OPTIONAL REDEMPTION

The Bonds will not be subject to redemption in advance of their respective stated maturity dates.

SECURITY AND PURPOSE

The Bonds will be general obligations of the City for which the City will pledge its full faith and credit and power to levy direct general ad valorem taxes. In addition, the City will pledge net revenues of the City's Sewer Utility Fund for repayment of the Bonds. The proceeds of the Bonds will be used to refund the February 1, 2023 through February 1, 2026 maturities of the City's General Obligation Waste Water Revenue Refunding Bonds, Series 2012A, dated May 15, 2012.

TAXABILITY OF INTEREST

The interest to be paid on the Bonds is included in gross income of the recipient for United States and State Minnesota income tax purposes, and is subject to Minnesota corporate and bank excise taxes measured by income.

BIDDING PARAMETERS

Proposals shall be for not less than \$24,924,750 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 on the Sale Date unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made. 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.

GOOD FAITH DEPOSIT

To have its proposal considered for award, the Purchaser is required to submit a good faith deposit to the City in the amount of \$250,500 (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 City; 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 City 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 City 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 City if it is made payable to the City 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 City 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 City 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 City.

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 City. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling.

The City 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 City determines to have failed to comply with the terms herein.

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 City 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 City, or its agents, the Purchaser shall be liable to the City for any loss suffered by the City 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 City will undertake, pursuant to the resolution awarding sale of the Bonds, 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 City has 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 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 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 City 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 City 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 City, (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 19, 2020

BY ORDER OF THE CITY COUNCIL

/s/ Anissa Hollingshead
City Clerk

OFFICIAL STATEMENT

\$25,050,000*

CITY OF ROCHESTER, MINNESOTA

**TAX ABLE GENERAL OBLIGATION WASTE WATER
REVENUE REFUNDING BONDS, SERIES 2020B**

(BOOK ENTRY ONLY)

INTRODUCTORY STATEMENT

This Official Statement contains information regarding the City of Rochester, Minnesota (the “City”) and its issuance of \$25,050,000* Taxable General Obligation Waste Water Revenue Refunding Bonds, Series 2020B (the “Bonds”). The Bonds are general obligations of the City for which the City pledges its full faith and credit and power to levy direct general ad valorem taxes. In addition, the City will pledge net revenues of the City’s Sewer Utility Fund for repayment of the Bonds.

Inquiries may be directed to Mr. Dale R. Martinson, Director of Finance, City of Rochester, 201 Fourth Street Southeast, Room 204, Rochester, Minnesota 55904-3779, by telephoning (507) 328-2850, or by emailing dmartinson@rochestermn.gov. Inquiries may also be made to Baker Tilly Municipal Advisors LLC, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101-2887, by telephoning (651) 223-3000, or by emailing bond_services@bakertilly.com.

CONCURRENT FINANCING

As of the date of this Official Statement, the Rochester Economic Development Authority (the “EDA”), while not the issuer of the Bonds described herein, by means of separate Official Statement dated February 10, 2020, is offering for sale its \$21,365,000* Lease Revenue Bonds (City of Rochester, Minnesota Lease Obligation), Series 2020A (the “EDA Bonds”). The proceeds of the EDA 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. Settlement of the EDA 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 City has 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 II, subject to such modifications thereof or additions thereto as: (i) consistent with requirements under the Rule, (ii) required by the purchaser of the Bonds from the City, and (iii) acceptable to the Mayor and Clerk of the City.

* *Preliminary; subject to change.*

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 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.

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 Director of Finance of the City will serve as Registrar for the Bonds.

Redemption Provisions

No Optional Redemption

The Bonds will not be subject to redemption in advance of their respective stated maturity dates.

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.

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 City 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 City 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 City, 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 City 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 City 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 City 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 City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

AUTHORITY AND PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 444 and 475. The Bonds have been structured as a crossover refunding, and are being issued to achieve debt service savings. The proceeds of the Bonds will be used to redeem the February 1, 2023 through February 1, 2026 maturities (the "Refunded Maturities") of the City's General Obligation Waste Water Revenue Refunding Bonds, Series 2012A, dated May 15, 2012 (the "Series 2012A Bonds").

The proceeds of the Bonds will be placed in an escrow account with U.S. Bank National Association, Saint Paul, Minnesota (the "Escrow Agent"). The amounts on deposit with the Escrow Agent will be invested in special obligations of the United States Treasury or other obligations of the United States or of its agencies, which shall mature in such amounts and at such times as to be available to:

- pay the interest on the Bonds through and including February 1, 2022, the anticipated call date of the Series 2012A Bonds;
- redeem the Refunded Maturities on the anticipated call date of February 1, 2022 at a price of par plus accrued interest.

Verification services necessary to insure the adequacy of the escrow account to provide timely payment of the principal and interest for which the escrow account is obligated will be performed by a certified public accounting firm.

SOURCES AND USES OF FUNDS

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

| | |
|--------------------------------|---------------------|
| Sources of Funds: | |
| Principal Amount | <u>\$25,050,000</u> |
| Total Sources of Funds | \$25,050,000 |
| Uses of Funds: | |
| Deposit to the Escrow Fund | \$24,803,394 |
| Allowance for Discount Bidding | 125,250 |
| Costs of Issuance | <u>121,356</u> |
| Total Uses of Funds | \$25,050,000 |

SECURITY AND FINANCING

The Bonds will be general obligations of the City for which the City will pledge its full faith and credit and power to levy direct general ad valorem taxes; however, the City does not anticipate the need to levy taxes for repayment of the Bonds.

Pursuant to Minnesota Statutes, Chapter 444, and the resolution awarding the sale of the Bonds, the City will covenant to impose and collect charges for the service, use, availability and connection to the City's Sewer Utility to produce net revenues in amounts sufficient to support the operation of the Sewer Utility to pay 105% of the debt service due on obligations to which it has pledged its Sewer Utility revenues, including the Bonds. The City is required to annually review the budget of the Sewer Utility to determine whether current rates and charges are sufficient and to adjust such rates and charges as necessary.

The escrow account established with the proceeds of the Bonds will make the interest payments due on the Bonds to and including February 1, 2022. Thereafter, each year's collection of net revenues of the City's Sewer Utility, if collected in full, will be sufficient to pay 105% of the debt service due on the Bonds in each year.

FUTURE FINANCING

With the exception of the EDA Bonds discussed in the "Concurrent Financing" section herein, the City does not anticipate issuing any additional long-term debt within the next 90 days.

LITIGATION

The City is not aware of any threatened or pending litigation affecting the validity of the Bonds 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 I herein will be delivered at closing.

TAXABILITY OF INTEREST

The interest to be paid on the Bonds is included in gross income of the recipient for United States and State of Minnesota income tax purposes, and is subject to Minnesota corporate and bank excise taxes measured by income.

RATINGS

Application for ratings of the Bonds has been made to Moody's Investors Service ("Moody's"), 7 World Trade Center, 250 Greenwich Street, 23rd 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 City has retained Baker Tilly Municipal Advisors, LLC, of Saint Paul, Minnesota as municipal advisor in connection with certain aspects of the issuance of the 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 City has 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 City stating that 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.

CITY PROPERTY VALUES

Trend of Values

| Assessment/ Collection Year | Assessor's Estimated Market Value | Sales Ratio ^(a) | Economic Market Value ^(b) | 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 ^(a) | Retail Mall | 1,083,242 |
| KAH 20 2 nd 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 st Avenue SW LLC | Commercial | 460,968 |
| BGD5 Hotel LLC | Commercial | <u>411,218</u> |
| Total | | \$16,472,861 ^(b) |

(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 EDA 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. See Appendix III.

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 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^(a)

| <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 ^(b) |
| 1-9-08 | 6,700,000 | Lease | 2-1-2033 | 3,612,000 ^(b) |
| 3-30-20 | 21,365,000 | Lease (the EDA Bonds) | 2-1-2040 | <u>21,365,000^(b)</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 EDA 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 & Interest</u> | <u>Principal</u> | <u>Principal & 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 ^(a) | \$30,545,011 | \$21,720,000 ^(b) | \$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 EDA Bonds
and Excluding the Refunded Maturities (continued)**

| Year | G.O. Revenue Debt | | Revenue Debt | |
|----------------|-----------------------------------|--|------------------------------------|-------------------------|
| | Principal | Principal & Interest ^(a) | 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 |
| Total | \$88,100,000^(b) | \$107,803,519 | \$171,180,000^(c) | \$282,756,700 |

^(a) Includes the Bonds at an assumed average annual interest rate of 1.79%, and excludes the Refunded Maturities.

^(b) 79.8% of this debt will be retired within ten years.

^(c) 43.7% of this debt will be retired within ten years.

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

| <u>Year</u> | <u>Lease Obligations</u> | |
|----------------|-----------------------------|---|
| | <u>Principal</u> | <u>Principal & Interest^(a)</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 ^(b) | \$40,653,139 |

(a) Includes the EDA 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^(a)</u> | 2018/19 <u>Adjusted Taxable Net Tax Capacity</u> | <u>Est. G.O. Debt As of 3-30-20^(b)</u> | <u>Debt Applicable to Tax Capacity in City</u> | |
|----------------------------------|---|---|--|--------------------|
| | | | <u>Percent</u> | <u>Amount</u> |
| Olmsted County | \$185,249,408 | \$ 81,170,000 ^(c) | 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 & 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. See Appendix III.

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. See Appendix III.

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 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: *Environics 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 ^(a) |
| Independent School District No. 535 | Public education | 2,830 ^(a) |
| IBM Corporation | Electronics/computer equipment | 2,791 ^(a) |
| Olmsted Medical Center | Medical/hospital services | 1,296 ^(a) |
| City of Rochester | City government | 1,291 ^(a) |
| Olmsted County | County government | 1,283 ^(a) |
| McNeilus Truck and Manufacturing | Mobile concrete mixers/garbage trucks | 1,200 ^(a) |
| McNeilus Steel, Inc. | Steel fabrication | 1,040 ^(b) |
| Charter Communications | Cable television/internet service | 896 ^(a) |
| Crenlo Inc. | Sheet metal fabrication | 600 |
| Seneca Foods Corp. | Canned and frozen vegetables | 568 ^(c) |
| 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 ^(a) |
| 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 |
| Labor Force: | | | | | |
| 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 |
| Unemployment Rate: | | | | | |
| 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% | N/A | N/A |
| 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.

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.

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 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; 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
 Minneapolis 200 South Sixth Street
 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

\$ _____
 Taxable General Obligation Waste Water Revenue Refunding Bonds
 Series 2020B
 City of Rochester
 Olmsted County, Minnesota

We have acted as bond counsel to the City of Rochester, Olmsted County, Minnesota (the "Issuer") in connection with the issuance by the Issuer of its Taxable General Obligation Waste Water Revenue Refunding Bonds, Series 2020B (the "Bonds"), originally dated the date hereof, and issued in the original aggregate principal amount of \$ _____. In such capacity and for the purpose of rendering this opinion we have examined certified copies of certain proceedings, certifications and other documents, and applicable laws as we have deemed necessary. Regarding questions of fact material to this opinion, we have relied on certified proceedings and other certifications of public officials and other documents furnished to us without undertaking to verify the same by independent investigation. Under existing laws, regulations, rulings and decisions in effect on the date hereof, and based on the foregoing we are of the opinion that:

1. The Bonds have been duly authorized and executed, and are valid and binding general obligations of the Issuer, enforceable in accordance with their terms.
2. The principal of and interest on the Bonds are payable primarily from revenues of the waste water system of the Issuer but, if necessary for the payment thereof, ad valorem taxes are required by law to be levied on all taxable property of the Issuer, which taxes are not subject to any limitation as to rate or amount.
3. Interest on the Bonds is included gross income for federal income tax purposes and is included in taxable net income of individuals, estates, and trusts for State of Minnesota income tax purposes.
4. The rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditor's rights generally and by equitable principles, whether considered at law or in equity.

We have not been asked and have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds, and accordingly we express no opinion with respect thereto.

This opinion is given as of the date hereof and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Dated _____, 2020 at Minneapolis, Minnesota.

CONTINUING DISCLOSURE CERTIFICATE

\$ _____
 City of Rochester, Minnesota
 Taxable General Obligation Waste Water Revenue Refunding Bonds
 Series 2020B

_____, 2020

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Rochester, Minnesota (the “Issuer”) in connection with the issuance of its Taxable General Obligation Waste Water Revenue Refunding, Series 2020B (the “Bonds”) in the original aggregate principal amount of \$ _____. The Bonds are being issued pursuant to resolutions adopted by the City Council of the Issuer (the “Resolutions”). The Bonds are being delivered to _____, in _____, _____ (the “Purchaser”) on the date hereof. Pursuant to the Resolutions, the Issuer has 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 hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by 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 Resolutions, 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 Resolutions, 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 Issuer, prepared in accordance with GAAP as prescribed by GASB.

“Bonds” means the Taxable General Obligation Waste Water Revenue Refunding Bonds, Series 2020B, issued by the Issuer in the original aggregate principal amount of \$ _____.

“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 Issuer.

“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 City of Rochester, Minnesota, which is the 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 Issuer 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 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 obligations under the Resolutions 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 may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under the Resolutions 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 Resolutions or this Disclosure Certificate, 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 Resolutions 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 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 Resolutions 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 Resolutions 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 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 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 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, the Issuer shall have no 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 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 to comply with its obligations under the Resolutions 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 Participating Underwriters, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

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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

Mayor

City Clerk

SUMMARY OF TAX LEVIES, PAYMENT PROVISIONS, AND MINNESOTA REAL PROPERTY VALUATION

Following is a summary of certain statutory provisions relative to tax levy procedures, tax payment and credit procedures, and the mechanics of real property valuation. The summary does not purport to be inclusive of all such provisions or of the specific provisions discussed, and is qualified by reference to the complete text of applicable statutes, rules and regulations of the State of Minnesota.

Property Valuations (Chapter 273, Minnesota Statutes)

Assessor's Estimated Market Value. Each parcel of real property subject to taxation must, by statute, be appraised at least once every five years as of January 2 of the year of appraisal. With certain exceptions, all property is valued at its market value, which is the value the assessor determines to be the price the property to be fairly worth, and which is referred to as the "Estimated Market Value." The 2013 Minnesota Legislature established the Estimated Market Value as the value used to calculate a municipality's legal debt limit.

Economic Market Value. The Economic Market Value is the value of locally assessed real property (Assessor's Estimated Market Value) divided by the sales ratio as provided by the State of Minnesota Department of Revenue plus the estimated market value of personal property, utilities, railroad, and minerals.

Taxable Market Value. The Taxable Market Value is the value that Net Tax Capacity is based on, after all reductions, limitations, exemptions and deferrals.

Net Tax Capacity. The Net Tax Capacity is the value upon which net taxes are levied, extended and collected. The Net Tax Capacity is computed by applying the class rate percentages specific to each type of property classification against the Taxable Market Value. Class rate percentages vary depending on the type of property as shown on the last page of this Appendix. The formulas and class rates for converting Taxable Market Value to Net Tax Capacity represent a basic element of the State's property tax relief system and are subject to annual revisions by the State Legislature. Property taxes are the sum of the amounts determined by (i) multiplying the Net Tax Capacity by the tax capacity rate, and (ii) multiplying the referendum market value by the market value rate.

Market Value Homestead Exclusion. In 2011, the Market Value Homestead Exclusion Program (MVHE) was implemented to offset the elimination of the Market Value Homestead Credit Program that provided relief to certain homesteads. The MVHE reduces the taxable market value of a homestead with an Assessor's Estimated Market Value up to \$413,800 in an attempt to result in a property tax similar to the effective property tax prior to the elimination of the homestead credit. The MVHE applies to property classified as Class 1a or 1b and Class 2a, and causes a decrease in the City's aggregate Taxable Market Value, even if the Assessor's Estimated Market Value on the same properties did not decline.

Property Tax Payments and Delinquencies (Chapters 275, 276, 277, 279-282 and 549, Minnesota Statutes)

Ad valorem property taxes levied by local governments in Minnesota are extended and collected by the various counties within the State. Each taxing jurisdiction is required to certify the annual tax levy to the county auditor within five (5) working days after December 20 of the year preceding the collection year. A listing of property taxes due is prepared by the county auditor and turned over to the county treasurer on or before the first business day in March.

The county treasurer is responsible for collecting all property taxes within the county. Real estate and personal property tax statements are mailed out by March 31. One-half (1/2) of the taxes on real property is due on or before May 15. The remainder is due on or before October 15. Real property taxes not paid by their due date are assessed a penalty on homestead property of 2% until May 31 and increased to 4% on June 1. The penalty on nonhomestead property is assessed at a rate of 4% until May 31 and increased to 8% on June 1. Thereafter, an additional 1% penalty shall accrue each month through October 1 of the collection year for unpaid real property taxes. In the case of the second installment of real property taxes due October 15, a penalty of 2% on homestead property and 4% on nonhomestead property is assessed. The penalty for homestead property increases to 6% on November 1 and again to 8% on December 1. The penalty for nonhomestead property increases to 8% on November 1 and again to 12% on December 1. Personal property taxes remaining unpaid on May 16 are deemed to be delinquent and a penalty of 8% attaches to the unpaid tax. However, personal property that is owned by a tax-exempt entity, but is treated as taxable by virtue of a lease agreement, is subject to the same delinquent property tax penalties as real property.

On the first business day of January of the year following collection all delinquencies are subject to an additional 2% penalty, and those delinquencies outstanding as of February 15 are filed for a tax lien judgment with the district court. By March 20 the county auditor files a publication of legal action and a mailing of notice of action to delinquent parties. Those property interests not responding to this notice have judgment entered for the amount of the delinquency and associated penalties. The amount of the judgment is subject to a variable interest determined annually by the Department of Revenue, and equal to the adjusted prime rate charged by banks but in no event is the rate less than 10% or more than 14%.

Property owners subject to a tax lien judgment generally have three years (3) to redeem the property. After expiration of the redemption period, unredeemed properties are declared tax forfeit with title held in trust by the State of Minnesota for the respective taxing districts. The county auditor, or equivalent thereof, then sells those properties not claimed for a public purpose at auction. The net proceeds of the sale are first dedicated to the satisfaction of outstanding special assessments on the parcel, with any remaining balance in most cases being divided on the following basis: county - 40%; town or city - 20%; and school district - 40%.

Property Tax Credits (Chapter 273, Minnesota Statutes)

In addition to adjusting the taxable value for various property types, primary elements of Minnesota's property tax relief system are: property tax levy reduction aids; the homestead credit refund and the renter's property tax refund, which relate property taxes to income and provide relief on a sliding income scale; and targeted tax relief, which is aimed primarily at easing the effect of significant tax increases. The homestead credit refund, the renter's property tax refund, and targeted credits are reimbursed to the taxpayer upon application by the taxpayer. Property tax levy reduction aid includes educational aids, local governmental aid, equalization aid, county program aid and disparity reduction aid.

Debt Limitations

All Minnesota municipalities (counties, cities, towns and school districts) are subject to statutory "net debt" limitations under the provisions of Minnesota Statutes, Section 475.53. Net debt is defined as the amount remaining after deducting from gross debt the amount of current revenues that are applicable within the current fiscal year to the payment of any debt and the aggregate of the principal of the following:

1. Obligations issued for improvements which are payable wholly or partly from the proceeds of special assessments levied upon property specially benefited thereby, including those which are general obligations of the municipality issuing them, if the municipality is entitled to reimbursement in whole or in part from the proceeds of the special assessments.

2. Warrants or orders having no definite or fixed maturity.
3. Obligations payable wholly from the income from revenue producing conveniences.
4. Obligations issued to create or maintain a permanent improvement revolving fund.
5. Obligations issued for the acquisition, and betterment of public waterworks systems, and public lighting, heating or power systems, and of any combination thereof or for any other public convenience from which a revenue is or may be derived.
6. Debt service loans and capital loans made to a school district under the provisions of Minnesota Statutes, Sections 126C.68 and 126C.69.
7. Amount of all money and the face value of all securities held as a debt service fund for the extinguishment of obligations other than those deductible under this subdivision.
8. Obligations to repay loans made under Minnesota Statutes, Section 216C.37.
9. Obligations to repay loans made from money received from litigation or settlement of alleged violations of federal petroleum pricing regulations.
10. Obligations issued to pay pension fund or other postemployment benefit liabilities under Minnesota Statutes, Section 475.52, subdivision 6, or any charter authority.
11. Obligations issued to pay judgments against the municipality under Minnesota Statutes, Section 475.52, subdivision 6, or any charter authority.
12. All other obligations which under the provisions of law authorizing their issuance are not to be included in computing the net debt of the municipality.

**Levies for General Obligation Debt
(Sections 475.61 and 475.74, Minnesota Statutes)**

Any municipality that issues general obligation debt must, at the time of issuance, certify levies to the county auditor of the county(ies) within which the municipality is situated. Such levies shall be in an amount that if collected in full will, together with estimates of other revenues pledged for payment of the obligations, produce at least five percent in excess of the amount needed to pay principal and interest when due. Notwithstanding any other limitations upon the ability of a taxing unit to levy taxes, its ability to levy taxes for a deficiency in prior levies for payment of general obligation indebtedness is without limitation as to rate or amount.

**STATUTORY FORMULAE: CONVERSION OF TAXABLE MARKET VALUE (TMV) TO
NET TAX CAPACITY FOR MAJOR PROPERTY CLASSIFICATIONS**

| <u>Property Type</u> | <u>Local Tax Payable 2015-2019</u> |
|--|--|
| Residential Homestead (1a) | |
| Up to \$500,000 | 1.00% |
| Over \$500,000 | 1.25% |
| Residential Non-homestead | |
| Single Unit (4bb) | |
| Up to \$500,000 | 1.00% |
| Over \$500,000 | 1.25% |
| 1-3 unit and undeveloped land (4b1) | 1.25% |
| Market Rate Apartments | |
| Regular (4a) | 1.25% |
| Low-Income (4d) | |
| Up to \$139,000 ^(c) | 0.75% |
| Over \$139,000 ^(c) | 0.25% |
| Commercial/Industrial/Public Utility (3a) | |
| Up to \$150,000 | 1.50% ^(a) |
| Over \$150,000 | 2.00% ^(a) |
| Electric Generation Machinery | 2.00% |
| Commercial Seasonal Residential | |
| Homestead Resorts (1c) | |
| Up to \$600,000 | 0.50% |
| \$600,000 - \$2,300,000 | 1.00% |
| Over \$2,300,000 | 1.25% ^(a) |
| Seasonal Resorts (4c) | |
| Up to \$500,000 | 1.00% ^(a) |
| Over \$500,000 | 1.25% ^(a) |
| Non-Commercial (4c12) | |
| Up to \$500,000 | 1.00% ^{(a)(b)} |
| Over \$500,000 | 1.25% ^{(a)(b)} |
| Disabled Homestead (1b) | |
| Up to \$50,000 | 0.45% |
| Agricultural Land & Buildings | |
| Homestead (2a) | |
| Up to \$500,000 | 1.00% |
| Over \$500,000 | 1.25% |
| Remainder of Farm | |
| Up to \$1,900,000 ^(d) | 0.50% ^(b) |
| Over \$1,900,000 ^(d) | 1.00% ^(b) |
| Non-homestead (2b) | 1.00% ^(b) |

^(a) State tax is applicable to these classifications.

^(b) Exempt from referendum market value based taxes.

^(c) Legislative increases, payable 2019. Historical valuations are: Payable 2018 - \$121,000; Payable 2017 - \$115,000; Payable 2016 - \$106,000; and Payable 2015 - \$100,000.

^(d) Legislative increases, payable 2019. Historical valuations are: Payable 2018 - \$1,940,000; Payable 2017 - \$2,050,000; Payable 2016 - \$2,140,000; and Payable 2015 - \$1,900,000.

NOTE: For purposes of the State general property tax only, the net tax capacity of non-commercial class 4c(1) seasonal residential recreational property has the following class rate structure: First \$76,000 – 0.40%; \$76,000 to \$500,000 – 1.00%; and over \$500,000 – 1.25%. In addition to the State tax base exemptions referenced by property classification, airport property exempt from city and school district property taxes under M.S. 473.625 is exempt from the State general property tax (MSP International Airport and Holman Field in Saint Paul are exempt under this provision).

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 | 789,298,717 | 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 | 1,103,868,056 | 1,877,258,376 | 1,839,033,099 | |
| Deferred outflows of resources | 47,571,960 | 65,261,318 | 6,789,555 | 10,287,963 | 54,364,415 | 75,559,301 | |
| Total assets and deferred outflows of resources | 1,063,663,538 | 1,038,510,185 | 891,846,879 | 1,114,156,019 | 1,931,622,791 | 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:

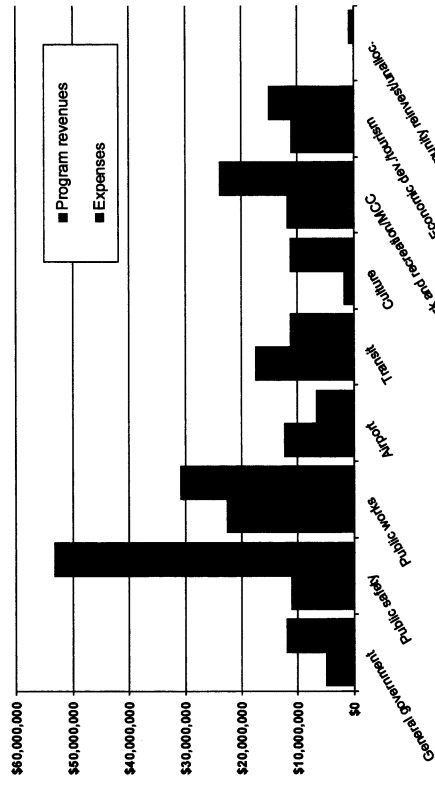
City of Rochester's Change in Net Position

| | Governmental Activities | | | Business-Type Activities | | | Totals |
|--|-------------------------|----------------|----------------|--------------------------|------------------|------------------|--------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | |
| Revenue: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 29,720,776 | \$ 27,078,310 | \$ 225,194,131 | \$ 214,515,770 | \$ 254,884,907 | \$ 241,595,080 | |
| Operating grants and contributions | 14,941,118 | 13,029,859 | | 14,941,118 | 14,941,118 | 13,029,859 | |
| Capital grants and contributions | 48,387,645 | 33,520,270 | 4,403,270 | 9,511,850 | 52,790,915 | 43,032,120 | |
| General revenues: | | | | | | | |
| Property taxes | 68,993,874 | 62,455,775 | | 68,993,874 | 62,455,775 | 62,455,775 | |
| Other taxes | 33,692,258 | 31,342,830 | | 33,692,258 | 33,692,258 | 31,342,830 | |
| Grants and contributions not restricted to specific programs | 7,487,955 | 7,215,571 | | 7,487,955 | 7,487,955 | 7,215,571 | |
| Local government aid | 3,094,471 | 3,126,534 | 9,796 | 68,410 | 3,104,267 | 3,194,844 | |
| Miscellaneous | 4,633,188 | 3,079,749 | 3,072,884 | 1,648,115 | 7,709,072 | 4,727,884 | |
| Total revenues | 210,371,285 | 180,849,698 | 232,850,081 | 225,744,145 | 443,021,366 | 408,593,643 | |
| Expense: | | | | | | | |
| General government | 12,026,232 | 12,510,037 | | 12,026,232 | 12,026,232 | 12,510,037 | |
| Public safety | 53,173,580 | 56,914,220 | | 53,173,580 | 53,173,580 | 56,914,220 | |
| Public works | 30,766,446 | 26,745,592 | | 30,766,446 | 30,766,446 | 26,745,592 | |
| Airport | 6,699,809 | 6,665,354 | | 6,699,809 | 6,699,809 | 6,665,354 | |
| Transit | 11,340,008 | 10,130,590 | | 11,340,008 | 11,340,008 | 10,130,590 | |
| Culture | 11,241,814 | 11,220,102 | | 11,241,814 | 11,241,814 | 11,220,102 | |
| Park and recreation/Mayo Civic Center | 23,832,446 | 22,342,306 | | 23,832,446 | 22,342,446 | 22,342,306 | |
| Economic development/tourism | 15,950,315 | 16,622,500 | | 15,950,315 | 15,950,315 | 16,622,500 | |
| Community reinvestment/unallocated | 811,063 | 787,312 | | 811,063 | 811,063 | 787,312 | |
| Interest on long-term debt | 5,135,625 | 3,868,556 | | 5,135,625 | 5,135,625 | 3,868,556 | |
| Parking | | | 4,649,288 | 4,387,156 | 4,649,288 | 4,387,156 | |
| Electric | | | 146,047,715 | 146,047,715 | 146,047,715 | 146,047,715 | |
| Water | | | 9,967,628 | 9,717,620 | 9,967,628 | 9,717,620 | |
| Sewer | | | 18,222,887 | 20,473,740 | 18,222,887 | 20,473,740 | |
| Storm water | | | 5,013,106 | 5,189,351 | 5,013,106 | 5,189,351 | |
| Total expenses | 170,065,188 | 169,016,599 | 186,930,624 | 180,407,997 | 359,969,792 | 349,424,169 | |
| Increase in net position before transfers | 40,305,117 | 11,833,129 | 45,719,457 | 45,336,548 | 86,024,574 | 57,169,877 | |
| Transfers | 12,891,095 | (9,887,033) | (12,891,095) | 9,887,033 | | | |
| Increase in net position | 27,414,022 | 1,946,096 | 32,828,362 | 55,223,581 | 86,024,574 | 57,169,877 | |
| Net position - beginning, as originally stated | 726,440,377 | 724,494,281 | 522,012,221 | 468,788,640 | 1,248,452,598 | 1,191,262,921 | |
| Change in accounting principle | (3,670,778) | | | | (3,670,778) | | |
| Net position - beginning, as restated | 722,769,599 | 724,494,281 | 522,012,221 | 468,788,640 | 1,244,781,820 | 1,191,262,921 | |
| Net position, end of year | \$ 775,965,811 | \$ 726,440,377 | \$ 554,840,563 | \$ 522,012,221 | \$ 1,330,806,394 | \$ 1,248,452,598 | |

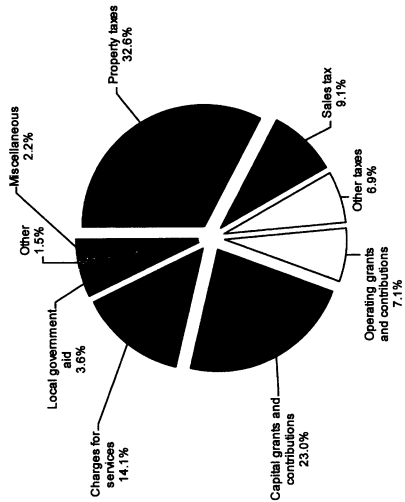
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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



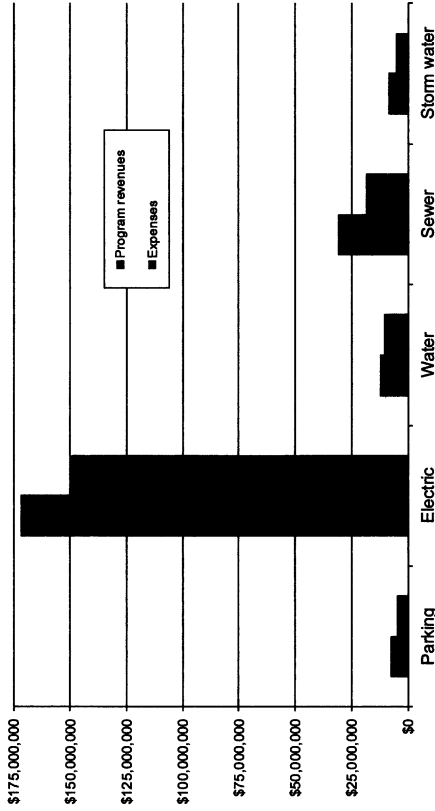
Revenues by Source - Governmental Activities



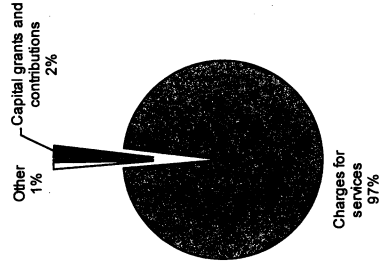
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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

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.

**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 |
| 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 | \$ 635,719,492 |
| | | | \$ 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 | \$ 1,394,776,353 |

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**

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**

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.

City of Rochester's Outstanding Debt

| | 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 | 73,800,000 | 81,635,000 | 73,800,000 | 81,635,000 |
| Revenue bonds | 9,604,000 | 12,940,000 | 176,905,000 | 186,909,000 |
| Energy loan payable | 577,793 | 577,793 | 250,705,000 | 284,000,000 |
| Total | \$ 135,779,000 | \$ 141,932,793 | \$ 250,705,000 | \$ 284,000,000 |
| | | | \$ 386,484,000 | \$ 405,932,793 |

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 (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 4th Street SE, Room 204, Rochester, MN 55904.

CITY OF ROCHESTER, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2018

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|-------------------------|
| ASSETS | | | |
| 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> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| 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> |
| LIABILITIES | | | |
| 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> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| 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> |
| NET POSITION | | | |
| 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 |
| Governmental activities: | | | | | | | |
| 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) |
| Total governmental activities | 170,066,168 | 29,720,776 | 14,941,118 | 48,387,645 | (77,016,629) | | (77,016,629) |
| Business-Type activities: | | | | | | | |
| 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 |
| Total business-type activities | 186,930,624 | 225,164,131 | | 4,403,270 | | 42,636,777 | 42,636,777 |
| Total | \$ 356,996,792 | \$ 254,884,907 | \$ 14,941,118 | \$ 52,790,915 | (77,016,629) | 42,636,777 | (34,379,852) |
| General revenues: | | | | | | | |
| 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 |
|--|----------------------|------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| 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 |
| TOTAL ASSETS | \$ 44,053,023 | \$ 151,604,787 | \$ 27,071,098 | \$ 222,728,908 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | | | | |
| 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> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | \$ 44,053,023 | \$ 151,604,787 | \$ 27,071,098 | \$ 222,728,908 |

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> | (197,717,244) |
| Net position of governmental activities (page 19) | | <u><u>\$ 775,965,811</u></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 |
|--|----------------------|------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| 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 | 73,942,297 | 80,169,309 | 48,834,116 | 202,945,722 |
| EXPENDITURES | | | | |
| 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 | 81,219,934 | 48,347,750 | 56,616,917 | 186,184,601 |
| Excess (deficiency) of revenues over (under) expenditures | (7,277,637) | 31,821,559 | (7,782,801) | 16,761,121 |
| OTHER FINANCING SOURCES (USES) | | | | |
| 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) | 11,077,326 | (2,701,131) | 7,905,412 | 16,281,607 |
| 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 | \$ 38,563,775 | \$ 124,506,696 | \$ 16,384,631 | \$ 179,455,102 |

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 | | |
| REVENUES | | | | |
| 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> |
| EXPENDITURES | | | | |
| 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 | | |
| EXPENDITURES (continued) | | | | |
| 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> |
| OTHER FINANCING SOURCES (USES) | | | | |
| 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 | |
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| 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 | | | 10,429 | | 2,789,615 |
| Due from other governmental units | | 1,174,279 | | | | 1,174,279 |
| Due from other funds | | 1,041,164 | | | | 1,041,164 |
| Restricted and reserved cash | | 107,183,401 | 71,019 | 42,495,976 | 16,522,857 | 186,015,559 |
| Other assets | | | | | | |
| Total Current Assets | 22,377,750 | 107,183,401 | 10,431,673 | 42,495,976 | 16,522,857 | 186,015,559 |
| Noncurrent Assets: | | | | | | |
| 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 | 394,155,142 | 85,041,792 | 1,096,760,698 |
| Net capital assets | (25,310,242) | (218,994,925) | (141,310,028) | (171,721,158) | (15,960,051) | (468,317,179) |
| 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 | | 121 | | | | 121 |
| Total Noncurrent Assets | 51,141,016 | 297,159,837 | 98,843,106 | 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 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Deferred charge on refunding | | 1,140,708 | | | | 1,140,708 |
| Deferred outflow from OPEB activity | 77,246 | 4,213,417 | 466,934 | 752,446 | 112,604 | 5,651,847 |
| Deferred outflow from pension activity | 77,246 | 5,354,125 | 466,934 | 752,446 | 112,604 | 6,792,555 |
| Total Deferred Outflows of Resources | | | | | | 408,344 |
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts and contracts payable | 1,268,817 | 12,334,311 | 633,680 | 326,956 | 155,400 | 14,717,464 |
| Accounts payable | 38,511 | 1,397,860 | 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 | 2,282,017 |
| Due to other funds | 431 | 2,812,158 | 1,154,186 | 208,969 | 62,191 | 4,237,945 |
| Due to other governmental units | 35,660 | | | 4,237 | 149 | 40,046 |
| Unearned revenue | | | | | | |
| Accrued claims | | | | | | |
| Current maturities of long term debt | | 5,725,000 | | 8,125,000 | | 13,850,000 |
| Total Current Liabilities | 1,372,322 | 25,143,416 | 2,264,295 | 10,029,189 | 262,950 | 38,072,172 |
| Noncurrent Liabilities: | | | | | | |
| Bonds payable, net of unamortized premium | | 192,075,997 | | 74,692,897 | 13,778 | 266,768,764 |
| Accrued compensated absences | 13,122 | 1,300,053 | 205,628 | 258,486 | | 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 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Advance payments on leases | | 410,435 | | | | 410,435 |
| Deferred charge on refunding | | 508,842 | | 1,839,409 | | 1,839,409 |
| Solar choice deferred inflows of resources | 92,970 | 5,202,088 | 605,964 | 944,411 | 106,152 | 6,952,515 |
| Deferred inflows from pension activity | 92,970 | 5,121,365 | 807,934 | 2,783,820 | 106,152 | 9,911,841 |
| Total Deferred Inflows of Resources | | | | | | 6,000 |
| NET POSITION | | | | | | |
| 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 | |
| Operating Revenues: | | | | | | | |
| 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 | |
| Total Operating Revenues | <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> |
| Operating Expenses: | | | | | | | |
| 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 |
| Total Operating Expenses | <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> |
| Operating Income (Loss) | <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> |
| Nonoperating Revenues (Expenses): | | | | | | | |
| 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) | |
| Total Nonoperating Revenues (Expenses) | <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> |
| Income (Loss) Before Transfers and Capital Contributions | <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) |
| Change in net position as originally stated | <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> |
| Net Position - Beginning of Year as restated | <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> |
| Change in accounting principle | | | | | | | <u>(3,670,778)</u> |
| Net Position - Beginning of Year as restated | | | | | | | <u>38,208,416</u> |
| Net Position - End of Year | <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> |
| Amounts reported by business-type activities in the statement of activities (pages 20-21) are different because: | | | | | | | |
| | | | | | | | <u>(273,195)</u> |
| | | | | | | | <u>\$ 32,828,362</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | | | | | | | |
| Change in net position of business-type activities | | | | | | | |

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 | Sewer Utility Fund | Storm Water Utility Fund | |
| Cash Flows From Operating Activities: | | | | | | |
| Cash received from customers | \$ 7,337,606 | \$ 166,089,742 | \$ 10,657,262 | \$ 29,864,177 | \$ 7,076,650 | \$ 223,025,437 |
| Cash received from other City funds | 50,404 | 6,945,404 | 189,012 | 109,022 | 237,437 | 7,531,279 |
| Cash received from employees | (447,611) | (16,488,768) | (1,866,687) | (4,404,725) | (555,801) | (23,763,392) |
| Cash paid to suppliers | (2,811,210) | (117,912,829) | (5,370,734) | (5,150,905) | (2,744,684) | (133,990,362) |
| Service territory acquisition | | (344,577) | | | (344,577) | |
| Other income | 28,189 | | | 73,219 | 19,321 | 120,729 |
| Net Cash Provided By Operating Activities | 4,157,378 | 40,288,972 | 3,608,853 | 20,490,788 | 4,033,123 | 72,578,114 |
| Cash Flows From Noncapital Financing Activities: | | | | | | |
| General property taxes | 577 | | | 9,219 | | 9,796 |
| Intergovernmental revenues | 25,992 | | | 4,395 | 500,000 | 530,387 |
| Transfers in | (1,757,911) | (8,720,009) | (369,452) | (4,918,034) | (1,069,304) | (18,834,710) |
| Net Cash Provided By (Used In) Noncapital Financing Activities | (1,731,342) | (8,720,009) | (369,452) | (4,904,420) | (569,304) | (16,294,527) |
| Cash Flows From Capital and Related Financing Activities: | | | | | | |
| Proceeds from the sale of property | | | | 40,529 | | 40,529 |
| Proceeds from the issuance of bonds | | (5,460,000) | | (7,835,000) | | (13,295,000) |
| Principal payments on bonds | | (8,632,000) | | (3,495,784) | (1,524) | (12,129,308) |
| Interest and fiscal charges | | | | | (103,646) | (103,646) |
| Repayment of developer agreements | | 2,060,389 | | (2,224,354) | (984,325) | (2,060,389) |
| Capital contributions received | | (22,005,888) | | | | (22,005,888) |
| Acquisition of capital assets | (18,614,416) | | (1,172,842) | | | (19,787,258) |
| Net Cash Used In Capital and Related Financing Activities | (18,614,416) | (34,037,499) | (1,172,842) | (13,514,909) | (1,089,495) | (68,428,861) |
| Cash Flows From Investing Activities: | | | | | | |
| Investment income | 394,548 | 1,372,276 | 145,467 | 507,827 | 193,804 | 2,613,922 |
| Net increase in investments | (396,500) | (18,233,414) | (1,823,008) | (2,440,500) | (2,460,100) | (25,353,522) |
| Net Cash Provided By (Used In) Investing Activities | (1,952) | (16,861,138) | (1,677,541) | (1,932,673) | (2,266,296) | (22,739,600) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (16,190,332) | (19,329,674) | 389,018 | 139,086 | 108,028 | (34,883,874) |
| Cash and Cash Equivalents, Beginning of Year | 17,004,247 | 32,161,071 | 991,554 | 1,314,303 | 467,391 | 51,938,566 |
| Cash and Cash Equivalents, End of Year | 813,915 | 12,831,397 | 1,380,572 | 1,453,389 | 575,419 | 17,054,692 |
| Classified As: | | | | | | |
| Cash and Cash Equivalents | \$ 699,367 | \$ 11,657,118 | \$ 1,380,572 | \$ 1,453,389 | \$ 575,419 | \$ 15,765,865 |
| Restricted and Reserved Cash | 114,548 | 1,174,279 | | | | 1,288,827 |
| Total Cash and Cash Equivalents, End of Year | \$ 813,915 | \$ 12,831,397 | \$ 1,380,572 | \$ 1,453,389 | \$ 575,419 | \$ 17,054,692 |

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 Storm Water Utility Fund | Total | Governmental Activities- Internal Service Funds |
|---|----------------------------|--------------------------|-----------------------|---|----------------------|--|
| | Parking Fund | Electric Utility Fund | Water Utility Fund | | | |
| Operating Income (Loss) | \$ 2,733,254 | \$ 27,242,479 | \$ 873,454 | \$ 2,465,004 | \$ 47,233,197 | \$ (1,125,950) |
| 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 | 1,619,467 | 24,685,763 | 3,392,862 |
| Other income (expense) | 28,189 | (864,755) | (30,977) | 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) | (21,056) | (1,663,214) | 11,822 |
| Inventory | | (538,344) | (15,133) | (206) | (553,683) | |
| Due from other funds | | | | (140,044) | (306,345) | |
| Advances due from other funds | 5,501 | | | (1,281) | (1,281) | 101 |
| Prepaid items | | | (8,658) | 5,501 | (3,157) | (382,025) |
| Deferred outflows from pension activity | 48,697 | 2,485,324 | 289,431 | 68,167 | 3,320,035 | (408,344) |
| 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 | 10,932 | 208,430 | 300,590 |
| Deposits payable | (10,247) | 527,955 | 48,734 | 5,375 | 571,817 | (3,624) |
| Accrued expenses and other liabilities | (45,259) | | | 3,812 | (30,991) | |
| Post employment benefit obligations | (6,247) | (144,076) | (18,704) | (6,925) | (177,918) | 778,172 |
| Deferred inflows from pension activity | (60,813) | (2,234,373) | (262,051) | 7,016 | (2,765,093) | |
| Net pension liability | | 2,332,339 | (20,324) | | 2,312,015 | 14,959 |
| Unearned revenues | | 508,842 | | | 508,842 | |
| Solar choice deferred inflow | | (36,420) | | | (36,420) | |
| Deferred lease revenue | | | | | | |
| Accrued claims | 76 | | | 753 | (12,161) | (212,755) |
| Due to other funds | (20,549) | | | (354) | (20,871) | 4,402 |
| Due to other governmental units | | | | | | |
| Net Cash Provided By Operating Activities | \$ 4,157,378 | \$ 40,288,972 | \$ 3,608,853 | \$ 4,033,123 | \$ 72,578,114 | \$ 2,370,210 |
| Non Cash Transactions: | | | | | | |
| Increase in fair value of investments | \$ 65,400 | \$ 56,300 | \$ 23,000 | \$ 32,400 | \$ 297,400 | \$ 114,100 |
| 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 | 3,010,280 | 5,759,403 | 7,377 |
| Capital assets in accounts payable at year end | | | | | | |

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 |
| Total Cash and investments | \$ 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)

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 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 |
| Restricted Investments - | |
| Electric Fund | |
| Debt Service Reserve Accounts | 12,955,835 |
| Restricted Funds Held in Trust - | |
| 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:

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-------------------|---------------|---------------|----------------|
| 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 | 120,529,083 | 37,080,166 | 53,357,997 | 104,251,252 |
| 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 | 992,599,853 | 58,425,624 | 8,636,015 | 1,042,389,462 |
| 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 | 354,073,075 | 28,703,859 | 5,424,937 | 377,351,997 |
| Total capital assets, being depreciated, net | 638,526,778 | 29,721,765 | 3,211,078 | 665,037,465 |
| Governmental activities capital assets, net | \$ 759,055,861 | \$ 66,801,931 | \$ 56,569,075 | \$ 769,288,717 |

**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:

| Business-Type Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|--|--------------------------|------------------|------------------|-----------------------|
| 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 | 258,843,742 | 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 | 581,389,519 |
| 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:

| Governmental Activities: | |
|---|----------------------|
| 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> |
| Business-Type Activities: | |
| 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 |
|--------------------------------------|-------------------------|-----------------------|
| Major Governmental Funds: | | |
| General | \$ 996,783 | \$ 576,024 |
| Capital Improvement | 1,083,518 | 314,827 |
| Subtotal | <u>2,080,301</u> | <u>890,851</u> |
| Non-Major Governmental Funds: | | |
| 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> |
| Proprietary Funds: | | |
| 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 |
|--|----------------------------|------------------------------|
| Governmental Funds: | | |
| Capital Improvement | | \$ 8,360,325 |
| FE Williams Estate | \$ 14,527 | |
| Economic Development Authority Bond | | 2,779,186 |
| Proprietary Fund: | | |
| 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 |
| General | \$ 12,779,658 | \$ 1,702,332 |
| Capital Improvement | 6,846,392 | 9,547,523 |
| Other Governmental Funds | | |
| 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, 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: | 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 | | | | 34,055,016 |
| 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**

NOTE 3: Detailed Notes on All Funds (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:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|-------------------|---------------|---------------|----------------|-----------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Bonds and Notes Payable: | | | | | |
| General Obligation Bonds and Notes: | | | | | |
| GO Taxable Tax Increment Bonds District 36, Series 2009A | \$ 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: | 577,793 | 577,793 | | | |
| Plus: Unamortized Premium on Bonds | 4,388,044 | 246,782 | | 4,142,252 | |
| Other Liabilities: | | | | | |
| 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 |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| Bonds and Notes Payable: | | | | | |
| General Obligation Bonds: | | | | | |
| Wastewater Treatment Plant Revenue Crossover Refunding Series 04A | 51,665,000 | | 4,940,000 | 46,725,000 | 5,135,000 |
| Revenue Bonds, Series 2012A | 18,215,000 | | 1,665,000 | 16,550,000 | 1,750,000 |
| Revenue Crossover Refunding Bonds, Series 2015B | 11,755,000 | | 1,230,000 | 10,525,000 | 1,240,000 |
| Revenue Refunding Bonds, Series 2015D | 36,300,000 | | 735,000 | 35,565,000 | 765,000 |
| Electric Utility Revenue Bonds - Series 2013B | 38,810,000 | | 2,260,000 | 36,550,000 | 2,370,000 |
| Electric Utility Revenue Refunding Bonds - Series 2015E | 107,255,000 | | 2,465,000 | 104,790,000 | 2,590,000 |
| Electric Utility Revenue Bonds - Series 2017A | 33,366,135 | 5,774 | 3,478,145 | 29,913,764 | |
| Plus: Unamortized Premium | 3,948,189 | 672,654 | 547,639 | 4,073,094 | 2,282,017 |
| Other Liabilities: | | | | | |
| Compensated Absences | 307,334,324 | 678,308 | 17,320,784 | 286,691,858 | 16,132,017 |
| Business-type Activities Long-term Liabilities | \$ 458,914,865 | \$ 10,036,696 | \$ 32,810,987 | \$ 436,140,565 | \$ 23,059,017 |
| Total | | | | | |

(1) Debt recorded in the Internal Service 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)

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:

| | General Obligation Revenue | | Revenue Bonds | |
|---------------------------------|----------------------------|----------------------|-----------------------|-----------------------|
| | Principal | Interest* | Principal | Interest |
| Governmental Activities | | | | |
| 2019 | \$ 5,630,000 | \$ 4,443,241 | \$ 488,000 | \$ 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 | 17,580,000 | 1,116,568 | | |
| Totals | \$ 125,875,000 | \$ 39,886,637 | \$ 9,904,000 | \$ 3,890,618 |
| Business-Type Activities | | | | |
| 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 |
| Totals | \$ 73,800,000 | \$ 13,616,843 | \$ 176,905,000 | \$ 119,943,050 |

* 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 | | | Principal and Interest Paid | Revenue Received |
| General Obligation Bond - Part | | | | | | | |
| Revenue Crossflow Refunding Series 2012A | Refund 2007A issue | Utility Revenue | 100% | 2012 - 2028 | \$5,501,625 | \$ 7,276,150 | \$ 7,276,150 |
| Revenue Crossflow Refunding Series 2015B | Refund 2007A issue | Utility Revenue | 100% | 2015 - 2028 | 20,477,250 | 2,575,750 | 2,575,750 |
| Revenue Refunding Bonds, Series 2015D | Refund 2007B issue | Utility Revenue | 100% | 2015 - 2028 | 11,437,668 * | 1,461,550 | 1,461,550 |
| REDA Lease Revenue Bonds, Series 2007 Bc Science building | | Lease Revenue | 100% | 2007 - 2033 | 8,231,100 | 689,733 | 689,733 |
| REDA Lease Revenue Bonds, Series 2008 Bc Science building | | Lease Revenue | 100% | 2008 - 2033 | 5,573,516 | 465,798 | 465,798 |
| 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 | 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 | 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 | 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 | | 6,981,987 | | 6,981,987 |
| 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 | | | 1,286,109 | 1,286,109 |
| 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>\$ 15,384,631</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 | | Claim Payments | End of Year Liability |
|---------------|--------------------------------|-------------------------|-----------------|-------------------|--------------------------|
| | | Changes to Estimates | \$ | | |
| 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 |
| 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 | |
|----------------------|-----------------|--|
| Year ending June 30: | Amount | |
| 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.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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.

**CITY OF ROCHESTER, MINNESOTA
Schedules of City Pension Contributions
December 31, 2018**

**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 (Asset) | City's Proportionate Share (Amount) of Net Pension Liability | State's Proportionate Share (Amount) of Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (b) | City's Proportionate Share of the Net Pension Liability Associated With the City (a+b) | Covered Payroll (c) | City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of the Total Pension Liability ((a+b)/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---------------------------|------------------------------------|--|---|--|---------------------|--|--|
| 2015 | 0.7410% | \$ 38,402,466 | \$ 38,402,466 | \$ 46,112,718 | \$ 46,112,718 | 83.3% | 76.20% |
| 2016 | 0.7271% | 59,036,914 | 771,048 | 59,807,962 | 43,972,947 | 136.0% | 68.90% |
| 2017 | 0.7701% | 49,162,676 | 618,213 | 49,780,889 | 47,366,020 | 105.1% | 75.90% |
| 2018 | 0.7471% | 41,446,045 | 1,359,493 | 42,805,538 | 49,913,533 | 85.8% | 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

Total OPEB Liability as a % of payroll 15%

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 (Asset) | City's Proportionate Share (Amount) of Net Pension Liability | State's Proportionate Share (Amount) of 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 Associated With the City (a+b) | Covered Payroll (b) | City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of the Total Pension Liability ((a+b)/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---------------------------|------------------------------------|--|---|--|---------------------|--|--|
| 2015 | 2.1770% | \$ 24,735,814 | \$ 195,930 | \$ 24,931,744 | \$ 20,924,808 | 119.1% | 86.60% |
| 2016 | 2.1420% | 85,962,187 | 192,780 | 86,154,967 | 20,010,574 | 430.5% | 63.90% |
| 2017 | 2.2070% | 29,797,126 | 198,630 | 29,995,756 | 21,643,373 | 138.6% | 85.40% |
| 2018 | 2.1372% | 22,780,351 | 192,348 | 22,972,699 | 22,588,139 | 101.7% | 88.84% |

* This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

City of Rochester, Minnesota
\$25,050,000* Taxable General Obligation Waste Water
Revenue Refunding Bonds, Series 2020B

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 \$24,924,750 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> |
|-------------|--------------------------|------------------|---------------------|-------------|--------------------------|------------------|---------------------|
| 2023 | _____ % | _____ % | _____ % | 2025 | _____ % | _____ % | _____ % |
| 2024 | _____ % | _____ % | _____ % | 2026 | _____ % | _____ % | _____ % |

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 20, 2020 including the City’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 City

Attest: _____

Date: _____
.....

* Preliminary; subject to change.