



2018 ANNUAL FINANCIAL TREND REPORT

ST. CLOUD NUTRIENT, ENERGY & WATER RECOVERY FACILITY

The St. Cloud Nutrients, Energy & Water (NEW) Recovery Facility (Wastewater Treatment Facility) featured on the cover, has implemented several improvements related to nutrients and energy in the last two years.

A Resource Recovery & Energy Efficiency (R2E2) Master Plan was developed in 2014. The R2E2 Master Plan included projects related to solar, biofuel, energy efficiency and nutrient recovery. All projects identified in the plan have been constructed and commissioned.

Solar – The City's first solar array was installed at the NEW Recovery Facility and commissioned in January 2016; a second solar array was installed and commissioned in December 2016. These solar arrays have generated nearly 700,000 kilowatt-hours of electricity. The City has partnered with third party developers who have the ability to capitalize on the available solar tax credits and other incentives available; this results in the City paying less for renewable energy from solar compared to purchasing power off the utility's grid.

Biofuel Recovery – A biofuel recovery system was designed, constructed and commissioned in February 2017. This system has generated 8,300,000 kilowatt-hours of renewable energy. The energy savings for 2018 was \$360,000.

Energy Efficiency – Several energy efficiency improvements were made since 2014; resulting in an annual reduction in energy consumption by 1,600,000 kilowatt-hours a year which equates to approximately \$130,000 in annual energy savings.

Nutrient Recovery – The NEW Recovery Facility produces a high-quality liquid biosolids product that is generated from the solids that is conveyed to the facility. The \$24 million-dollar Nutrient Reuse & Recovery Project was designed, constructed and commissioned in 2018. Equipment was installed to reduce the total volume of the liquid product and produce small white pellets that come from nutrients that are in the wastewater. This equipment converts the nutrients to a component of a fertilizer product that is sold and used where there are nutrient-deficiencies. This project received a \$6.6 million-dollar Point Source Implementation Grant from the Minnesota Clean Water Legacy Act.

The R2E2 Master Plan is currently being updated to incorporate additional innovative, cost-saving energy and nutrient related improvements at the facility.

Photos taken by:
Steve Fines Aerials & Lystek Inc.

CITY OF ST. CLOUD, MINNESOTA

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August 1, 2019

Honorable Dave Kleis, Mayor
Members of the City Council
Matthew Staehling, City Administrator

The Financial Policies for the City of St. Cloud state, “On an annual basis, the Finance Department will prepare a Financial Trend Analysis Report to be presented to the City Council.” The accompanying Financial Trend Report is modeled after and relies heavily on criteria created by the International City Management Association. The system is used in a number of cities and combines pertinent City budget and financial information with appropriate economic and demographic data. This combination creates a series of critical financial indicators, which may be used to:

- ◆ Gain a better understanding of the City’s financial condition,
- ◆ Identify emerging problems before they reach serious proportions,
- ◆ Identify existing problems of which local officials may be unaware, and
- ◆ Present a straightforward picture of the City’s financial strengths and weaknesses to elected officials, citizens, credit rating firms, and other groups.

The City’s Financial Trend Report does not provide specific answers to why problems are occurring; nor does it provide a single number or index to measure financial health. However, it does provide warning signals so problems may be detected in time to take appropriate action.

The City of St. Cloud’s Financial Trend Report contains 30 indicators. Each indicator contains a warning trend that may indicate current or future problems the City may face.

Please note that there may be reasons or mitigating factors that offset the fact that an indicator has a negative trend. Therefore, it is important to read the explanation of the indicator before making judgments regarding any trend. Conversely, the City may have a positive trend on an indicator when in reality a potential problem is developing or currently exists.

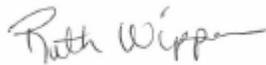
Letter – Mayor Kleis, City Council, City Administrator
August 1, 2019
Page 2 of 2

It was a challenge during the recession to maintain good financial health as the City's tax base was decreasing and the slowdown in the economy for the commercial retail market.

The impact of the difficult economic times was an increase in the number indicators showing a warning trend, but with the improving economy and increasing tax base we are now seeing fewer indicators with warning trends. I expect the 2019 report to continue to show an improvement in the number of warning trends due to recovery in the economy in the St. Cloud area.

I want to thank DeAnna Fah, Jen Piekarski and Debbie Backes of the Finance Department for their excellent work on the Financial Trend Report.

Sincerely,

A handwritten signature in cursive script that reads "Ruth Wipper".

Ruth Wipper
Director of Finance

RW:dab

CITY OF ST. CLOUD, MINNESOTA

Introduction

The Financial Trend Report presents a series of indicators, which reflect the overall financial condition of the City and help identify trends in the City's financial condition.

For each group of related indicators there is a narrative section which describes the overall importance of the group of indicators and the trends likely to be shown through their evaluation.

For each indicator, the following information is presented:

Indicator Number and Identification

- ◆ Indicates the number and title of the indicator used to assess financial condition.

Graphic Illustration

- ◆ Illustrates the data for each indicator.

Warning Trend

- ◆ Describes the situation, which would lead the City to consider further investigation of the financial condition measured by the indicator and to monitor and take action if the trend indicates a threat to the City's overall financial health.

Data

- ◆ Presents the data for a five-year history of each component of the indicator. Since data was generally gathered separately for revenues, expenditures and other general factors considered for each indicator, specific groups of data may not necessarily correspond to one another due to rounding differences in totaling data from various funds.

Description

- ◆ Describes the indicator and how a positive or negative trend might affect the City.

Explanation

- ◆ Explains the particular data as they relate to the City of St. Cloud, specific reasons for a positive or negative trend for the indicator, and actions taken or contemplating to be taken as a result of the data shown.

Notes

- ◆ Provides a more specific definition of the factors included in the data session.

The Financial Trend Report and the indicators described here are designed to be an effective means of evaluating the City's overall financial condition and provide a guide for future actions to promote the general financial health of the City.

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CITY OF ST. CLOUD, MINNESOTA

Revenue Indicators

Revenues determine the City's capacity to provide services. Important issues to consider are growth, diversity, reliability and flexibility of administration. Under ideal conditions, revenues would grow at a rate equal to or greater than the combined effects of inflation and added service demands. They would be sufficiently flexible (free from restrictions) to allow necessary adjustments for changing conditions. They would be balanced between elastic and inelastic with respect to the City's economic base and inflation. They would be diversified by source so as not to be overly dependent on residential, commercial, or industrial tax bases, or external funding sources such as federal grants or discretionary state aid. User fees would be regularly re-evaluated to cover the full cost of services.

Analyzing revenues will help the City Council identify the following types of problems:

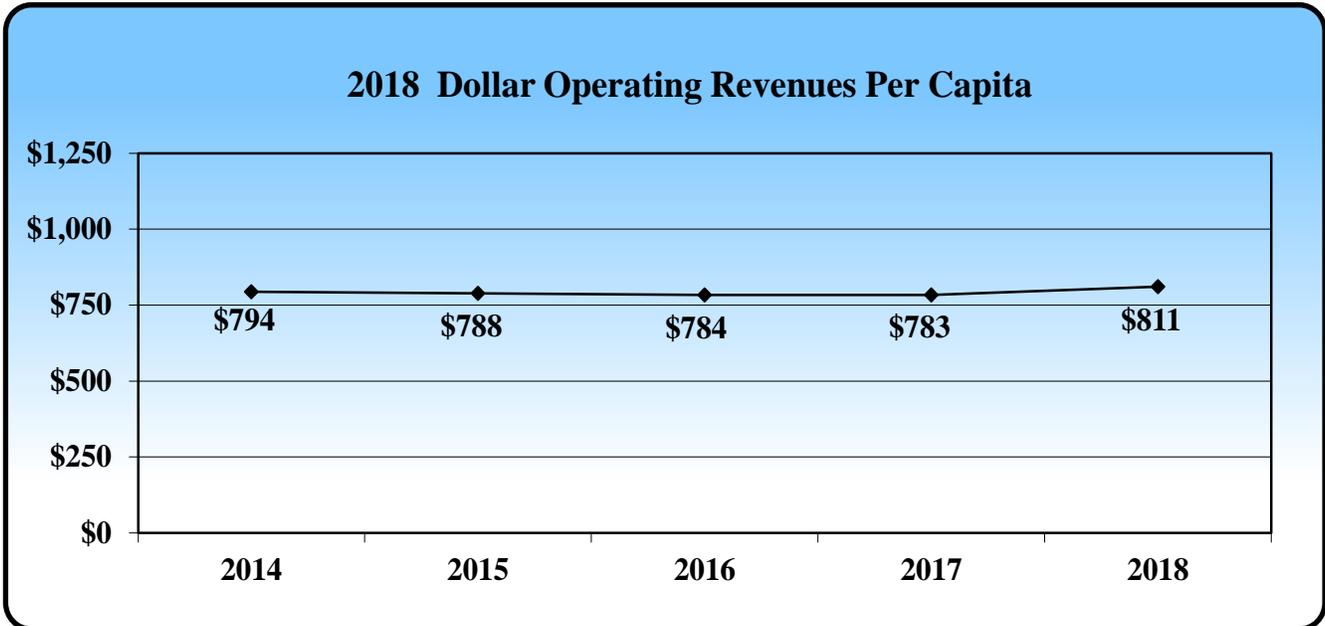
- ◆ Deterioration in revenue base;
- ◆ Internal procedures or legislative policies that may adversely affect revenue;
- ◆ Over-dependence on obsolete or external revenue sources;
- ◆ User fees that are not covering the cost of services;
- ◆ Changes in tax burden;
- ◆ Lack of cost controls and poor revenue estimating practices;
- ◆ Inefficiency in the collection and administration of revenues.

Changes in revenues are monitored by using the following indicators:

1. Operating Revenues Per Capita
2. Restricted Operating Revenues as a Percentage of Net Operating Revenues
3. Intergovernmental Revenues as a Percentage of Operating Revenues
4. Elastic Operating Revenues as a Percentage of Operating Revenues
5. Property Tax Levy Per Million
6. Uncollected Property Tax as a Percentage of Property Tax Levy
7. Recreation User Charge Coverage as a Percentage of Total Expenditures
8. Inspection/Building Safety User Charge Coverage as a Percentage of Total Direct Expenditures
9. Revenue Shortfalls/Surplus as a Percentage of Actual to Budgeted

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 1



WARNING TREND

Decreasing operating revenues per capita in constant dollars.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|--------------|--------------|--------------|--------------|--------------|
| Operating Revenues | \$51,666,944 | \$52,469,849 | \$51,843,962 | \$51,995,831 | \$55,046,136 |
| Adjusted to 2018 Dollars | 52,793,283 | 52,816,150 | 52,777,153 | 52,744,571 | 55,046,136 |
| Population | 66,462 | 67,010 | 67,344 | 67,344 | 67,889 |
| 2018 Dollar Operating Revenues Per Capita in Constant Dollars | 794 | 788 | 784 | 783 | 811 |
| State-wide Average | 1,131 | 1,150 | 1,184 | 1,200 | |

Source: 2014-2017 Minnesota City Finances Revenues, Expenditures, and Debt Report

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 1

Description

Examining per capita revenues shows changes in revenues relative to changes in population size. As population increases, it might be expected that revenues and the need for services would increase proportionately. Therefore, the level of per capita revenues would remain at least constant in real terms. If per capita revenues are decreasing, the City may be unable to maintain existing service levels unless it finds new revenue sources or ways to reduce cost. This reasoning assumes that the cost of services is directly related to population size. Studies indicate a strong correlation between population and expenditures.

Explanation

Operating revenues increased \$802,905 in 2015. Charges for services increased \$664,100 due to engineering fees from increased neighborhood projects. Building permit fees also increased \$145,100 due to an increase in permit issuance particularly in the commercial area.

Operating revenues as a total decreased \$625,887 in 2016. This was primarily due to the \$2 million reduction in local sales tax dollars needed for the annual debt service payment. This was the result of the Library Bond debt refunding and restructuring. Building permit revenue increased \$297,548 due to commercial activity. Intergovernmental revenue increased \$836,000 as a result of additional grants. Property tax revenue in the general fund also increased \$765,000.

Operating revenues remained stable, increasing only \$151,869 in 2017. Within total operating revenues, there were fluctuations of individual items. Property tax revenue in the General Fund increased \$571,070, Fines increased \$188,756 due to increased parking violations. Charges for services decreased \$785,577, of which \$306,000 is related to administrative fees and other fees collected for private activity tax exempt financing and a \$186,554 property insurance dividend in 2016, as well as a decrease in engineering charges in 2017. Investment income for 2017 also increased \$183,316 due to market conditions.

In 2018, operating revenues increased \$3,050,305. Property tax revenue in the General Fund increased \$933,100. Licenses and permits increased \$254,288 due to both commercial and residential activity. Intergovernmental revenues increased \$537,000, primarily due to an increase in local government aid of \$459,929. Charges for services increased \$872,484 due to an increase of \$786,870 for engineering fees from increased neighborhood projects and \$56,000 for private activity tax exempt financing.

Notes

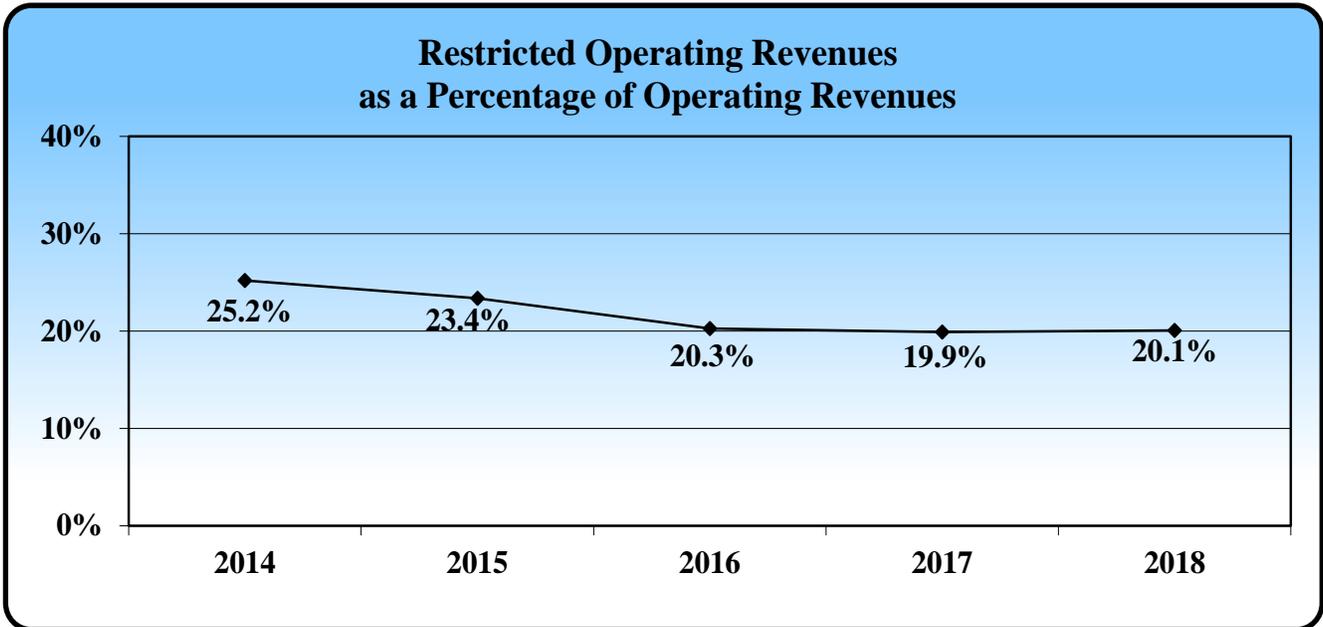
OPERATING REVENUES are that portion of total revenue available for general City operations. These revenues include the General Fund, the Special Revenue Funds, Permanent Improvement and Permanent Improvement Redevelopment Fund. Not included in these revenues is tax increment or special assessment bonds.

ADJUSTABLE TO 2018 DOLLARS is accomplished by revising previous year's dollar amounts to a 2018 equivalent by adjusting for inflation. Inflation rates used, beginning with 2014, are 1.52%, (1.14%), 0.37%, 1.44 and 1.63.

POPULATION figures are from the Comprehensive Annual Financial Reports-Demographics.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 2



WARNING TREND

Increasing amount of restricted operating revenues as a percentage of operating revenues.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|--------------|--------------|--------------|--------------|--------------|
| Operating Revenues | \$51,666,944 | \$52,469,849 | \$51,843,962 | \$51,995,831 | \$55,046,136 |
| Restricted Operating Revenues | 13,009,153 | 12,263,234 | 10,508,550 | 10,352,856 | 11,052,326 |
| Restricted Operating Revenues as a Percentage of Operating Revenues | 25.2% | 23.4% | 20.3% | 19.9% | 20.1% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 2

Description

Restricted revenues are legally earmarked for specific uses, as may be required by state law, bond covenants, grant requirements, or revenue source. An example is the Community Development Block Grant (CDBG) program. As the percentage of restricted revenues increases, the City loses its ability to respond to changing conditions and to citizens' needs and demands. Increases in restricted revenues may also indicate over dependence on external revenues and signal a future inability to maintain service levels.

Explanation

In 2015, restricted operating revenues decreased \$745,919. Grants that the City received in 2014, were one-time grants that resulted in a decrease of \$1.3 million in Special Revenue Intergovernmental revenue. The City received a \$353,352 loan repayment from Gehringhoff that resulted in a one-time increase in restricted operating revenues.

Restricted operating revenue decreased \$1,754,684 in 2016. This was due to a \$2,083,970 decrease in local sales tax revenue in the Library Fund. When the City refunded the Library Bond in 2015, the debt was restructured reducing the amount needed each year from local sales tax. Restricted operating revenues would have increased \$329,000 if the bond had not been refunded. Community Development Block Grant operating grant revenue increased \$427,987 as a result of projects being completed on time.

In 2017, restricted operating revenue decreased \$155,694. The City received a grant in 2016 that was a one-time grant, resulting in a decrease of \$150,000. The CDBG grants had a decrease in projects for the year, resulting in less revenue of \$187,038. A sale of land increased revenues \$106,249 in the Economic Development fund.

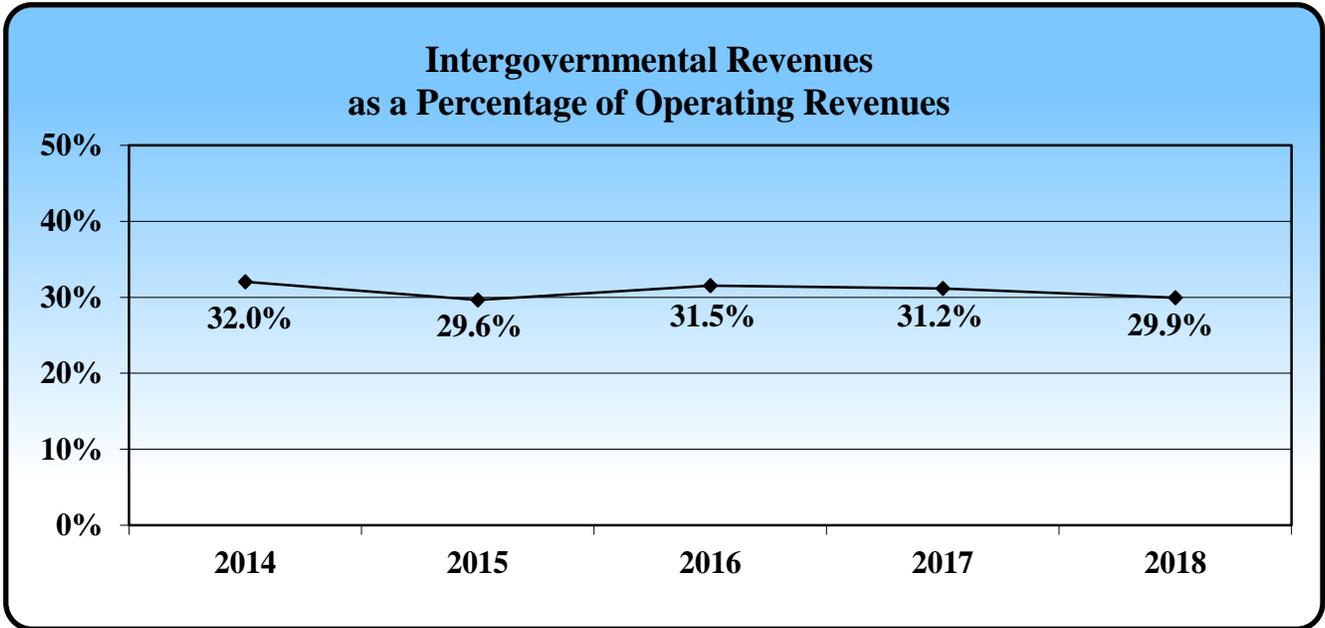
Restricted operating revenues increased in 2018 by \$699,470. The Franchise Fee Development fund was new in 2018, with revenues of \$866,712. The CDBG had a decrease in projects, resulting in \$263,366 less revenue.

Notes

RESTRICTED OPERATING REVENUES are those which are legally earmarked for specific purposes. These revenues include all Special Revenue Funds, General Obligation Debt Service Funds, Permanent Improvement Fund and Permanent Improvement Redevelopment Fund.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 3



WARNING TREND

Increase in intergovernmental revenues as a percentage of operating revenues.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------------|--------------|--------------|--------------|--------------|
| Operating Revenues | \$51,666,944 | \$52,469,849 | \$51,843,962 | \$51,995,831 | \$55,046,136 |
| Intergovernmental Revenues | 16,552,335 | 15,549,813 | 16,345,422 | 16,204,835 | 16,484,979 |
| Intergovernmental Revenues as a Percentage of Operating Revenues | 32.0% | 29.6% | 31.5% | 31.2% | 29.9% |

State-wide Average 24.1% 24.8% 24.0% 23.2%

Source: 2014-2017 Minnesota City Finances Revenues, Expenditures, and Debt Report

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 3

Description

Intergovernmental revenues are revenues received from another governmental unit. They require close scrutiny because of an over dependence on such revenues can have an adverse impact on the City's financial condition. If these revenues are withdrawn or reduced, the City may be forced to cut programs or raise taxes. In addition, the conditions or "strings" that the external funding source attaches to these revenues may prove too restrictive, especially if these conditions are changed in the future after the City has developed a dependence on the program.

Explanation

The City's governmental revenues are made up primarily of local government aid with smaller amounts for municipal state-aid and community development block grant funds (CDBG).

This indicator has decreased to 29.6% in 2015. The \$500,000 DEED grant and the \$819,200 in Airport Support from 2014 were one-time grants that the City received and should trend back to a more stable level.

Intergovernmental revenues increased \$795,609 in 2016. The City received an additional \$497,987 in Community Development Block Grant (CDBG) revenue as projects were completed on a more-timely basis. The City also received an additional \$227,230 in Public Safety grants.

In 2017, Intergovernmental revenues decreased \$140,587. The City received a grant in 2016 that was a one-time grant, resulting in a decrease of \$150,000 for the Revolving Loans fund. The CDBG grants had a decrease in projects for the year, resulting in less revenue of \$187,038. There was new grant to work with, the Brownfields redevelopment, which increased revenues \$112,017.

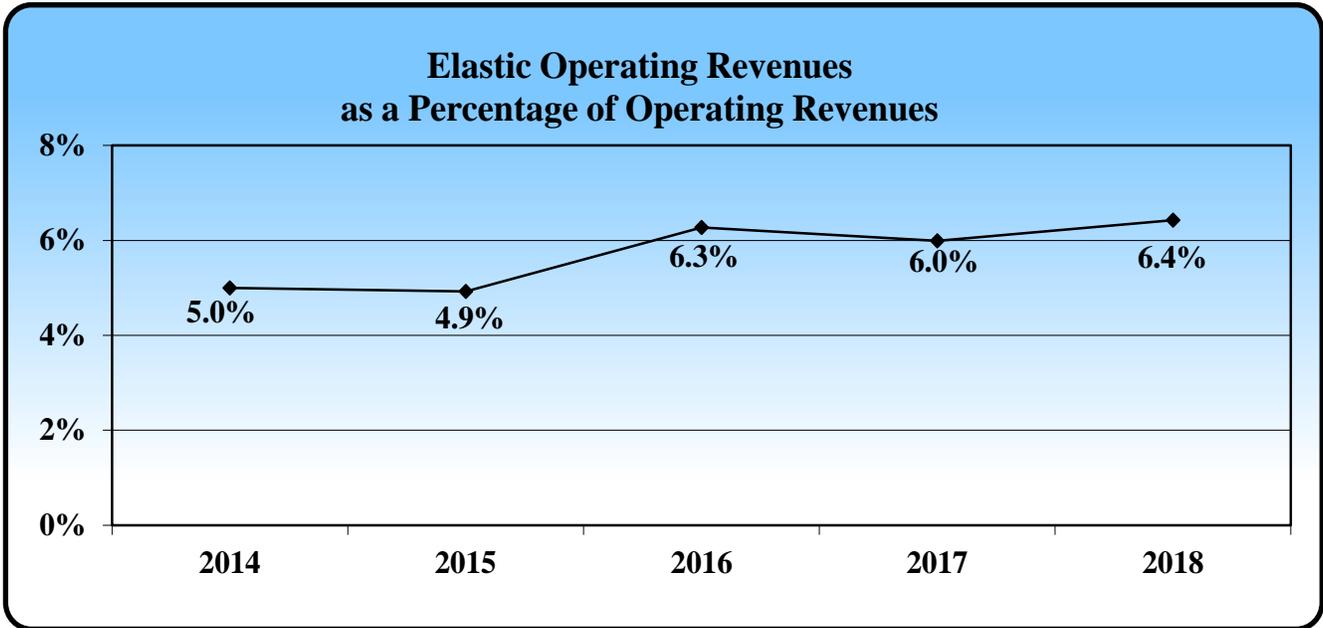
Intergovernmental revenues increased \$280,144 in 2018. Local government aid increased \$459,929. The CDBG grants had a decrease in completed projects for the year, resulting in a decrease in revenue of \$263,366.

Notes

INTERGOVERNMENTAL REVENUES include any operating revenues received from other governmental units. The largest share of intergovernmental revenues is Local Government Aid (LGA). Others include grant monies through the Community Development Fund (CDBG), and other revenues collected for Parks, and Senior Center Programs.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 4



WARNING TREND

Decreasing amount of elastic operating revenues as a percentage of operating revenues.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------------|--------------|--------------|--------------|--------------|
| Operating Revenues | \$51,666,944 | \$52,469,849 | \$51,843,962 | \$51,995,831 | \$55,046,136 |
| Elastic Operating Revenues | 2,583,675 | 2,583,675 | 3,253,318 | 3,116,407 | 3,536,130 |
| Elastic Operating Revenues as a Percentage of Operating Revenues | 5.0% | 4.9% | 6.3% | 6.0% | 6.4% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 4

Description

Elastic revenues are highly responsive to changes in the economic base and inflation. As the economic base and inflation go up or down, elastic revenues will go up or down proportionately. It is to the City's advantage to have a balance between elastic and inelastic revenues so that it has protection in a declining economy and can take advantage of an expanding economy.

Explanation

Elastic operating revenues consists of building permits and related revenues and also recreation fees.

License and permit revenues were up \$269,000 in 2015. The number of single family construction units increased to 100 and total building permits issued increased from 1,634 in 2014 to 1,673 in 2015. Anderson Trucking Services, a leading transportation and shipping company, is constructing a new maintenance shop at a total of \$11,600,000. Athlos Academy, a public charter school, is building a 9,000-square foot facility at a cost of \$7,830,000. The St. Cloud Hospital is constructing a new emergency trauma center entrance and imaging addition at a cost of \$5,800,000.

In 2016, elastic operating revenues increased \$669,643. The total value of building permits issued went from \$122,747,167 in 2015 to \$187,795,757 in 2016; a 53% increase. Kwik Trip Inc. expanded into St. Cloud constructing four new convenience stores at a total cost of \$11,200,000. Microbiologics, Inc is building a 30,000-square foot expansion of its existing facility at a cost of \$7,200,000. The St. Cloud School District is constructing \$10,113,400 of upgrades and improvements to various district buildings including North Junior High. The Minnesota State Reformatory is renovating and expanding their health services wing at a total cost of \$12,185,000.

In 2017, elastic operating revenues decreased \$136,911. The valuation of building permits decreased from \$187,795,757 in 2016 to \$125,792,344 in 2017. This resulted in a decrease in building permit revenues of \$266,962. Significant initiatives for 2017 include a HVAC upgrade at Apollo High School valued at \$13,227,443, St. Cloud Community Solar Garden valued at \$5,048,000, renovation of the oncology floor at the St. Cloud Hospital with a valuation of \$7,000,000, and the expansion of several local companies.

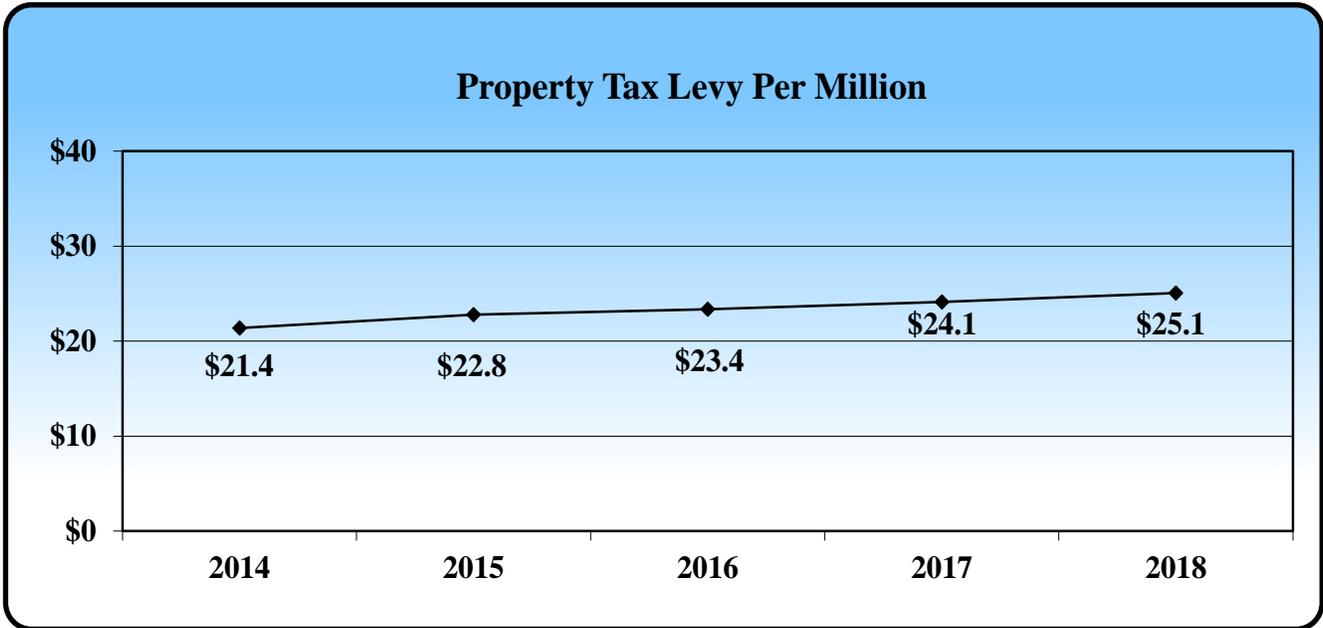
In 2018, elastic operating revenues increased \$419,723. The valuation of building permits issued increased from \$125,792,344 in 2017 to \$264,069,519 in 2018. This resulted in an increase in building permit revenues of \$388,102. Costco Wholesale began construction of a new store valued at \$31,700,000. Crossroads Center began a \$5,800,000 renovation. Automotive Parts Headquarters completed a \$2,726,600 warehouse expansion. Target Corporation completed a remodel and solar panel addition to the east side store for \$1,515,100. St. Cloud Hospital completed several major improvement projects valued at \$21,650,000. The St. Cloud School District 742 started building the new Tech High School, a project valued at \$104,000,000. St. Cloud State University is completing \$14,013,000 of student health and academic renovations. The Bluffs at Liberty Glen began construction on an affordable housing community valued at \$22,393,000. Talamore Community began construction on a \$22,000,000 age-in-place senior living community.

Notes

ELASTIC OPERATING REVENUES are highly responsive to changes in economic conditions and inflation. Examples would include licenses, permits, and recreation fees. Enterprise Fund revenues are not included in elastic operating revenue.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 5



WARNING TREND
Declining or negative growth in property tax levy.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Property Tax Levy | \$21,365,500 | \$22,778,400 | \$23,372,400 | \$24,132,400 | \$25,061,100 |
| Per Capita | 323 | 343 | 349 | 358 | 369 |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 5

Description

Property tax revenues are the most important source of revenue to consider because the City relies on it for a significant part of the General Fund revenue. A decline or a diminished growth rate in property taxes can result from an overall decline in property values, economic health of the residents, or a decline in population. The decline could be the result of inefficient assessment or appraisal practices, or legislative action.

Explanation

In 2015, the property tax levy increased \$1,414,325. For the first time since 2009, the City's tax base increased 1.9%. The City's goal is to capture the growth in the tax base without increasing the tax rate. The General Fund Levy increased \$1,367,900 for new staffing in Public Safety, additional staffing for Airport Operating and additional debt service levy on voter approved capital projects.

The property tax levy increased \$953,729 in 2016. The City's policy has been to keep the property tax levy within the growth of the tax base. In 2016, the growth in the tax base was 2.85%. The City anticipates further growth in the coming years.

The 2017 property tax levy increased \$785,000. This is reflective of the City's policy to keep the tax rate stable by capturing the growth of the tax base with increases in the tax levy. In 2017, the growth in the tax base was 2.82%.

In 2018, the property tax levy increased \$928,700. The City's policy has been to keep the property tax levy within the growth of the tax base. The growth in the City's tax base was 3.54%. The City anticipates continued growth in the tax base on future years.

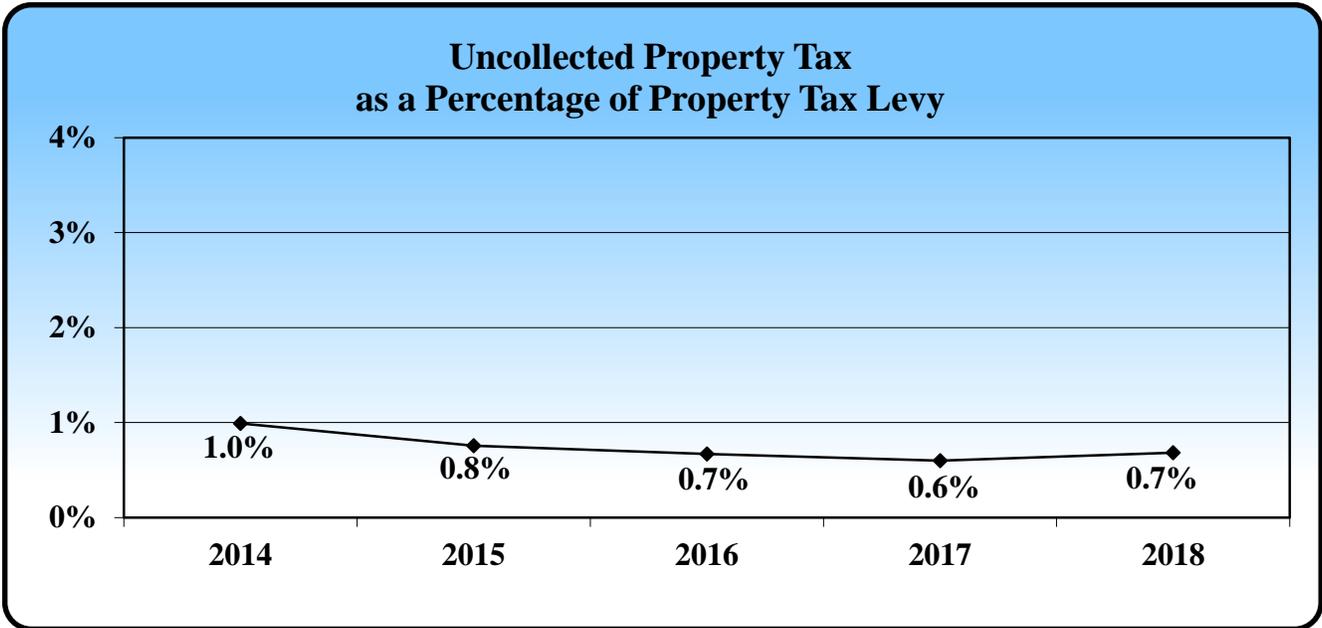
Property taxes, per capita, in 2017 were \$358 for the City. Comparatively, the state-wide average for cities over 2,500 population was \$462 per capita. The City was ranked 166 out of 229 cities for property taxes in a per capita basis.

Notes

The City has a financial policy that includes a target of keeping any property tax levy increases in line with the change in the City's tax base.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 6



WARNING TREND

Increasing amount of current uncollected property tax as a percentage of property tax levy.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------------|------------|------------|------------|------------|
| Uncollected Current Property Taxes | \$211,484 | \$172,049 | \$156,108 | \$144,172 | \$171,286 |
| Property Tax Levy | 21,365,500 | 22,778,400 | 23,372,400 | 24,132,400 | 25,061,100 |
| Uncollected Property Tax as a Percentage of Property Tax Levy | 1.0% | 0.8% | 0.7% | 0.6% | 0.7% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 6

Description

Every year, some property owners are unable to pay property taxes. If this percentage increases over time, it may indicate an overall decline in the City's economic health.

Explanation

Credit rating firms assume that a local government normally will be unable to collect 2% to 3% of its property taxes within the year that the taxes are due.

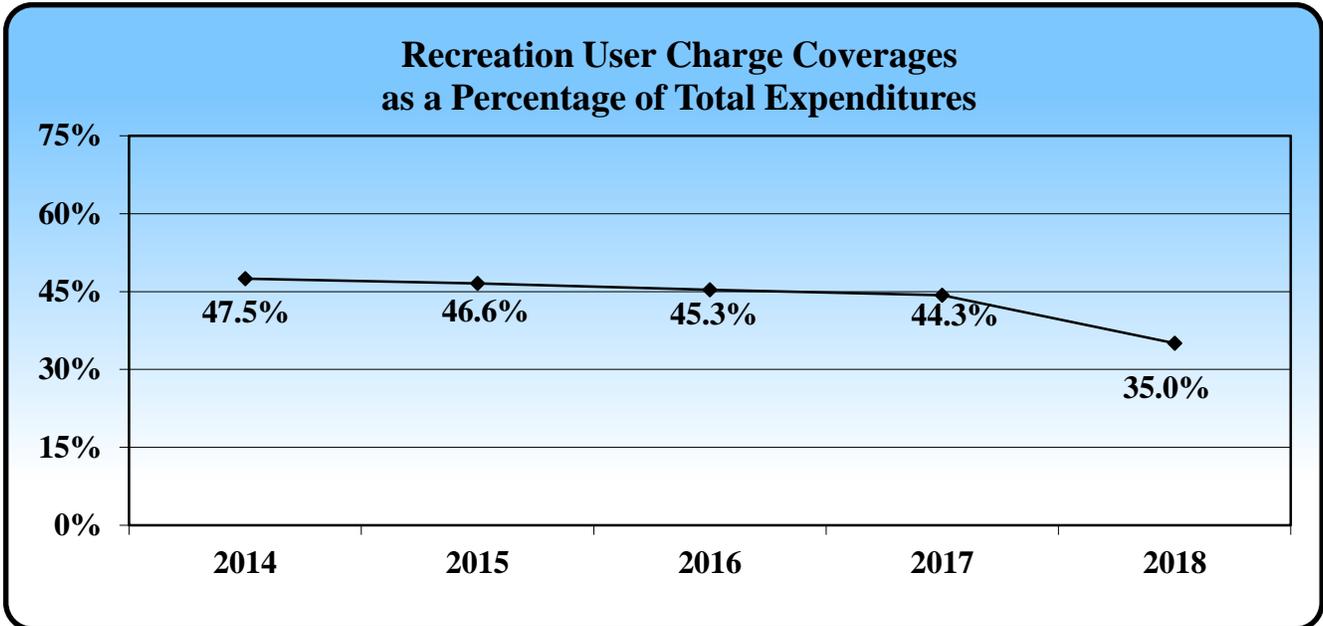
From 2014-2018, the uncollected property tax percentage has been remained stable at 1% or lower.

Notes

If uncollected property taxes are rising, further investigation should be made to determine which classes of property taxpayers are not paying; whether nonpayments are rising in particular neighborhoods or population groups; and why owners are not paying on time.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 7



WARNING TREND

Decreasing revenues from user charges as a percentage of total expenditures for providing related services.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-----------|-----------|-----------|-----------|-----------|
| Revenues from Fees and User Charges | \$384,649 | \$374,118 | \$378,089 | \$360,308 | \$352,941 |
| Expenditures for Related Services | 810,272 | 803,548 | 833,740 | 813,113 | 1,007,398 |
| User Charges as a Percentage of Total Expenditures | 47.5% | 46.6% | 45.3% | 44.3% | 35.0% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 7

Description

The user charge coverage includes all fees and charges collected from Recreation Facility users. The graph indicates the percentage of total expenditures covered by these user charges. This concept can be applied to an enterprise such as the City's Water and Wastewater Utility, or to general Government functions, such as Recreation or Inspection Services. If the charge covers the costs, the coverage is 100%. As the coverage declines, the burden on other revenues to support the service increases. It is particularly easy for inflation and other factors to erode the user charge coverage without the City realizing the extent of erosion. For this reason, costs and fees should be reviewed frequently.

Explanation

In 2015, Recreation user charge decreased to 46.6% which is a 0.9% decrease. Recreation revenues decreased \$10,531 along with a \$6,724 decrease in expenditures which resulted in the 0.9% decrease.

Recreation user charge coverage decreased slightly in 2016. User charges as a percentage of total expenditures was 45.3%. There was a slight increase in revenues of \$3,971. Expenditures increased \$30,142 primarily due to personnel costs.

Recreation user charge coverage decreased 1.0% to 44.3% in 2017. User charges have declined \$17,781 (4.7%) due in part to residents using the St. Cloud Area Family YMCA Aquatics Center that opened in May 2017. Expenditures decreased \$20,627 due to fewer repairs and maintenance services purchased.

In 2018, recreation user charges decreased \$23,477, or 6.5%. User charges declined in walking track and open gym fees. Expenditures increased \$194,285, or 23.9%, due to increased repairs and maintenance for lighting upgrades, pool repairs, and cleaning up the Lake George warming house after a fire, capital outlay purchases for mowers and the Whitney gym floor replacement, and personnel costs due to the addition of a full time Whitney Operations Assistant and overtime.

Recreation expenditures have averaged \$853,614 over the last five years. During this same time period, user charges have averaged \$370,021, or 43.3% of expenditures. Since 2014, user charges as a percentage of total expenditures has decreased 12.5%.

Notes

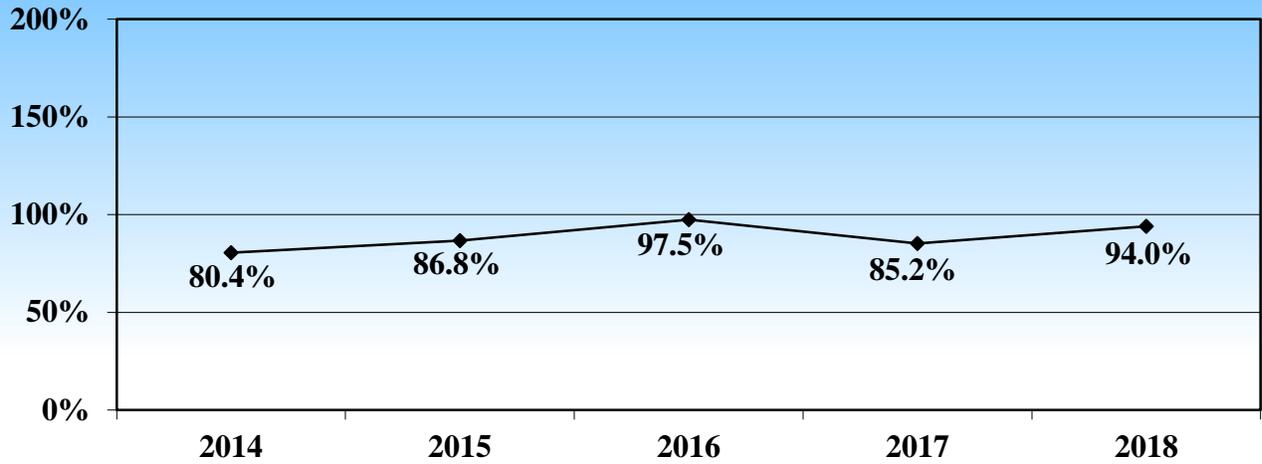
REVENUES FROM FEES AND USER CHARGES include fees for most types of user-oriented services. It would include all recreation fees and charges collected in the City.

EXPENDITURES FOR RELATED SERVICES are the actual expenditures to provide the services outlined above. This would include all Recreation Program expenditures.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 8

**Inspection/Building Safety User Charge Coverages
as a Percentage of Total Direct Expenditures**



WARNING TREND

Decreasing revenues from user charges as a percentage of total direct expenditures for providing related services.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------|-------------|-------------|-------------|-------------|
| Revenues from Fees and User Charges | \$1,653,252 | \$1,851,660 | \$2,208,965 | \$2,082,895 | \$2,337,183 |
| Expenditures for Related Services | 2,055,204 | 2,134,345 | 2,266,211 | 2,443,670 | 2,486,174 |
| User Charges as a Percentage of Total Direct Expenditures | 80.4% | 86.8% | 97.5% | 85.2% | 94.0% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 8

Description

The user charge coverage includes all fees collected from the Inspection and Building Safety Departments. The graph indicates the percentage of the total direct expenditures covered by these fees. This concept can be applied to an enterprise such as the City's Water and Wastewater Utility, or to general Governmental functions, such as Recreation or Inspection Services. If the charge covers the costs, the coverage is 100%. As the coverage declines, the burden on other revenues to support the service increases. It is particularly easy for inflation and other factors to erode the user charge coverage without the City realizing the extent of erosion. For this reason, costs and fees should be reviewed frequently.

Explanation

Over the past five years, residential building permits have been steadily increasing. The residential building permits increased to 93 in 2014, primarily due to steady sale of tax forfeit lots. In 2015, building permits increased to 100 and in 2016, 102 permits were issued, 2017 saw 112 residential building permits issued. In 2018, 123 residential building permits were issued.

In 2015, operating expenditures increased \$79,141 due to inflationary pressure. Revenues from fees and charges increased \$198,400 due to the improved economy and increase in building activity during 2015.

License and permit fee revenue increased \$357,300 in 2016. Of this total, building permit revenue increased \$223,161. The number of permits remained flat in 2016, however, the valuation of the permits increased resulting in the increase in revenue. Operating expenditures increased \$131,866. The City hired two new code compliance inspectors in the Health and Inspections Department. These two positions were funded through Community Development Block Grant dollars for part of both 2016 and 2017.

In 2017, license and permit revenue decreased \$126,070 while expenditures increased \$177,459. This resulted in a decrease in user charges as a percentage of total expenditures to 85.2%, down 12.3% from 2016. The total valuation of building permits issued from 2016 to 2017 decreased \$62,003,413, resulting in a decrease in revenue. The expenditure increase relates to the addition of two environmental health technicians that were hired in October 2017. These positions were being funded through the Community Development Block Grant dollars for part of 2017.

License and permit revenue increased \$254,288 in 2018, while expenditures only increased \$42,504. Building permit valuations increased \$138,277,175 from 2017 to 2018, resulting in increased permit revenue. With the increased revenue, user charges as a percentage of expenditures increased to 94.0%, an increase of 8.8% from 2017. Not included in the direct costs are overhead charges for maintenance, finance, IT, HR, and other offices. Those costs add an additional \$108,624 to the cost, which decreases the charge coverage to 90.1%.

Per City charter, twenty-five percent of all licenses and permit fee revenues are allocated to the Development Fund. The amounts in this indicator are those revenues accounted for in the General Fund only.

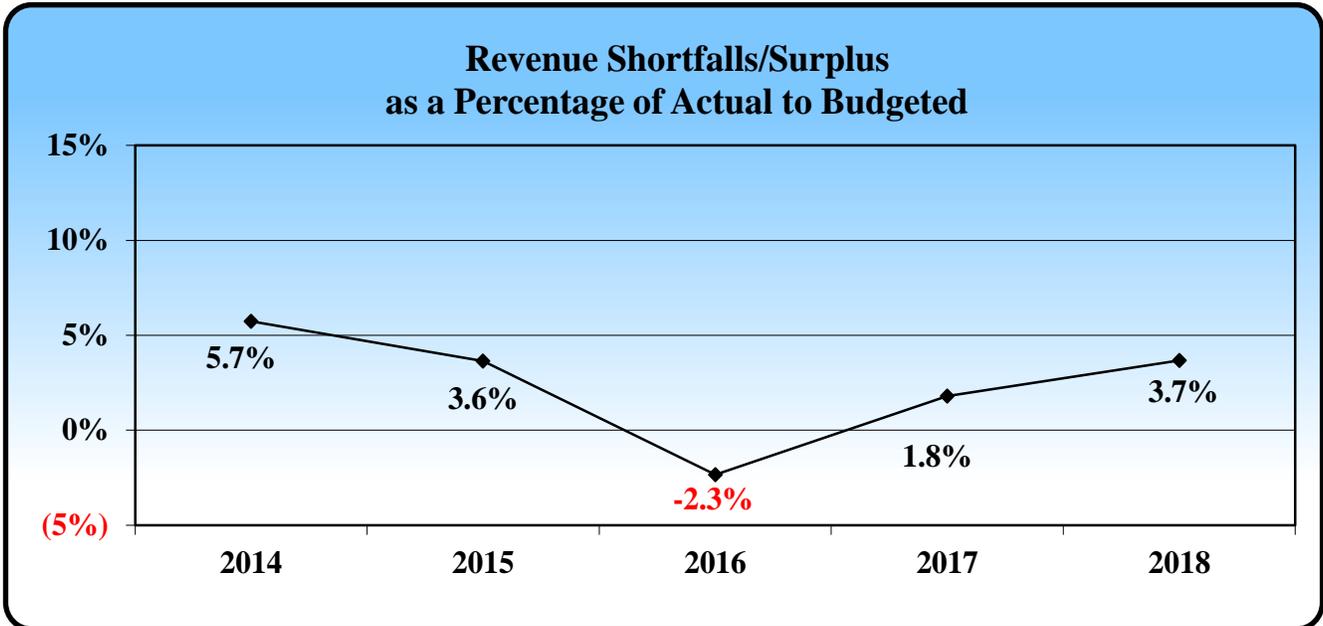
Notes

REVENUES FROM FEES AND USER CHARGES include fees for most types of user-oriented services. It would include all licenses and permits in the General Fund.

EXPENDITURES FOR RELATED SERVICES are the actual expenditures to provide the services outlined above. These would include Inspections and the Building Safety Department.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 9



WARNING TREND
Decrease in revenue surplus.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|--------------|--------------|--------------|--------------|--------------|
| Actual Operating Revenues | \$51,666,944 | \$52,469,849 | \$51,843,962 | \$51,995,831 | \$55,046,136 |
| Budgeted Operating Revenues | 48,703,596 | 50,559,342 | 53,057,173 | 51,060,018 | 53,021,387 |
| Revenue Surplus | 2,963,348 | 1,910,507 | (1,213,211) | 935,813 | 2,024,749 |
| Revenue Surplus as a Percentage of Actual to Budgeted | 5.7% | 3.6% | -2.3% | 1.8% | 3.7% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 9

Description

This indicator examines the differences between revenue estimates and revenues actually received during the fiscal year. Major discrepancies that continue year after year can indicate a declining economy, inefficient collection procedures, or inaccurate estimating techniques. It can also be an indication that revenue estimates are being made optimistically high.

Explanation

The City's Financial Policy states that a conservative, objective and analytical process will be used in estimating the annual revenues.

In 2014, the City had a \$2,963,438 revenue surplus. The adjustment to market had the opposite impact on investment earnings in 2014 resulting in an increase in investment earnings of \$964,000 above revenue estimates. Engineering fees for projects designed and administered by City Engineering staff generated \$325,600 over revenue estimates. The Electric Franchise Revenue based upon a percentage of all utility customer's bills generated \$443,100 over the budgeted amount in 2014. The Airport actual revenues were \$1.1 million above budget due to grants and contributions received to support air service to Chicago.

The City had a \$1,910,507 revenue surplus in 2015. Engineering fees for projects administered by City Engineering staff generated \$664,100 over revenue estimates. Licenses and Permits generated an additional \$142,000. Miscellaneous revenue of \$353,000 was received in 2015 for a loan repayment. This amount was not included in the revenue estimates.

In 2016, the City had a \$1,034,155 revenue shortfall when comparing the difference between budgeted and actual revenues. The refunding and restructuring of the Library bond resulted in a \$2 million reduction in local sales tax revenue in the Library Fund. The 2016 budget included the amount of local sales tax revenue that would have been needed if we hadn't refunded and restructured the bond. If the refunding hadn't occurred, the City would have had a revenue surplus of approximately \$1 million due to an additional \$367,000 in license and permit revenue and also a \$559,500 increase in intergovernmental revenue.

In 2017, the City had a revenue surplus of \$935,813. Intergovernmental revenues exceeded budgeted amounts by \$282,935 due to additional grants received that were not budgeted. Fines exceeded their budget by \$155,975 due to increased parking violations and administrative citations. Interest was \$108,716 over revenue estimates.

In 2018, the City had a revenue surplus of \$2,024,749. Taxes were over budget \$995,639, primarily due to the Franchise Fee Development Fund not being budgeted. Licenses and permits exceeded the budget by \$433,989 due to increased building activity. Charges for service were over budget by \$372,703 due to increased engineering and administrative fees for road projects.

Notes

ACTUAL OPERATING REVENUES are those revenues noted on Indicator 1 actually received during the fiscal year.

BUDGETED OPERATING REVENUES are the same revenues budgeted to be received during the fiscal year.

REVENUE SURPLUS/SHORTFALL is the difference between the Actual and Budgeted amounts.

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CITY OF ST. CLOUD, MINNESOTA

Expenditure Indicators

Expenditures are a rough measure of the City's service output. Generally, the more the City spends in constant dollars, the more service it is providing. This reasoning does not take into account how effectively or efficiently the services are delivered. An important issue to consider is the expenditure growth rate to determine whether or not the City is living within its revenues. Because the City is required to have a balanced budget, it would seem unlikely that expenditure growth would exceed revenue growth. However, there are a number of subtle ways for a City to balance its annual budget but create a long-run imbalance, whereby future expenditure outlays and commitments would be growing faster than revenues.

Some common deficit producers are using bond proceeds for operations, relying on intergovernmental grants, borrowing, or using reserves. Maintenance may be deferred on streets, buildings, and other assets. In each case, the annual budget remains balanced, but the long-run budget is developing a deficit. Although long-run deficits can be reduced through windfalls or surges in revenue due to inflation, there is substantial risk in allowing future liabilities to develop.

Another issue to consider is the level of mandatory or "fixed" costs. This measure of experience shows how much freedom the City has to adjust its service levels to changing economic, political and social conditions. A City with a growing percentage of fixed costs will find itself proportionately less able to make adjustments. As the percentage of debt service, matching requirements, State and Federal mandates, contractual agreements, and commitments to existing capital plant increase, the flexibility of spending decision decreases. Ideally, the City will have an expenditure growth rate that does not exceed its revenue growth rate and will have maximum spending flexibility to adjust to changing conditions.

Analyzing the City's expenditure profile will help identify the following types of problems:

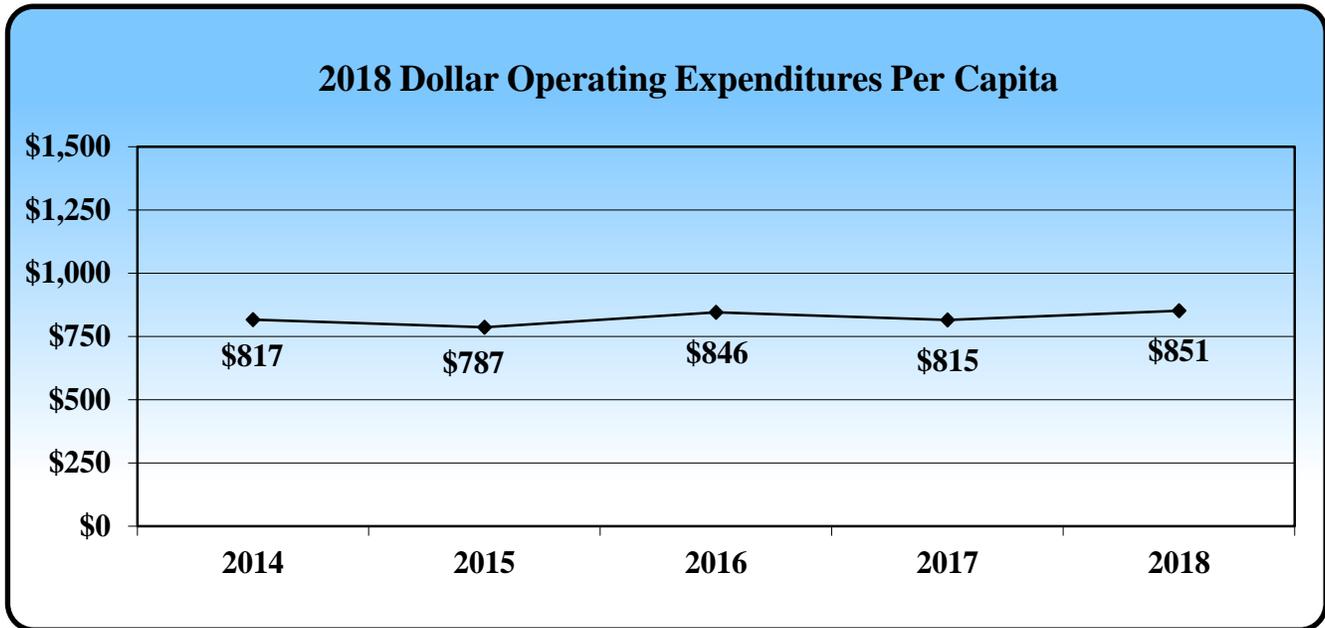
- ◆ Excessive growth of overall expenditures compared to revenue growth or growth in community wealth;
- ◆ An undesirable increase in fixed costs;
- ◆ Ineffective budgetary controls;
- ◆ A decline in personnel productivity;
- ◆ Excessive growth in programs that create future expenditure liabilities.

Changes in expenditures are monitored by using the following indicators:

10. Operating Expenditures Per Capita
11. Full-time City Employees Per Thousand Population
12. Fringe Benefits Expenses as a Percentage of Salaries and Wages

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 10



WARNING TREND

Increasing operating expenditures in constant dollars per capita.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------------|--------------|--------------|--------------|--------------|
| Total Operating Expenditures | \$53,106,468 | \$52,360,716 | \$55,960,808 | \$54,134,723 | \$57,806,896 |
| Adjusted to 2018 Dollars | 54,269,500 | 52,711,533 | 56,973,699 | 54,914,263 | 57,806,896 |
| Population | 66,462 | 67,010 | 67,344 | 67,344 | 67,889 |
| Actual Expenditure Per Capita | 799 | 781 | 831 | 804 | 851 |
| 2018 Dollars Operating Expenditures Per Capita In Constant Dollars | 817 | 787 | 846 | 815 | 851 |
| State-wide Average Per Capita | 1,295 | 1,325 | 1,371 | 1,378 | |

Source: 2014-2017 Minnesota City Finances Revenues, Expenditures, and Debt Report

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 10

Description

Changes in expenditures per capita reflect changes in expenditures relative to changes in population. Increasing per capita expenditures can indicate that the cost of providing services is outstripping the City's personal income or other relevant tax base. If the increase in spending is greater than inflation and cannot be explained by the addition of new services, it can indicate declining productivity with the City spending more money to support the same level of services.

Explanation

Operating expenditures decreased \$745,752 in 2015. The largest reduction was in the Airport Operating Fund which decreased \$1.1 million for the costs associated in providing daily air service to Chicago. This service was discontinued in February of 2015. The City did have a \$259,300 increase in the Metropolitan Area Network Consortium Special Revenue Fund for repairs and services of fiber optics. The Library Sales Tax Bond payment also increased \$214,000 in 2015.

In 2016, total operating expenditures increased \$3.6 million. Three new patrol officers were hired and other salary adjustments resulted in an increase in personnel expenditures for the Police Department of \$912,000. The three new officers were funded through a federal grant. The City also hired a Fire Division Chief of Training position. This position along with salary adjustments resulted in a \$132,000 increase in Fire personnel expenditures. This position is being funded through a State grant. The Library Fund expenditures increased over \$500,000 as a result of repair costs due to a fire at the Great River Regional Library.

Operating expenditures decreased \$1.8 million in 2017. Expenditures for the Library Sales Tax Bond decreased \$2.5 million with the restructuring of the debt. General Fund expenditures increased \$1.9 million. Salary adjustments accounted for an increase to the Police Department and Fire Department of \$613,435 and \$484,785, respectively. The Library Fund expenditures decreased \$422,125 as a result of one-time expenditures in 2016 related to a fire at the Great River Regional Library.

In 2018, operating expenditures increased \$3,672,173. Expenditures in the Franchise Fee Development increased \$3,185,070 due to work on the Cooper Avenue substation. Salary adjustments in the police department increased \$362,045. Public works expenditures increased \$422,269 due to increased fuel costs, as well as increased expenditures related to snow removal.

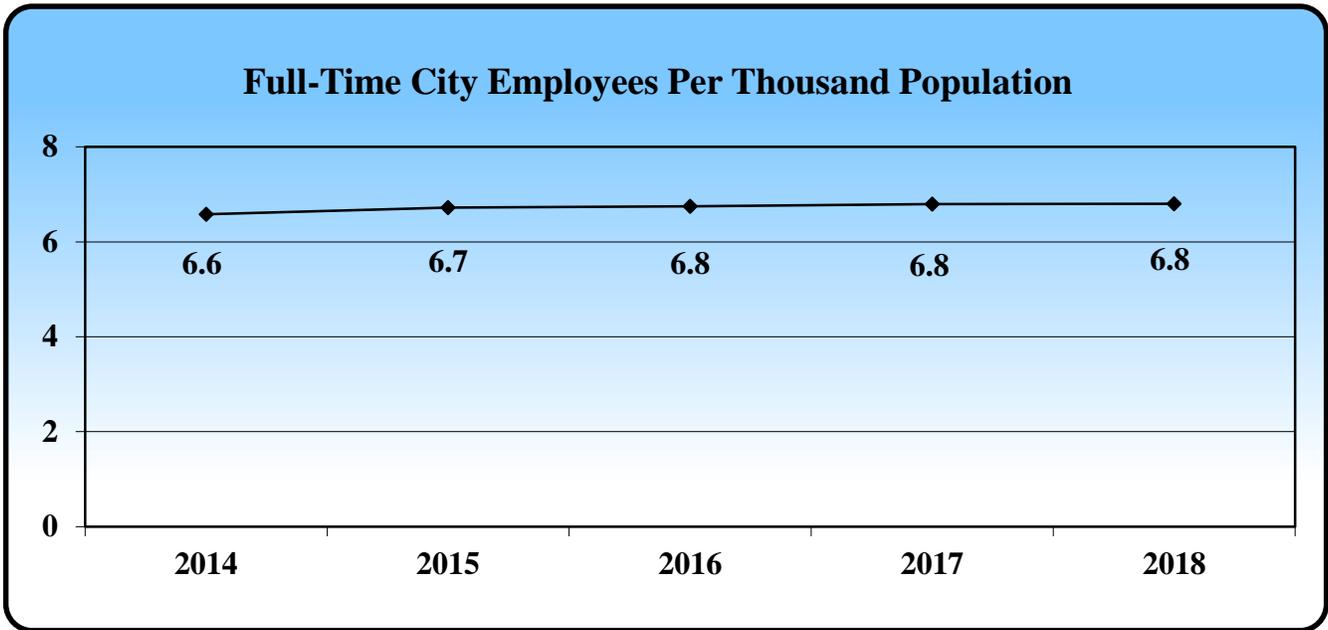
Notes

TOTAL OPERATING EXPENDITURES include all expenditures of the General, Special Revenue, Library Sales Tax Bond, Public Safety Bond, Permanent Improvement, Permanent Improvement Redevelopment Fund, Community Aquatics Center and ERP Project. Wages and fringe benefits in 2018 constitute approximately 65% of the total, with the balance including supplies, services and charges, capital outlay and debt service expenses.

ADJUSTABLE TO 2018 DOLLARS is accomplished by revising previous year's dollar amounts to a 2018 equivalent by adjusting for inflation. Inflation rates used, beginning with 2014 are 1.52%, (1.14%), 0.37%, 1.44%, and 1.63%.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 11



WARNING TREND

Increasing number of City employees per thousand population.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------|--------|--------|--------|--------|
| Number of Full-Time City Employees | 437.5 | 450.3 | 454.6 | 457.5 | 462.0 |
| Population | 66,462 | 67,010 | 67,344 | 67,344 | 67,889 |
| Full-Time City Employees Per Thousand Population | 6.6 | 6.7 | 6.8 | 6.8 | 6.8 |

Comparable Cities*

*Comparison made using St Paul, Rochester, Duluth, and Moorhead due to all cities having a Police Department and Fire Department, as well as significant Enterprise Fund activity

Source: 2014-2017 Minnesota City Finances Report

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 11

Description

Because personnel costs are a major portion of a City's operating budget, plotting changes in the number of employees per thousand-population is a good way to measure changes in expenditures. An increase in employees per thousand-population might indicate that expenditures are rising faster than revenues, that the City is becoming more labor intensive, or that personnel productivity is declining.

Explanation

2014 was the first year since the recession began in 2008 that the City workforce increased in total full-time employees. The City continues to examine the need for each position as a job opens up; however, there is no longer any hard freeze on personnel. The number of budgeted full-time employees increased 5.5 positions in 2014. In Governmental Funds, the only department with increases in full-time employees was the Police Department which added three police officers with the removal of the unfilled Forensic Specialist for a gain of two positions. In Enterprise Funds (non-tax supported funds) the City added ½ Administrative Assistant for the Street Light Utility, an Equipment Operator II position in Refuse, and an Events Coordinator and Sales and Marketing Coordinator at River's Edge Convention Center.

In 2015, the number of budgeted full-time employees increased 12.8 positions. Included are two Officers, two Clerical Technicians and a Building Maintenance Supervisor for the Police Department. The additions were in response to the recently completed staffing study and Task Force recommendations. The City has also added two Firefighters, two Airport Equipment Operators, an Administrative and Field Assistant for the Health Department and an additional full-time position in the Legal Department.

The City added five new positions in 2016. Three Police Officers, a Division Chief of Training position at the Fire Department and a Radio Technician in the IT Department. The three offices are being funded partially through a Federal grant and the Division Chief of Training is being funded through a State grant.

In 2017, the City added 3 new positions. Two Environmental Health Technicians, which are being partially funded by the Community Development Block Grant that will be dedicated to code enforcement in low-to-moderate income areas, and a Wastewater Services Specialist position responsible for maintaining and coordinating the Energy and Nutrient Recovery and Reuse Program.

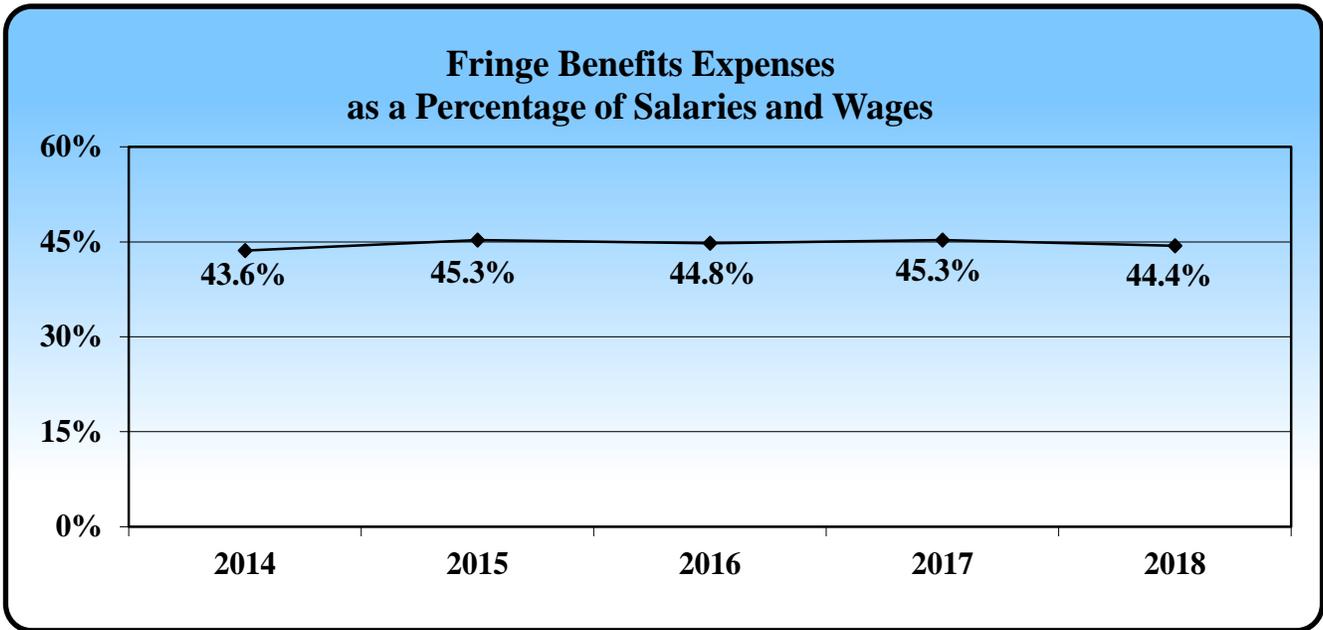
In 2018, the number of budgeted full-time employees increased 4.5 positions. An Administrative Technician was added with time split between Legal and HR. The Police Department added a Support Supervisor and Police Commander. A Civil Engineer was added to the Engineering Department, and a Whitney Operations Assistant for Parks and Recreation.

Notes

NUMBER OF CITY EMPLOYEES includes all budgeted full-time positions in the City.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 12



WARNING TREND

Increasing fringe benefits expenses as a percentage of salaries and wages.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------------|--------------|--------------|--------------|--------------|
| Cost of Fringe Benefits | \$12,982,235 | \$13,823,816 | \$14,253,832 | \$15,019,948 | \$15,160,140 |
| Salaries and Wages | 29,757,254 | 30,518,938 | 31,840,400 | 33,164,910 | 34,148,277 |
| Fringe Benefits Expenses as a Percentage of Salaries and Wages | 43.6% | 45.3% | 44.8% | 45.3% | 44.4% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 12

Description

The most common forms of fringe benefits are pension plans, health and life insurance, vacation, sick leave and holidays. Together, they represent a significant share of operating costs of the City. Some benefits, like health and life insurance, require immediate cash expenditures. Others, like accrued vacation and sick leave benefits, can be deferred for many years. The City's employees are covered by pension plans administered by the State Public Employee Retirement Association.

Explanation

Fringe benefits expenses have remained very stable as a percentage of salaries and wages over the past five years. The City has initiated measures to reduce the cost of health insurance and as a result health insurance costs have not risen as dramatically as many private and public entities have faced.

Salaries and wages increased \$761,684 in 2015. The labor contracts required a 1% increase on January 1, and a 1% increase on July 1st, 2015. Fringe benefit costs increased \$841,581 which is a 6.5% increase.

In 2016, salaries and wages increased \$1.3 million. Five new positions were added during the year along with a 1% salary cost of living increase on both January 1st and July 1st per negotiated labor contracts. Fringe benefit costs for 2016 increased \$430,016 which included a 1% increase in health insurance rates.

In 2017, salaries and wages increased \$1.3 million. Three new positions were added during the year in addition to a 2% salary cost of living increase on January 1st and 1% on July 1st in accordance with negotiated labor contracts. Fringe benefit costs increased \$766,116, which includes a 1% increase in health insurance rates.

In 2018, salaries and wages increased \$983,367. In accordance with union contracts, employees received a 2% increase on January 1st. Fringe benefit costs increased \$140,192. In addition, there were 4.5 new positions added during the year.

Notes

COST OF FRINGE BENEFITS includes payments for direct benefits to employees such as Pensions, Social Security, Health Insurance, Life Insurance, Dental Insurance, Worker's Compensation Insurance and Unemployment Benefits.

SALARIES AND WAGES are the total wages, including overtime, paid to all employees.

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CITY OF ST. CLOUD, MINNESOTA

Operating Position Indicators

Operating position refers to the City's ability to balance its budget on a current basis and maintain sufficient cash to pay its bills on a timely basis and keep adequate reserves for emergencies. An operating surplus develops when current revenues exceed current expenditures, while an operating deficit develops when the reverse occurs. An operating surplus or deficit may be created intentionally as a result of a policy decision, or unintentionally because of difficulty in predicting revenues and expenditures. When deficits occur, they are funded from accumulated fund balances; when surpluses occur, they increase the fund balance and are available to fund future operations.

Reserves are built up through the accumulation of operating surpluses. They are maintained for the purpose of providing a financial cushion in the event of a revenue source loss, economic downturn, unanticipated expenditure demands due to natural disasters, insurance loss, large-scale capital expenditures and for covering other non-recurring expenses and cash flow irregularities.

Liquidity refers to the flow of cash in and out of the City treasury. The City receives its revenue at infrequent intervals during the year and in large installments. If revenues are received before they need to be spent, the City has a positive liquidity or cash flow position. It is to the City's advantage to have some liquidity or "cash reserves" as a cushion in the event of unexpected delays in receiving revenues, an unexpected decline or loss of a revenue source, or an unanticipated need to make a large expenditure. For whatever reason, if the City has a negative cash flow and has no cash reserves it must either borrow internally or externally, or delay paying its bills.

Analysis of operating positions can help the City Council identify these situations:

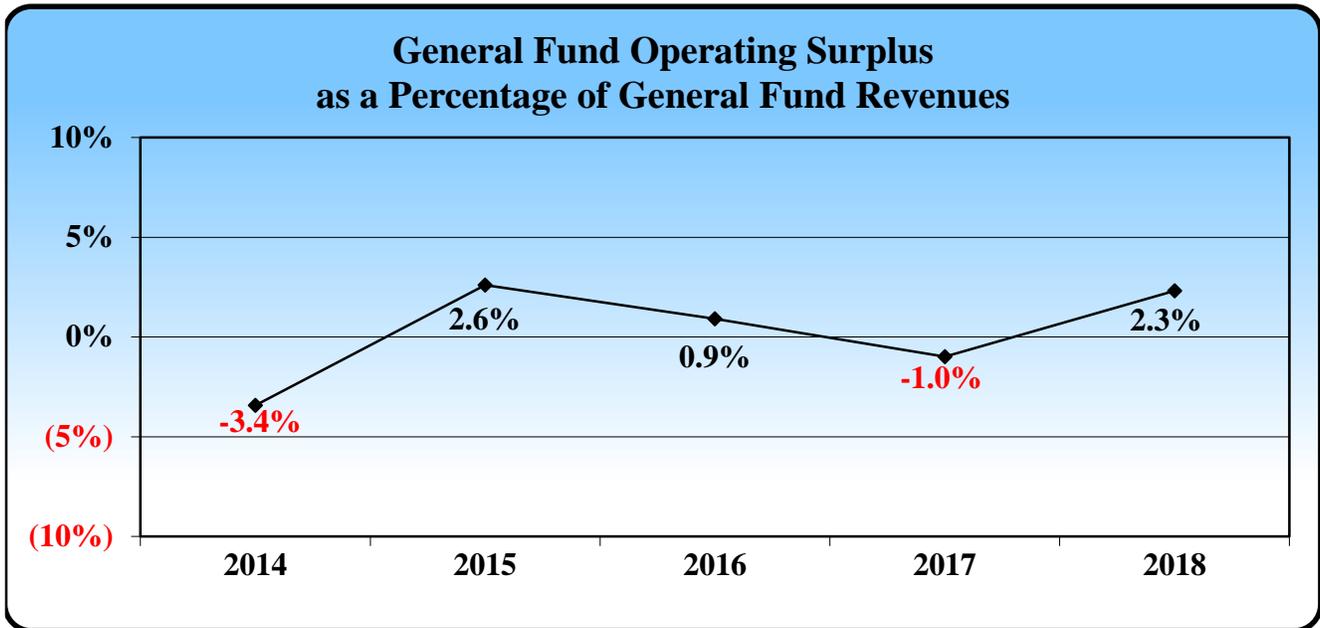
- ◆ Emergence of operating deficits;
- ◆ Decline in revenues;
- ◆ Decline in liquidity;
- ◆ Ineffective revenue forecasting techniques;
- ◆ Ineffective budgetary controls;
- ◆ Inefficient management of enterprise operations.

Changes in operating position are monitored by using the following indicators:

13. General Fund Operating Surplus as a Percentage of General Fund Revenues
14. Water Utility Net Income (Loss) Without Depreciation Expense
15. Wastewater Utility Net Income (Loss) Without Depreciation Expense
16. Hydroelectric Utility Net Income (Loss) Without Depreciation Expense
17. Stormwater Utility Net Income (Loss) Without Depreciation Expense
18. Street Light Utility Net Income (Loss) Without Depreciation Expense
19. Parking System Net Income (Loss) Without Depreciation Expense
20. Refuse Service Net Income (Loss) Without Depreciation Expense
21. Municipal Athletic Complex Net Income (Loss) Without Depreciation Expense
22. River's Edge Convention Center Net Income (Loss) Without Depreciation Expense
23. General Fund Balance as a Percentage of Operating Expenditures
24. Liquidity

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 13



WARNING TREND

Decreasing General Fund operating surplus as a percentage of General Fund revenues.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---------------|-------------|------------|-------------|-------------|
| General Fund Operating (Deficit) or Surplus | (\$1,323,619) | \$1,047,271 | \$376,404 | (\$411,385) | \$1,015,311 |
| General Fund Revenues | 38,657,791 | 40,206,615 | 41,335,412 | 41,642,975 | 43,993,810 |
| General Fund Operating Surplus as a Percentage of General Fund Revenues | -3.4% | 2.6% | 0.9% | -1.0% | 2.3% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 13

Description

An operating deficit occurs when current expenditures exceed current revenues. This may not mean that the budget will be out of balance, because reserves (“fund balances”) from prior years can be used to cover the difference. It does mean; however, that during the current year the City is spending more than it is receiving. An operating deficit in any given year may not be cause for concern, but frequent and increasing deficits can indicate that current revenues are not supporting current expenditures and that serious problems may lie ahead.

Explanation

The City had an operating deficit of \$1,323,619 in 2014. The 2014 General Fund budget was proposed to draw down \$1,000,000. The City made a commitment to Standard & Poors to reduce the reliance on fund balance in future years: \$750,000 in 2015, \$400,000 in 2016, \$250,000 in 2017, and a balanced budget in 2018. In order to sustain services during the recession, the City initiated a transfer from the Hydroelectric Utility starting at \$450,000. Transfers are not included as part of net operating revenue.

In 2015, the City had a General Fund operating surplus of \$1,047,271. The City had anticipated drawing down fund balance in the amount of \$750,000; however, because of an increase of \$664,100 in Engineering Fees and \$145,100 increase in building permit revenue, the City was able to show an operating surplus.

The City had a \$376,404 operating surplus in the General Fund in 2016. Revenues were higher than anticipated including a \$367,000 increase in licenses and permit revenue. The City also received an additional \$306,000 in charges for services which includes a one-time payment of \$200,000 from Stride Academy and \$106,000 in private activity tax exempt financing. The City had anticipated drawing down fund balance \$400,000 at budget time.

In 2017, the City General Fund had a \$411,385 operating deficit. The City had anticipated a deficit of \$250,000; however, expenses were higher than anticipated including \$242,200 for the 2016-2017 Firefighter union contract settlement and \$190,200 for five long-term employee retirement payouts.

The City had a \$1,015,311 operating surplus in the General Fund in 2018. The City had anticipated a deficit of \$170,400; however, revenues were over budget \$1,130,482 while expenditures were in line with budgeted amounts. The increase in revenues is due to higher than anticipated license and permits of \$275,283 with increased building activity, increased engineering and administrative fees of \$492,232 with more street projects, and additional federal grants received.

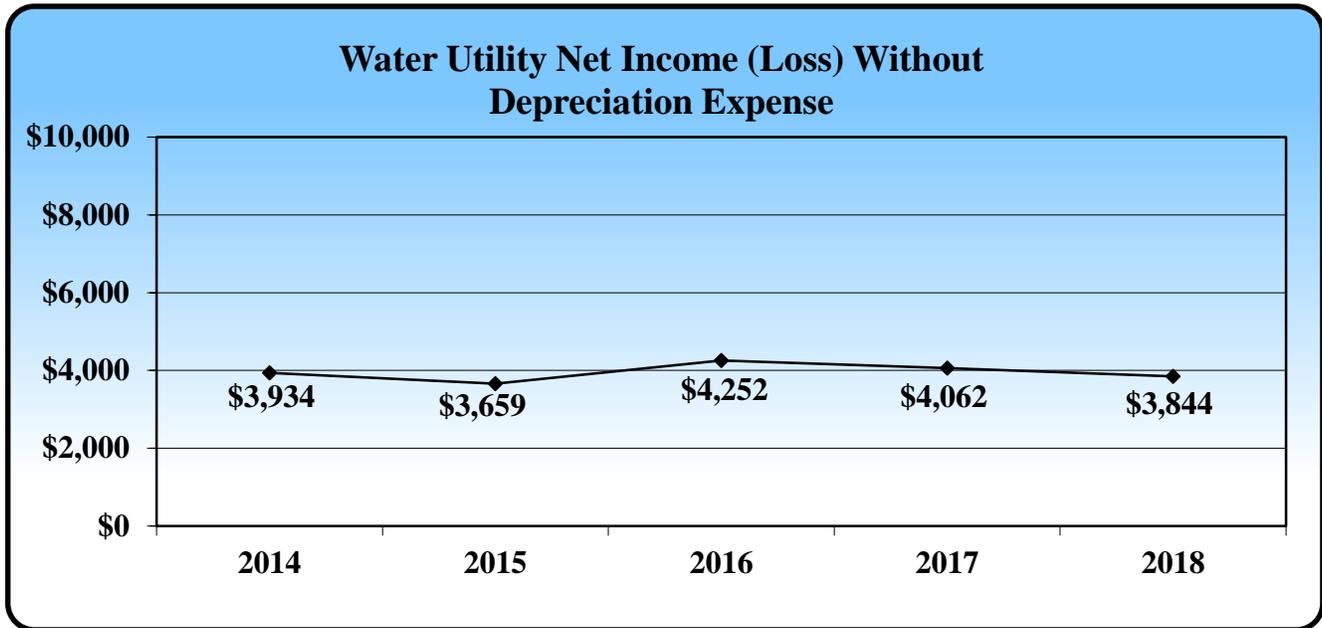
Notes

GENERAL FUND OPERATING DEFICIT OR SURPLUS is the difference between operating revenues and operating expenditures.

NET OPERATING REVENUES include Taxes, Licenses and Permits, Intergovernmental, Charges for Services, Fines, Interest and Miscellaneous Revenues.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 14



WARNING TREND

Decreasing Water Utility net income (loss) in constant dollars.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-----------|-----------|-----------|-----------|-------------|
| Water Utility Net Income (Loss) | \$416,077 | \$180,399 | \$444,885 | \$509,464 | (\$327,279) |
| Net Income (Loss) Without Depreciation Expense | 3,849,652 | 3,634,809 | 4,176,241 | 4,004,268 | 3,844,134 |
| 2018 Dollars Net Income (Loss) Without Depreciation Expense | 3,933,959 | 3,659,162 | 4,251,831 | 4,061,929 | 3,844,134 |
| Cash Reserves | 7,254,746 | 7,400,891 | 8,072,319 | 8,400,026 | 8,057,698 |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 14

Description

Water Utility losses are a special and highly visible type of operating deficit because the Water Utility is expected to function as if it were a commercially operated private entity rather than a governmental “not for profit” entity. This means that the cost (expenses, including depreciation) of providing goods and services to the public is to be recovered through user charges. Water Utilities are typically subject to the laws of supply and demand, and managers who raise rates may find revenues actually decrease because customers limit their use of the service. Water Utility provides services to approximately 17,936 customers in the City of St. Cloud.

Explanation

Water Utility’s net income has been very steady over the past five years.

Operating expenses have remained relatively stable over the past years. In 2014, depreciation expense increased \$650,000, primarily due to the first year’s depreciation on a \$7.9 million water plant improvement project. Operating expenses remained flat in both 2015 and 2016. In 2017, operating expenses increased \$357,000. Full-time salaries increased \$127,000 which includes negotiated labor contract increases. The increase also includes \$107,000 for water meters and \$90,000 for repair and maintenance services. In 2018, operating expenses increased \$553,000. Depreciation increased \$719,000 due to the first year of depreciation on \$4.7 million southside water tower, \$872,000 column filter pilot project, and \$425,000 Crossroads meter vault project.

The City imposes a water availability charge (WAC) on new customers who connect to the existing water system. The WAC fee transfers the charges to new developments that are creating the need for expansion of the drinking water system. The cash balance in the WAC Fund as of December 31, 2018 is \$1.5 million. This balance will be used to help fund upcoming water expansion projects.

Principal paid on debt is not included as an operating expense in calculating net income. Therefore, net income should also be enough to cover debt principal payments. In 2016, total debt service payments were \$1.34 million. The City had issued an \$11.7 million PFA loan for the Flow Train III project and the first debt payment was made in 2016. In 2017, total debt service payments were \$1.96 million. In 2018, total debt service payments were \$1.8 million. Net income, without depreciation expense, was more than sufficient to cover the principal debt service payments when this amount is deducted.

The Water Utility Capital Improvement Plan includes significant projects in upcoming years. These projects will substantially increase the principal payments in future budgets.

In 2018, the City approved a 5-year rate increase starting in 2019 that changes the rate structure to a conservation rate structure up to \$3.75 a unit, along with an increase to the bimonthly minimum base charge from \$12.88 to \$15.00.

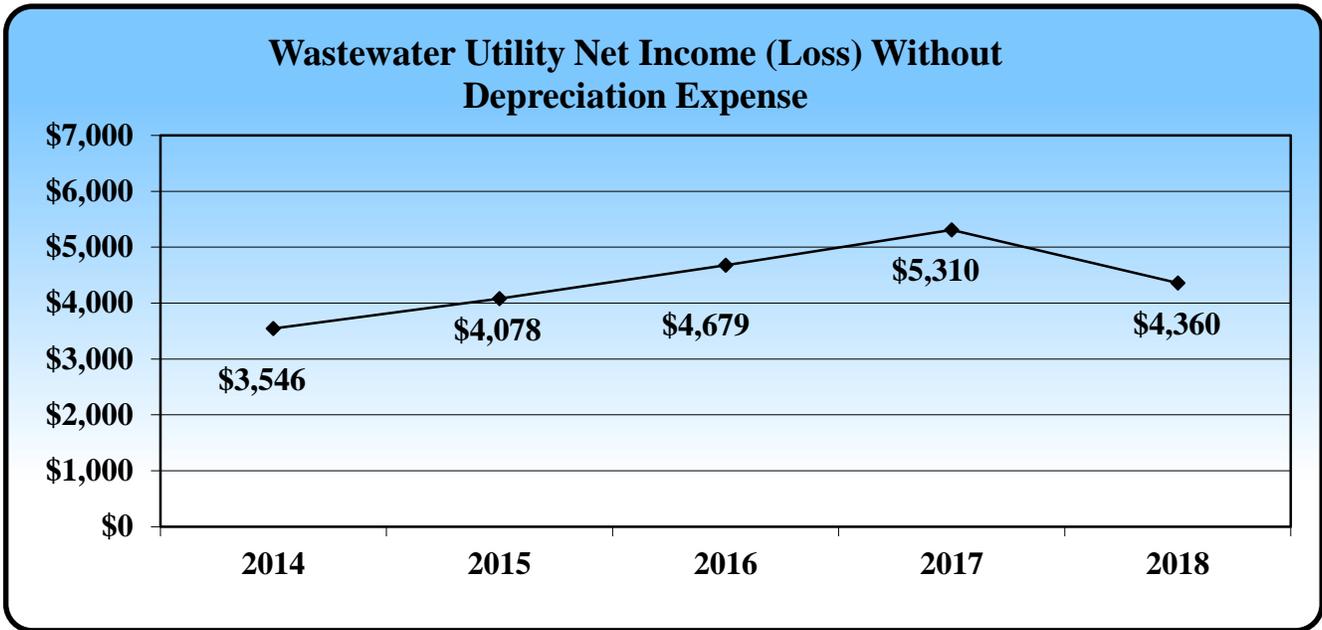
Cash in the Water Fund increased \$1,145,280 from 2014 to 2017, then decreased \$342,328 from 2017 to 2018. The decrease in cash is due to increased debt payments, and capital purchases funded without debt issuances.

Notes

WATER UTILITY OPERATING RESULTS are operating revenues less operating expenses. Depreciation is not considered an operating expense. Non-operating revenues and expenses such as interest expense, transfers and investment income are included. Principal paid on debt however, is not included as an expense.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 15



WARNING TREND

Decreasing Wastewater Utility net income (loss) in constant dollars.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---------------|---------------|---------------|-------------|---------------|
| Wastewater Utility Net Income (Loss) | (\$2,199,221) | (\$1,688,611) | (\$1,337,549) | (\$697,647) | (\$1,750,780) |
| Net Income (Loss) Without Depreciation Expense | 3,469,797 | 4,050,865 | 4,595,816 | 5,234,304 | 4,360,068 |
| 2018 Dollars Net Income (Loss) Without Depreciation Expense | 3,545,786 | 4,078,006 | 4,679,000 | 5,309,678 | 4,360,068 |
| Cash Reserves | 3,470,446 | 4,088,279 | 5,584,776 | 6,390,603 | 6,220,218 |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 15

Description

Wastewater Utility losses are a special and highly visible type of operating deficit because the Wastewater Utility is expected to function as if it were a commercially operated private entity rather than a governmental “not for profit” entity. This means that the cost (expenses, including depreciation) of providing goods and services to the public is to be recovered through user charges. Wastewater Utilities are typically subject to the laws of supply and demand, and managers who raise rates may find revenues actually decrease because customers limit their use of the service. Wastewater Utility provides services to approximately 17,875 accounts in the City of St. Cloud.

Explanation

The City’s Wastewater Utility operation has shown a consistent profit on an operating basis when depreciation expenses are not included.

Customer sewer charges increased \$600,000 in 2014. The City is adjusting the sewer tier rate system over a three-year period to comply with State mandates. In addition, the contract City charges increased \$120,000 in 2014.

In 2015, customer sewer charges increased \$600,000. This is the second year of a three-year plan to phase to a one-tiered rate system. Contract user revenue also increased \$240,000 in 2015. Operating expenses remained flat for 2015.

Customer sewer sales increased \$699,000 in 2016. This was the final year of the phase in plan to a one-tiered system. Operating expenses increased \$198,000 in 2016 when excluding depreciation. Wastewater saw a \$74,700 increase in supplies and an \$80,000 increase in services and charges due to additional repair and maintenance costs.

In 2017, customer sewer sales increased \$545,000 and contracted cities’ billings increased \$129,000. Operating expenses remained stable from 2016 to 2017.

In 2018, customer sewer sales decreased \$194,000 and contracted cities’ billings increased \$138,000. Operating expenses increased \$580,884 when excluding depreciation. Chemical expenses increased \$213,736 with additional treatment processes. Repairs and maintenance increased \$88,233, and operating supplies increased \$104,233.

Principal paid on debt is not included as an operating expense when calculating net income. In 2018, principal of \$4,552,477 was paid for Wastewater Utility debt. Contract cities were responsible for \$2,354,388 of that debt.

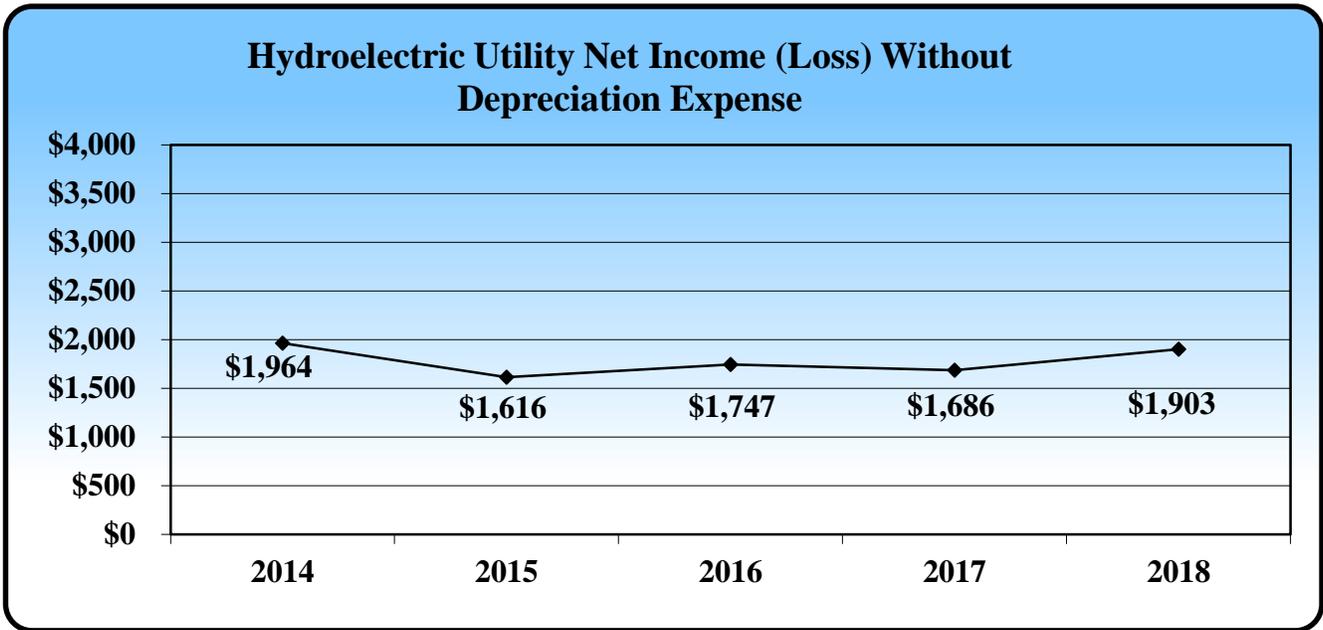
Cash in the Wastewater Utility increased \$2,920,157 from 2014 to 2017 and decreased \$170,385 from 2017 to 2018. The decrease in 2018 is due to increased debt payments.

Notes

WASTEWATER UTILITY OPERATING RESULTS are operating revenues less operating expenses. Depreciation is not considered an operating expense. Non-operating revenues and expenses such as interest expense, investment income and transfers are included. Principal paid on debt is not included as an expense.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 16



WARNING TREND

Decreasing Hydroelectric Utility net income (loss) in constant dollars.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------|-------------|-------------|-------------|-------------|
| Hydroelectric Utility Net Income (Loss) | \$1,494,322 | \$1,178,019 | \$1,285,013 | \$1,185,351 | \$1,210,704 |
| Net Income (Loss) Without Depreciation Expense | 1,922,065 | 1,605,421 | 1,715,664 | 1,661,927 | 1,903,420 |
| 2018 Dollars Net Income (Loss) Without Depreciation Expense | 1,964,158 | 1,616,177 | 1,746,718 | 1,685,859 | 1,903,420 |
| Cash Reserves | 3,922,308 | 2,984,825 | 3,459,969 | 2,663,075 | 582,140 |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 16

Description

Hydroelectric Utility losses are a special and highly visible type of operating deficit because the Hydroelectric Utility is expected to function as if it were a commercially operated private entity rather than a governmental “not for profit” entity. This means that the cost (expenses, including depreciation) of providing goods and services to the public is to be recovered through user charges. Hydroelectric Utilities are typically subject to the laws of supply and demand. The City’s Hydroelectric Utility electricity is sold to Excel Energy via a Power Sales Agreement. The agreement states that Excel will pay the City based on two different factors. One factor is the plant’s capability to produce electricity (capacity payment) and the other is the actual electricity produced and delivered to Excel’s system (energy payment). The current Power Sales Agreement with Excel Energy expires in 2021.

Explanation

The City’s Hydroelectric Utility has been operating on a relatively flat trend over the past five years and continues to remain in good financial condition.

In 2015, energy sales decreased \$210,100. Unit #2 was offline for part of the year while a rebuilt turbine was reassembled. Operating expenses for the Hydroelectric Utility remained flat for 2015.

Energy sales increased \$197,263 in 2016. A correction was made on how Xcel Energy calculates the energy payment resulting in an increase in revenue for 2016 and future years. Operating expenses increased \$199,500. The majority of the increases were related to engineering services provided by both City staff and Stang Hydro for the spillway gate replacement project.

In 2017, energy sales increased \$273,800 due to an increase in kilowatt hours produced and the change in the calculation of the energy payment in 2016. Operating expenses increased \$116,400. The increase in operating expenses relates to powerhouse scour repairs and solar electric costs.

In 2018, energy sales decreased \$110,686 due to a decrease in kilowatt hours produced while turbine unit #1 was offline being rebuilt. The rebuild, at a cost of \$1.2 million, was funded through the cash reserves causing the decrease in cash from 2017 to 2018.

The strong operating surplus in recent years has created a sufficient reserve allowing the City to transfer funds to the General Fund in order to minimize the property tax levy. From 2014 – 2016, \$450,000 per year has been transferred. In 2017, \$500,000 was transferred. In 2018, \$600,000 was transferred.

Principal payments for 2018 were \$1.93 million and are not included in operating expenses. Net income without depreciation expense would have been sufficient to cover the payment. In 2016, the City issued a \$3.13 million taxable revenue bond for the spillway gate replacement project. The Hydroelectric Utility’s debt for the plant construction and judgment funding bonds was paid off in 2018.

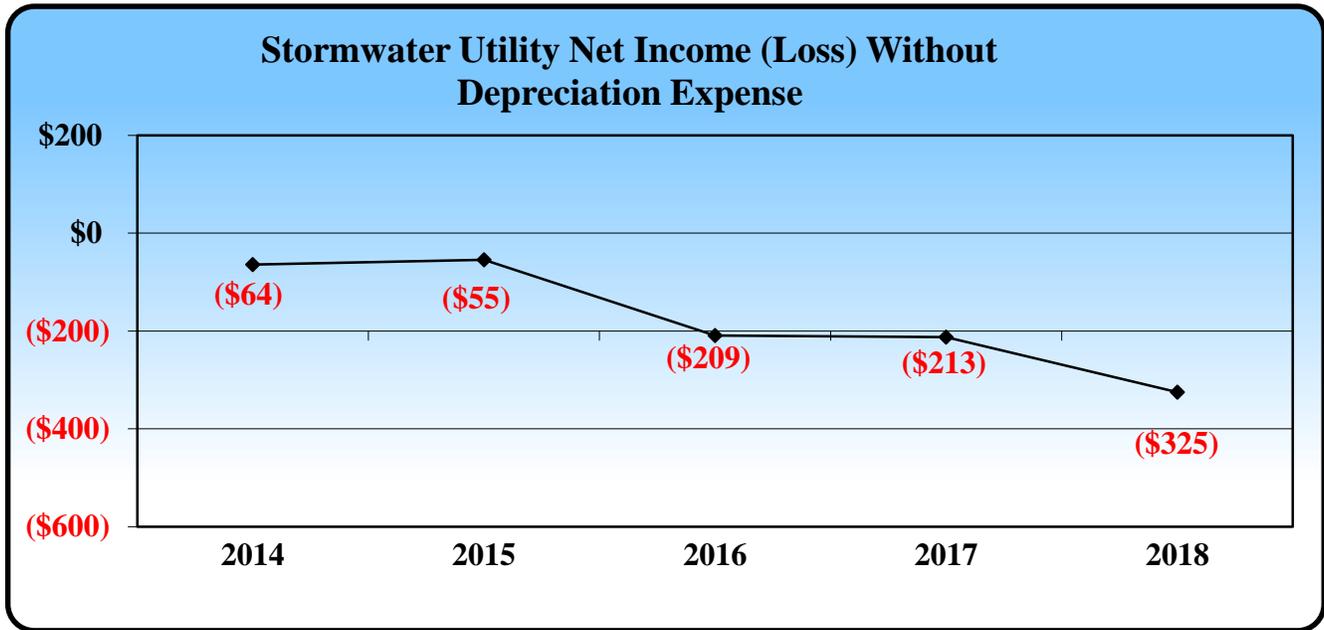
Since 2014, cash has decreased \$3.3 million dollars. More notable is the cash decrease of \$2.1 million from 2017 to 2018. \$1.2 million of the cash decrease, as previously noted, was to fund a turbine rebuild.

Notes

HYDROELECTRIC UTILITY OPERATING RESULTS are operating revenues less operating expenses. Depreciation is not considered an operating expense. Non-operating revenues and expenses such as investment income, interest expense and transfers are included. Principal paid on debt is not included as an expense.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 17



WARNING TREND

Decreasing Stormwater Utility net income (loss) in constant dollars.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------|-------------|-------------|-------------|---------------|
| Stormwater Utility Net Income (Loss) | (\$190,375) | (\$188,303) | (\$354,327) | (\$334,644) | (\$2,128,947) |
| Net Income (Loss) Without Depreciation Expense | (62,625) | (54,219) | (205,279) | (212,510) | (325,153) |
| 2018 Dollars Net Income (Loss) Without Depreciation Expense | (63,996) | (54,582) | (208,995) | (212,510) | (325,153) |
| Cash Reserves | 1,011,018 | 806,833 | 285,909 | 360,042 | 130,632 |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 17

Description

The Stormwater Utility Fund was established in 2004 to account for revenues generated from fees charged to utility customers based on the estimated runoff discharged from each property into the drainage system. Stormwater Utility fees were established to provide a funding source to cover costs associated with the implementation of Federal stormwater regulations and to maintain compliance with Local and State stormwater requirements.

Explanation

The Stormwater Utility rate was set at \$2.10 per month for every developed single/two family parcel and for every unit of townhouse and patio-home housing beginning in 2007. In 2016, the rate increased to \$2.40 per month.

The 2014 Stormwater Utility was anticipated to draw down some cash reserves. Stormwater expenses included \$75,000 to install residential rain gardens in southeast St. Cloud and \$300,000 for funding a street sweeper (half General Fund). The reserve level at the end of 2014 exceeded \$1,000,000 and reflects over 90% of annual operating expenses.

In 2015, the net loss for Stormwater Utility was \$54,219 which was anticipated at budget time. Stormwater expenses included \$78,000 for retrofit projects.

Stormwater Utility had a net loss of \$205,279 in 2016. Expenses included \$375,000 of repair and maintenance charges for the Northeast Regional Treatment system project. It was anticipated at budget time that reserves would be needed to fund the project.

In 2017, the Stormwater Utility Fund had a net loss of \$212,510. Stormwater expenses included a variety of pond maintenance projects.

In 2018, the Stormwater Utility Fund had a net loss of \$325,153. Operating expenses, excluding depreciation, increased \$88,545 as a result of pond maintenance projects. Operating revenues decreased \$20,820. The increased net loss in 2018 is due to a contribution of stormwater assets from the Governmental Funds to the Stormwater Utility Fund resulting in an increase in depreciation expense.

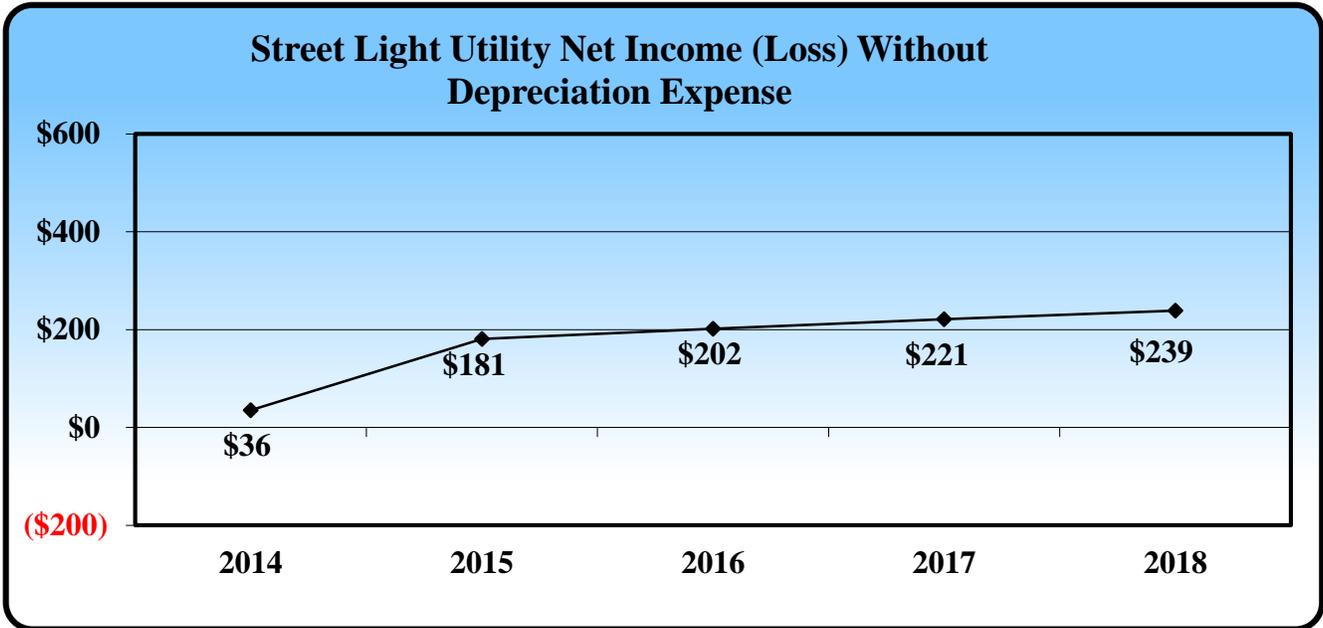
Over the past 5 years, cash reserves have gone from \$1.0 million in 2014 to \$130,000 in 2018. The City has seen a decline in State and Federal grants and do not see any additional grants in the coming years. In 2018, the City approved a rate increase from \$2.40 to \$3.80 starting in 2019. This will allow the City to reduce the drawdown of cash reserves and fund capital outlay purchases that were previously funded through grants.

Notes

STORMWATER UTILITY OPERATING RESULTS are operating revenues less operating expenses. Depreciation is not considered an operating expense. Non-operating revenues and expenses such as investment income are included.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 18



WARNING TREND

Decreasing Street Light Utility net income (loss) in constant dollars.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------|------------|------------|-----------|-------------|
| Street Light Utility Net Income (Loss) | (\$173,329) | (\$40,054) | (\$22,525) | (\$5,604) | (\$113,877) |
| Net Income (Loss) Without Depreciation Expense | 34,859 | 179,614 | 198,471 | 217,987 | 239,098 |
| 2018 Dollars Net Income (Loss) Without Depreciation Expense | 35,622 | 180,817 | 202,063 | 221,126 | 239,098 |
| Cash Reserves | 42,399 | 111,879 | 402,917 | 150,946 | 175,193 |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 18

Description

The Street Light Utility Fund was established January 1, 2011. The Street Light Utility fund is used to account for revenues generated from fees charged to utility customers based on the type of street lighting system that their property benefits from. Street light utility fees were established to provide a funding source to cover the operation and maintenance for street lights.

Explanation

Street Light Utility rates have been set at \$2.90 per parcel per month for standard street lighting systems for single-family homes. Enhanced street lighting systems are set at \$4.10 per parcel per month. Multi-family dwellings and undeveloped parcels are based on unit area. The most recent rate increase was a \$.50 per month increase on July 1, 2015.

In 2016, customer charges increased \$92,000 as the City recognized a full year of the \$.50 increase from 2015. Operating expenses decreased \$38,000 due to a reduction in repairs and maintenance.

The City began a city-wide LED street lighting and facilities upgrade in 2016. The LED street lighting portion of the project began the summer of 2016 for the primary lighting corridors in St. Cloud including Division Street and several other major arteries. Also included in the lighting upgrade are street lights attached to traffic signals, downtown street lighting, parking ramps and several parking lots. The LED lighting provides better quality light that is also more efficient than current lighting sources ultimately reducing electrical use and expense. LED streetlights also last much longer and reduce maintenance costs and improve reliability.

2017 saw the completion of the city-wide LED street lighting and facilities upgrade project. Both operating revenues and expenses stayed flat in 2017.

In 2018, operating revenues were consistent. Operating expenses decreased \$86,388 due to a decrease in repairs and maintenance.

A \$6,455,000 million G.O. Tax Abatement bond was issued in 2016 for the LED street light project. Guaranteed savings on the electrical kilowatt usage will be used to pay for a portion of the annual debt service payments.

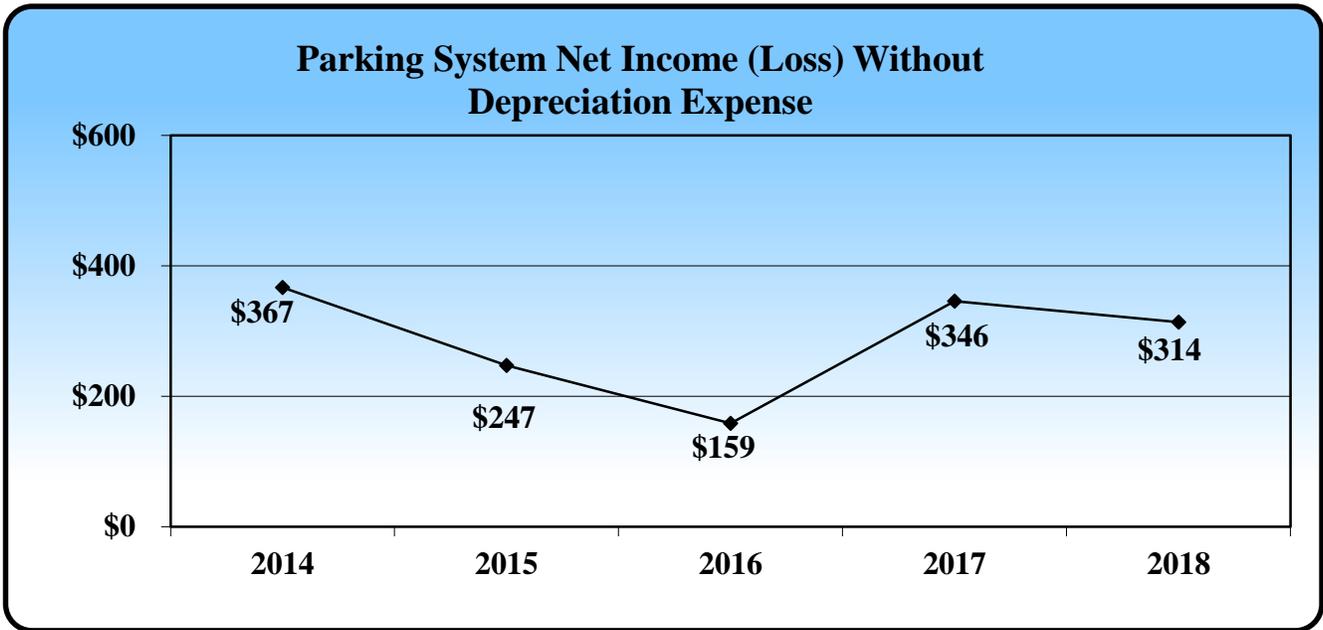
Cash reserves in Street Light Utility are getting to a level where we may need to look at increasing fees in future budgets.

Notes

STREET LIGHT UTILITY OPERATING RESULTS are operating revenues less operating expenses. Depreciation is not considered an operating expense. Non-operating revenues and expenses such as investment income are included.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 19



WARNING TREND

Decreasing Parking System net income (loss) in constant dollars.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------|-------------|-------------|-------------|-------------|
| Parking System Net Income (Loss) | (\$100,663) | (\$217,422) | (\$325,379) | (\$529,737) | (\$600,866) |
| Net Income (Loss) Without Depreciation Expense | 359,115 | 245,407 | 155,887 | 341,033 | 313,734 |
| 2018 Dollars Net Income (Loss) Without Depreciation Expense | 366,980 | 247,051 | 158,709 | 345,944 | 313,734 |
| Cash Reserves | 3,232,950 | 3,116,776 | 3,080,528 | 1,894,373 | 1,903,542 |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 19

Description

Parking System losses are a special and highly visible type of operating deficit because the Parking System is expected to function as if it were a commercially operated private entity rather than a governmental “not for profit” entity. This means that the cost (expenses, including depreciation) of providing goods and services to the public is to be recovered through user charges. Parking systems are typically subject to the laws of supply and demand, and managers who raise rates may find revenues actually decrease because customers limit their use of the service.

Explanation

The City’s Parking System operation has consistently shown a profit on an operating basis when depreciation expenses are not included. Below is a five-year analysis of the major revenue areas:

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Parking lots | \$ 143,438 | \$ 154,589 | \$ 115,279 | \$ 115,868 | \$ 112,220 |
| Parking permits | 425,504 | 467,701 | 418,819 | 458,439 | 400,367 |
| Parking ramps | 919,844 | 959,903 | 1,073,327 | 1,127,455 | 1,090,217 |
| On-street parking | <u>221,799</u> | <u>220,652</u> | <u>234,931</u> | <u>226,910</u> | <u>217,023</u> |
| Total | <u>\$1,709,585</u> | <u>\$1,802,845</u> | <u>\$1,842,356</u> | <u>\$1,928,672</u> | <u>\$1,819,827</u> |

The Parking System revenues increased \$93,260 in 2015 and \$39,500 in 2016. Parking lot revenue decreased with the closing of three parking lots for the new River’s Edge West Parking Ramp and the Loft’s development. Parking ramp revenue increased \$113,400 as customers shifted from those lots to the existing ramps as well as a shift from parking permits to the ramps. In 2017, parking revenues increased \$88,115, primarily in the parking ramps as the River’s Edge West Parking Ramp was completed. In 2018, parking revenues decreased \$115,198 due to changes in employment levels downtown.

Operating expenses have fluctuated over the past five years due to inflationary pressures and maintenance costs. The City did a condition audit of all City owned ramps and is targeting to address the most critical issues for each ramp on an annual basis. In 2015, repairs of over \$125,000 were made to the Grand Central Ramp and \$56,000 were made to the Paramount Ramp. Operating expenses decreased \$64,600 in 2016 due to a reduction in repairs at those ramps. In 2017, operating expenses increased \$617,000 due to depreciation on the River’s Edge West Parking Ramp that was completed, as well as staffing costs for the new ramp. In 2018, operating expenses decreased \$110,538 due to fewer repairs and maintenance costs.

Principal paid on debt is not included as an operating expense in calculating net income. Therefore, net income should also be enough to cover debt principal payments. The parking debt was refunded in 2017, which resulted in no principal payments in 2018, with payments resuming in 2019. In 2019, the principal and interest payment will be \$356,150. Net income (excluding depreciation) was sufficient to cover the principal debt service payments.

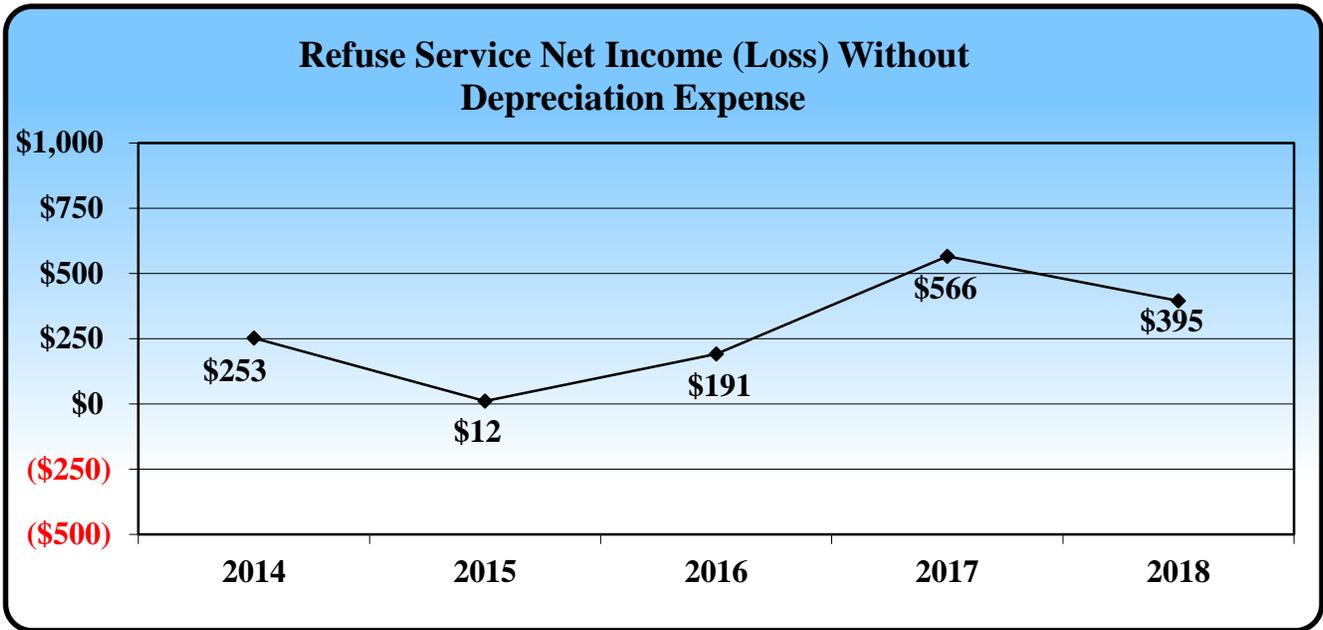
The City may be looking at increasing parking rates in future budgets as cash reserves have gone from \$3.2 million in 2014 to \$1.9 million in 2018 as a result of these necessary repairs and to fund future capital outlay projects.

Notes

PARKING SYSTEM OPERATING RESULTS are operating revenues less operating expenses. Depreciation is not considered an operating expense. Non-operating revenues and expenses such as interest expense and investment income are included. Principal paid on debt is not included as an expense.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 20



WARNING TREND

Decreasing Refuse Service net income (loss) in constant dollars.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-----------|-------------|------------|-----------|-----------|
| Refuse Service Net Income (Loss) | \$65,948 | (\$175,374) | (\$15,970) | \$353,813 | \$173,323 |
| Net Income (Loss) Without Depreciation Expense | 247,585 | 11,571 | 188,026 | 556,208 | 395,484 |
| 2018 Dollars Net Income (Loss) Without Depreciation Expense | 253,007 | 11,649 | 191,429 | 566,275 | 395,484 |
| Cash Reserves | 2,018,881 | 1,937,447 | 1,888,355 | 2,295,448 | 2,590,539 |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 20

Description

Refuse Service losses are a special and highly visible type of operating deficit because the Refuse Service is expected to function as if it were a commercially operated private entity rather than a governmental “not for profit” entity. This means that the cost (expenses, including depreciation) of providing goods and services to the public is to be recovered through user charges. Refuse Service is typically subject to the laws of supply and demand, and managers who raise rates may find revenues actually decrease because customers limit their use of the service. Refuse Service currently provides services to approximately 16,200 customers in the City of St. Cloud. Service is provided to all single-family residences and certain duplexes and triplexes. Private contractors serve all apartments, commercial and industrial customers.

Explanation

The refuse billing system provides for a pass-by and recycling rate of \$14.96 for a two-month period, plus \$2.25 per bag for regular garbage, and \$1.25 per bag for yard waste. Refuse Service fees were established to cover the tipping costs related to dumping, processing (composting and burning) and transporting solid waste material.

Below is a five-year analysis of the major revenue areas:

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Recycling Pass-By Fee | \$1,496,435 | \$1,502,320 | \$1,510,562 | \$1,512,117 | \$1,521,740 |
| 90-Gallon Cart Fees | 421,193 | 590,722 | 770,912 | 913,507 | 1,017,632 |
| Special Pickups | 56,745 | 54,291 | 58,881 | 65,040 | 76,163 |
| Refuse Bags | 957,554 | 949,815 | 929,813 | 987,776 | 970,095 |
| Yard Waste Bags | 136,882 | 144,242 | 143,816 | 145,579 | 179,546 |
| Compost Site Permits | 58,150 | 65,085 | 67,855 | 69,650 | 74,430 |
| Total | <u>\$3,126,959</u> | <u>\$3,306,475</u> | <u>\$3,481,839</u> | <u>\$3,693,669</u> | <u>\$3,839,606</u> |

Operating revenues increased \$250,000 in 2015. Refuse cart service fees increased \$169,500. The number of households using this service went from 1,718 in 2014 to 2,415 in 2015. Operating expenses increased \$334,500 in 2015. Personal services increased \$100,000 from 2015. The increase includes the GASB 68 recording of pension liability of \$32,500 in the Refuse Department. Refuse supplies increased \$81,700 due to additional refuse and yard waste bags being purchased in 2015. Repair and maintenance costs also increased \$145,000 which included \$23,100 for fleet software.

In 2016, operating revenues increased \$104,300. Residents are choosing the refuse cart system instead of refuse bags to dispose of their garbage resulting in an increase in cart revenue. Operating expenses decreased \$64,875 for repairs and maintenance.

Operating revenues increased \$214,700 in 2017. Sales of refuse bags increased \$57,900 from the increase in prices, while more residents switched to the refuse cart system which showed an increase in revenue of \$142,600. Operating expenses decreased \$144,000 with the shifting of an employee to Parking Systems and a decrease in the City’s purchase of refuse bags.

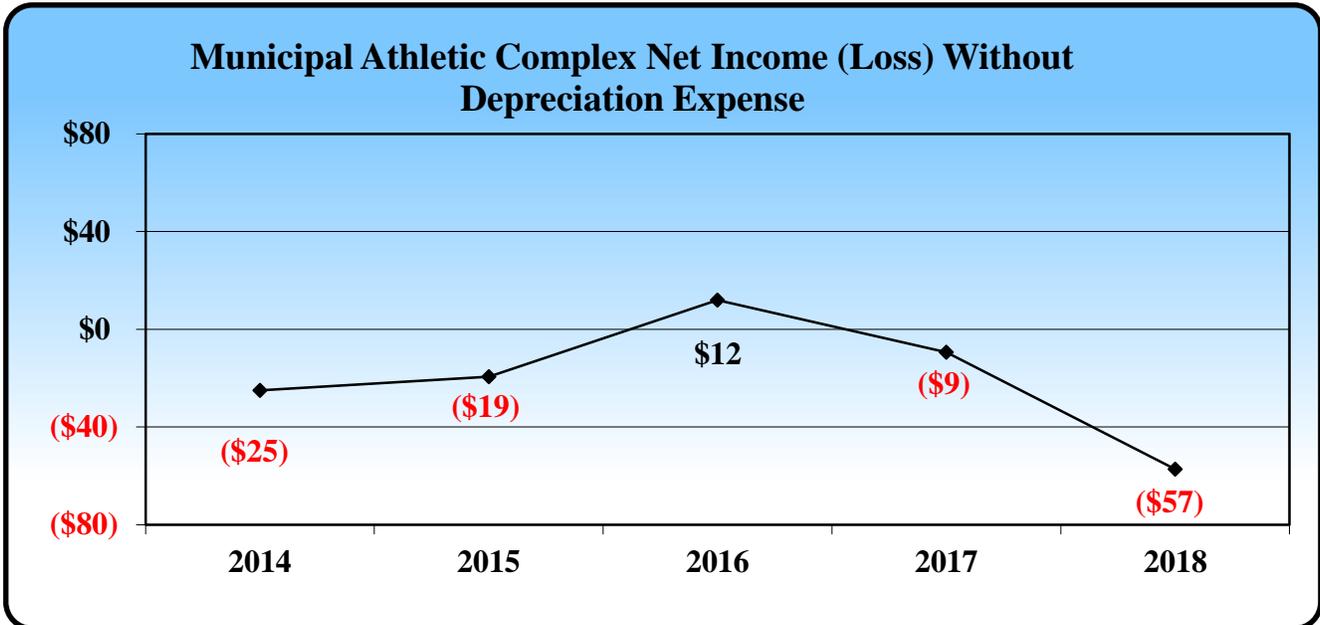
In 2018, operating revenues increased \$145,937. Residents continue to choose the refuse cart system instead of refuse bags to dispose of their garbage resulting in an increase in cart revenue. Operating expenditures increased \$400,446 due to higher tipping fees, increased bags purchased and additional staffing.

Notes

REFUSE SERVICE OPERATING RESULTS are operating revenues less operating expenses. Depreciation is not considered an operating expense. Non-operating revenues and expenses such as investment income are included.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 21



WARNING TREND

Decreasing Municipal Athletic Complex net income (loss) in constant dollars.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------|-------------|-------------|-------------|-------------|
| Municipal Athletic Complex Net Income (Loss) | (\$433,706) | (\$405,771) | (\$359,817) | (\$382,726) | (\$427,936) |
| Net Income (Loss) Without Depreciation Expense | (24,397) | (19,262) | 11,695 | (9,210) | (57,269) |
| 2018 Dollars Net Income (Loss) Without Depreciation Expense | (24,931) | (19,391) | 11,907 | (9,343) | (57,269) |
| Cash Reserves | 187,833 | 133,518 | 258,341 | 217,769 | 148,037 |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 21

Description

Municipal Athletic Complex losses are a special and highly visible type of operating deficit because athletic complex is expected to function as if it were a commercially operated private entity rather than a governmental “not for profit” entity. This means that the cost (expenses, including depreciation) of providing goods and services to the public is to be recovered through user charges. Athletic complexes are typically subject to the laws of supply and demand, and the managers who raise rates may find revenues actually decrease because customers limit their use of the service.

Explanation

The Municipal Athletic Complex (MAC) is supported by charges for use of the facilities, concession revenue, advertising and donations.

In 2015, operating revenues increased \$153,000 across all three operations at the MAC. Ice rentals increased \$30,100 due to a \$5 per hour rate increase. Stadium concessions increased \$32,300. Operating revenues decreased \$243,500 in 2016. Baseball concessions decreased \$225,000 due to the Rox organization taking over concession operations for Rox baseball games. Operating revenues remained flat in 2017, decreasing \$13,400. In 2018, operating revenues decreased \$36,006 across all three operations at the MAC.

In 2014, operating expenses increased \$57,319. The increase in expenses are attributable to salary, cost of living and temporary employee cost increases.

Operating expenses increased \$140,724 in 2015. About half of the increase is attributable to salary, cost of living and temporary employee cost increases. Concession supplies at the stadium also increased \$20,000 and repair and maintenance services increased \$22,000.

In 2016, operating expenses decreased \$226,200. Roughly \$215,000 of the reduction is a result of the Rox taking over the concession operations

Operating expenses decreased \$48,600 in 2017. This decrease is due to a number of one-time small equipment purchases made in 2016.

In 2018, operating revenues decreased \$36,006 from 2017 to 2018, while operating expenses increased \$23,560. Operating revenues decreased primarily in ice rentals and hockey game income. Expenses increased due to increased utility rates and additional repairs and maintenance costs for Zamboni batteries.

Money is being transferred from food and beverage tax to cover the annual debt service payments. The transfer from food and beverage to pay for interest expense has been included in the net income amount. The amount of this interest transfer was \$59,317 in 2014, \$45,917 in 2015, \$31,480 in 2016, \$16,150 in 2017, and \$21,239 in 2018. Principal paid on debt is not included when calculating net income. In 2018, principal paid was \$163,786.

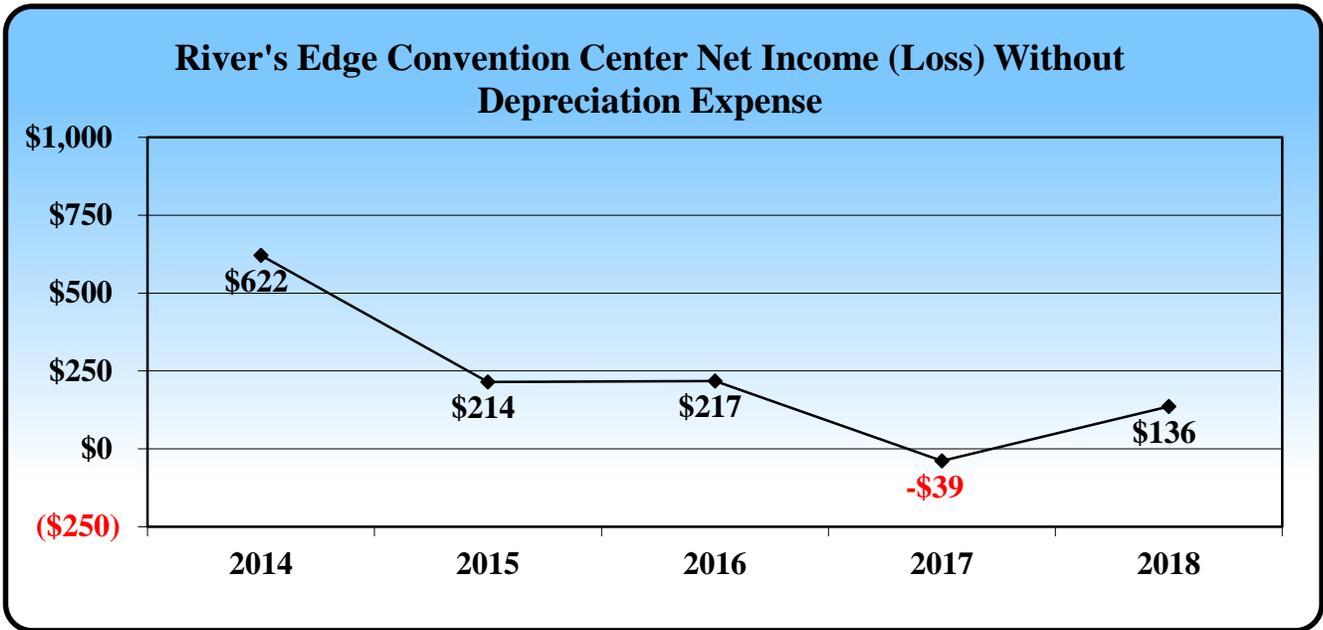
Cash balances have fluctuated over the 5 years presented. Cash decreased \$69,732 from 2017 to 2018 due declining revenues and increasing expenses.

Notes

MUNICIPAL ATHLETIC COMPLEX OPERATING RESULTS are operating revenues less operating expenses. Depreciation is not considered an operating expense. Non-operating revenues and expenses such as interest expense, transfers, investment income and taxes are included. Principal paid on debt is not included as an expense.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 22



WARNING TREND

Decreasing River's Edge Convention Center net income (loss) in constant dollars.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------|-------------|-------------|---------------|-------------|
| River's Edge Convention Center Income (Loss) | (\$468,602) | (\$842,403) | (\$839,244) | (\$1,070,867) | (\$905,358) |
| Net Income (Loss) Without Depreciation Expense | 608,213 | 212,918 | 213,339 | (38,154) | 135,776 |
| 2018 Dollars Net Income (Loss) Without Depreciation Expense | 621,533 | 214,345 | 217,200 | (38,703) | 135,776 |
| Cash Reserves | 5,453,182 | 3,593,485 | 4,382,830 | 4,209,875 | 4,339,725 |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 22

Description

Convention Center losses are a special and highly visible type of operating deficit because the Convention Center is expected to function as if it were a commercially operated private entity rather than a governmental “not for profit” entity. This means that the cost (expenses, including depreciation) of providing goods and services to the public is to be recovered through user charges. Convention Centers are typically subject to the laws of supply and demand, and managers who raise rates may find revenues actually decrease because customers limit their use of the service.

Explanation

The River’s Edge Convention Center is supported by charges collected for rentals, services and sales. The Convention Center also receives 40% of the City’s Hotel/Motel Tax collections.

In 2015, operating revenues increased \$18,181. Large room rental saw the largest increase of \$12,000. Operating expenses for 2015 increased \$28,100. The increase in expenses are attributable to salary, cost of living and temporary employee cost increases.

Operating revenues increased \$177,380 in 2016. Meeting room revenues increased \$25,800 and catering commission revenues increased \$95,000. Catering commission fees went from 12% to 15% in 2016. Operating expenses increased \$150,000. Personal services increased \$25,000 due to the addition of a new position and supplies increased \$85,700 due to the purchase of new tables, podiums, microphones and projectors.

In 2017, operating revenues decreased \$262,128. Large room and meeting room revenues decreased \$127,800 due to the deferral of payments received in 2017. This is the first year of recognizing the revenue in the year earned instead of the year payment was received. Catering commission fees decreased \$88,800. Operating expenses remained consistent with 2016 levels.

Operating revenues increased \$180,069 in 2018. Large room rental increased \$101,021 and meeting room rental increased \$41,390. Operating expenses decreased \$133,628.

Food and beverage tax is used to cover the annual debt service payment. The amount from food and beverage to pay for principal and interest expense has been included in the 2018 net income amount. The amount of food and beverage tax used in 2018 was \$928,375.

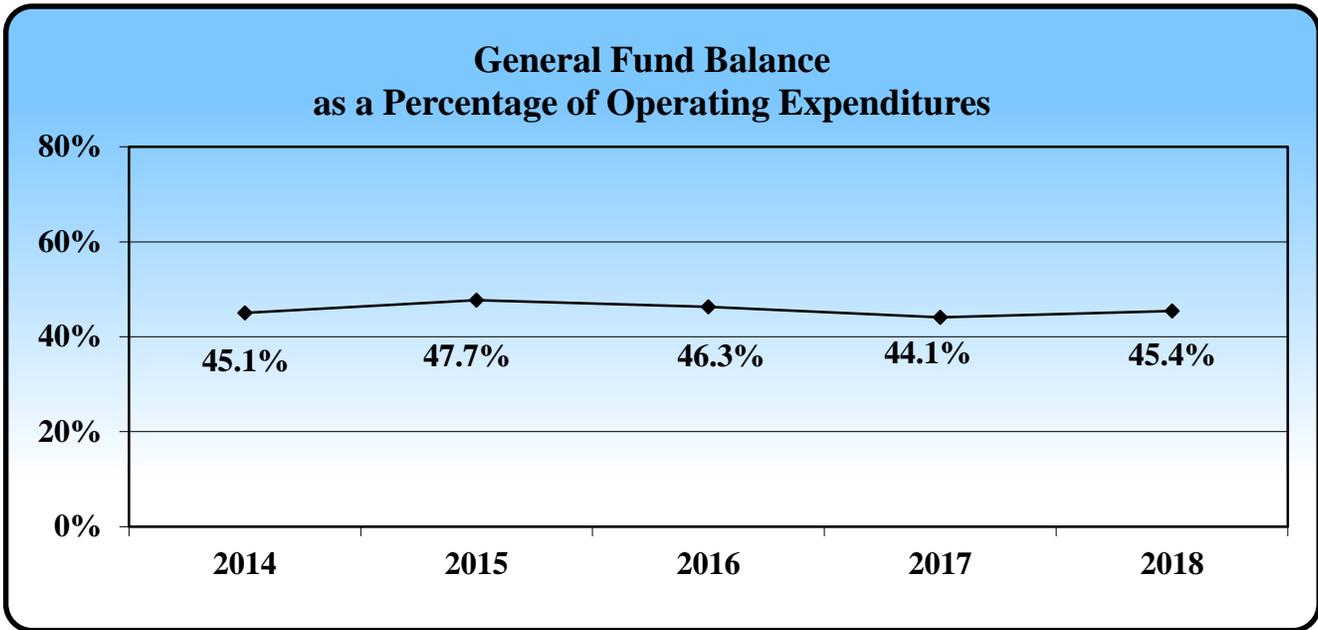
The cash balance has fluctuated over the 5 years presented. In 2018, \$2,891,491 has been set aside for capital needs and the food and beverage tax, leaving \$1,444,234 for operations. This is a slight decrease of \$84,336 from the operating cash balance in 2017.

Notes

RIVER’S EDGE CONVENTION CENTER OPERATING RESULTS are operating revenues less operating expenses. Depreciation is not considered an operating expense. Non-operating revenues and expenses such as investment income, interest expense and transfers are included. Principal paid on debt is not included as an expense.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 23



WARNING TREND

Decreasing General Fund balance as a percentage of operating expenditures.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------------|--------------|--------------|--------------|--------------|
| Total Fund Balance of the General Fund | \$18,183,845 | \$19,231,116 | \$19,607,520 | \$19,196,135 | \$20,211,446 |
| General Fund Operating Expenditures | 40,360,546 | 40,278,433 | 42,349,709 | 43,535,702 | 44,517,642 |
| Fund Balance of the General Fund as a Percentage of Operating Expenditures | 45.1% | 47.7% | 46.3% | 44.1% | 45.4% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 23

Description

Fund balances can be thought of as a reserve, although the entry on the City's Comprehensive Annual Financial Report labeled "Fund Balance" is not always synonymous with "available for appropriation." The level of the City's fund balances may determine its ability to withstand unexpected financial emergencies, which could result from a natural disaster, revenue shortfall or steep rise in inflation. It may also determine the City's ability to accumulate funds for large-scale purchases or projects.

Explanation

One major reason for the healthy fund balance is the budgetary control used by the City. The City's revenue budgeting policy states that a conservative approach will be used in estimating the annual revenues. In addition, the City's policy in regard to expenditures is controlled at the departmental level. These policies protect the fund balance of the General Fund.

The General Fund fund balance increased \$1,042,271 in 2015. Engineering fees were \$728,000 more than budgeted due to the closeout of the 2012 Improvement Bond Fund and the types of improvement projects that were constructed. License and permit revenue was more than \$142,000 over the budgeted amount. General Fund expenditures were also less than anticipated at budget time.

In 2016, the General Fund fund balance increased \$376,404. License and permit revenue increased \$357,000 from the previous year. Operating expenditures in the General Fund increased over \$2 million from 2015. Personal Services increased \$912,000 with the addition of three new police officers and a Fire division chief of training. Police and Fire also had an additional \$391,000 in overtime compared to the previous year. Services and charges increased \$791,000. Included in these charges were \$59,000 for crime lab repairs, \$75,000 for election services and \$173,000 for software shared with Stearns County. Reimbursement for the software was not received until 2017. The 2016 budget had anticipated a drawdown of \$400,000 in fund balance.

In 2017, the General Fund fund balance decreased \$411,385. The 2017 budget had anticipated a drawdown of \$250,000 in fund balance, however expenses were higher than anticipated including \$242,200 for the 2016-2017 Firefighter union contract settlement and \$190,200 for five long-term employee retirement payouts.

In 2018, the General Fund fund balance increased \$1,015,311. The 2018 budget projected a draw down in fund balance of \$170,400, however, revenues ended the year \$1.1 million over budget resulting in an increased fund balance. Licenses and permits were over budget \$275,283 due to increased building activity. Intergovernmental revenues were over budget \$329,423 due to additional funding. Charges for services were over budget \$382,703 due to increased engineering and administrative fees for road projects.

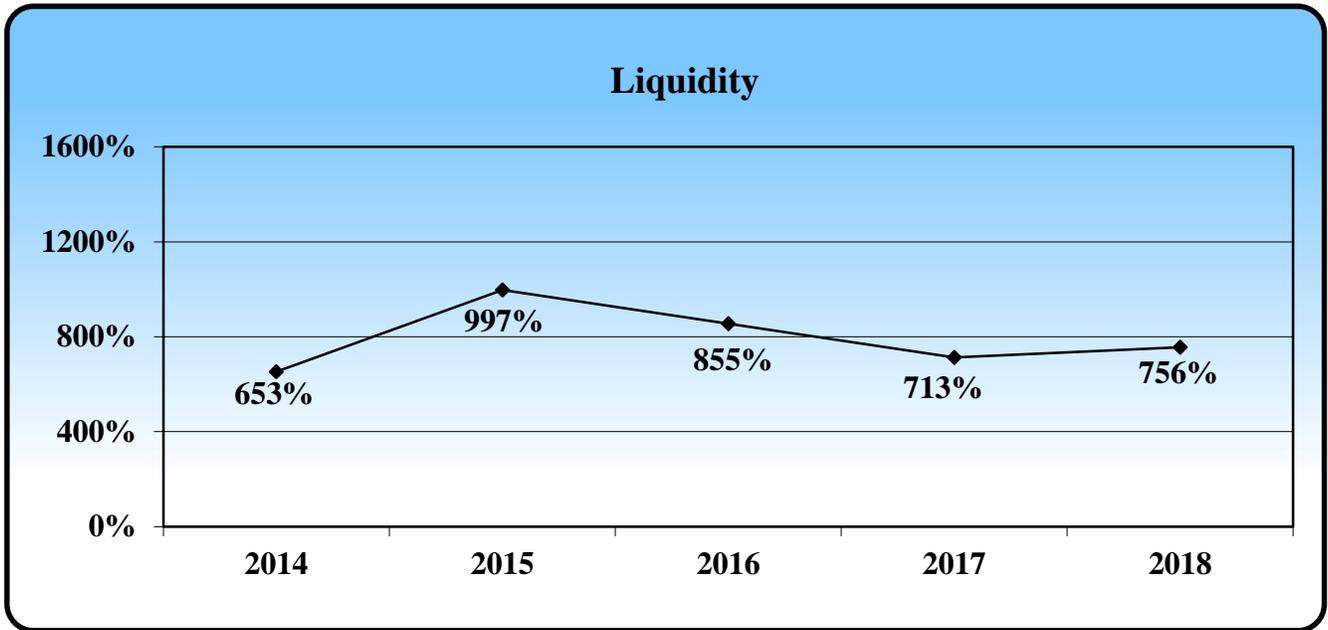
The Minnesota Office of the State Auditor recommends and the City's Finance Policies state that General Fund fund balance should be maintained from 35%-50% of operating expenditures. Bond rating agencies recommend that a minimum fund balance of 40% be maintained.

Notes

FUND BALANCE OF THE GENERAL FUND includes non-spendable, restricted, committed, assigned and unassigned. The City will maintain an assigned and unassigned portion of fund balance for cash flow in a range equal to 35%-50% of the General Fund budgeted operating expenditures.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 24



WARNING TREND

Decreasing amount of cash and short-term investments as a percentage of current liabilities.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------------|--------------|--------------|--------------|--------------|
| Cash and Short-Term Investments | \$27,870,831 | \$29,230,076 | \$26,647,508 | \$26,558,667 | \$27,926,416 |
| Total Current Liabilities | 4,268,283 | 2,930,779 | 3,116,378 | 3,724,666 | 3,694,781 |
| Cash and Short-Term Investments as a Percentage of Total Current Liabilities | 653% | 997% | 855% | 713% | 756% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 24

Description

A good measure of the City's short-run financial condition is its cash position. Cash position includes cash on hand and in the bank, as well as other assets that can be easily converted to cash, such as short-term investments. The level of this type of cash compared to the City's current liabilities is referred to as liquidity. It measures the City's ability to pay its short-term obligations. The immediate effect of insufficient liquidity is inability to pay bills or insolvency. Low or declining liquidity indicates that the City has overextended itself in the long run. The first sign of a liquidity problem may be a cash shortage.

Explanation

Current liabilities decreased \$1,287,862 in 2015. The 2014 year-end liability for air service costs in the amount of \$1,078,000 was a one-time liability and paid in 2015. The Certificates of Indebtedness that were issued in 2011 will be paid off in 2016. Current liabilities decreased \$210,000 due to the annual debt payment made on this current liability.

In 2016, current liabilities increased \$185,000. Salaries payable increased \$99,400. Cash and short-term investments decreased \$2.5 million. Cash was reduced over \$2 million due to the Library bond refunding and restructuring.

Current liabilities increased \$608,300 in 2017. Accounts and contracts payable increased \$219,600. Salaries payable increased \$209,600. Cash and short-term investments decreased \$88,800.

In 2018, current liabilities remained consistent, decreasing \$29,885. Cash and short-term investments increased \$1,367,749 due to increased building activity, changes to the workers comp payments, and increased engineering and administrative fees associated with projects.

The City continues to have an excellent liquidity position.

Notes

CASH AND SHORT-TERM INVESTMENTS include all cash and short-term investments for the General Fund, Special Revenue Funds, Public Safety Bond Fund, Permanent Improvement Fund, and the Permanent Improvement Redevelopment Fund.

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CITY OF ST. CLOUD, MINNESOTA

Debt Indicators

Debt is important to analyze because debt is an explicit promise to pay monies by specified dates. Debt is an effective way to finance capital expenditures and balance short-term revenue flows. Its misuse, however, can cause serious financial problems. Even a temporary inability to repay can result in loss of credit rating, increased cost of future borrowing and loss of autonomy to the State or other regulatory bodies.

Cities usually use short-term debt to stabilize cash flows. Since St. Cloud has maintained a strong financial position, it has not resorted to short-term debt. The most common forms of long-term debt are general obligation, special assessment and revenue bonds. Even when these types of debts are used the City must be careful that its outstanding debt does not exceed its ability to repay.

Under the most favorable circumstances, the City's debt would be proportionate in size and growth to the City's tax base and would not extend past the useful life of the facilities which it finances. The City should not use debt to balance the operating budget. The amount of debt should not require repayment schedules so large that they would excessively restrict operating expenditures or jeopardize the City's credit rating.

City's debt should be examined for these conditions:

- ◆ Inadequate cash management procedures;
- ◆ Inadequate expenditure controls;
- ◆ Increased reliance on long-term debt;
- ◆ Decreased expenditure flexibility due to increased fixed costs in the form of debt service;
- ◆ Use of short-term debt to finance current operations;
- ◆ Existence of sudden large increases or decreases in future debt service;
- ◆ The amount of additional debt that the community can accommodate.

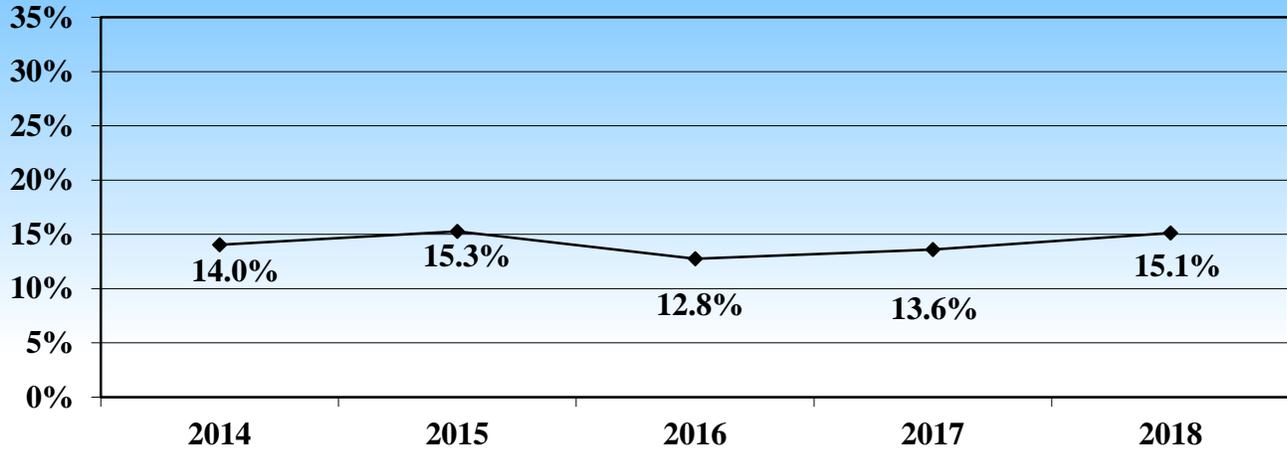
Changes in debt structure will be monitored by using the following indicators:

25. Total Debt Expenditures as a Percentage of Total Expenditures
26. Direct Net Debt as a Percentage of Estimated Market Value
27. Debt Service as a Percentage of Operating Revenues

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 25

Total Debt Expenditures as a Percentage of Total Expenditures



WARNING TREND

Increasing debt expenditures as a percentage of total expenditures

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------------|--------------|--------------|--------------|--------------|
| Total Debt Expenditures* | \$13,183,514 | \$12,531,326 | \$12,722,358 | \$11,060,550 | \$13,802,165 |
| Total Expenditures* | 93,895,574 | 82,112,930 | 99,767,309 | 81,352,315 | 91,290,596 |
| Total Debt as a Percentage of Total Expenditures | 14.0% | 15.3% | 12.8% | 13.6% | 15.1% |

*Does not include principal paid through debt refundings.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 25

Description

Debt Service is defined as the amount of principal and interest that the City must pay each year on long term debt plus the interest it must pay on short-term debt. As it increases, it adds to the City's obligations and reduces the amount of the tax levy that is available for other operations. Debt service can be a major part of the City's fixed costs and increases can indicate excessive debt and fiscal strain.

Explanation

Expenditures in 2015 decreased \$11,782,644. Spending on Improvement Construction fund projects decreased \$13,009,433 from 2014 to 2015, resulting in the decrease of overall expenditures. This decrease was offset by capital spending for various park improvements such as Beaver Island Trail Phase III and land purchased for Neenah Creek and Frederick Parks, and \$1,088,990 at the aquatics center.

In 2016, expenditures increased \$17,654,379. \$14,083,459 was spent on the construction of the aquatics center. The construction of the 13/31 Runway at the Airport increased spending by \$3,857,398. The Library expenditures increased \$678,475 for cleaning and repairs due to fire damage.

Expenditures decreased in 2017 by \$18,414,994. Work on the aquatics center was completed for \$6,472,232, a reduction of expenditures from the prior year of \$7,611,227. Improvement Construction fund spending decreased \$2,120,221. With smaller projects, the expenditures in the Airport Construction Fund decreased \$2,234,536. The ERP Project had decreased spending of \$957,389. The Fire Truck/Radio Replacement fund had a decrease in expenditures of \$1,799,933 with the purchase of three fire trucks in 2016. Expenditures in the Park Improvements and Beautification fund decreased \$3,112,846 due to less spending on the Beaver Island Trail and land purchases.

In 2018, expenditures increased \$9,938,281. Expenditures increased in the Improvement Construction fund by \$4,795,071. The Fire Trucks/Radio Replacement fund increased spending by \$3,293,098 with the purchase of new Motorola radios for the City. The Park Capital Expansion fund expended \$894,754 for the purchase of park land for George Friedrich and Riverside Regional Parks.

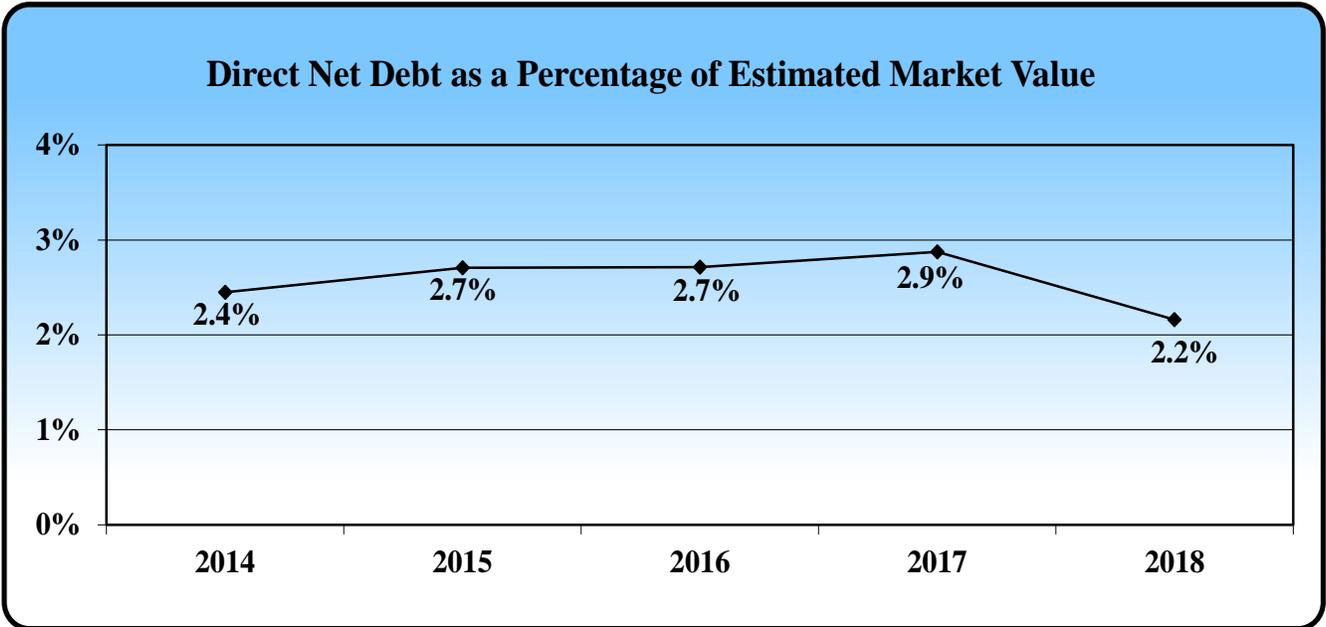
Notes

TOTAL DEBT SERVICE is the annual amount of principal and interest paid for long-term debt and any interest payments for short-term debt. This constitutes the total annual payments for all G.O. Bonds, G.O. Improvement Bonds, G.O. Tax Increment Bonds, G.O. Infrastructure Management Bonds, Certificates of Indebtedness, and long-term governmental leases for duration of seven years or longer. Excluded are debt service payments for all revenue bond issues and refunding bonds.

TOTAL EXPENDITURES include all expenditures related to the governmental-type funds.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 26



WARNING TREND

Increasing direct net debt as a percentage of estimated market value.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|--------------|--------------|---------------|---------------|--------------|
| Direct Net Debt | \$87,515,000 | \$98,660,000 | \$101,805,000 | \$110,815,000 | \$86,205,000 |
| Estimated Market Value (In Millions) | 3,575 | 3,644 | 3,749 | 3,854 | 3,989 |
| Direct Net Debt as a Percentage of Estimated Market Value | 2.4% | 2.7% | 2.7% | 2.9% | 2.2% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 26

Description

Direct net debt constitutes the total outstanding debt of the City less all revenue bond debt. This definition of direct net debt corresponds to the criteria used by Moody's in analyzing outstanding debt of the City. Also, the direct net debt calculation is the same as described in the debt section of the financial policies adopted by the City Council. A significant increase in direct net debt as a percentage of estimated market value might indicate that the City's ability to pay is diminishing.

Explanation

The total market value of all taxable properties had been dropping beginning 2010. For the first time since the recession began, total market value for 2015 showed an increase of 1.93%. In 2016, the market value increased 2.85%. Market value continued to increase an additional 2.82% in 2017 and an additional 3.5% in 2018.

The direct net debt increased in 2015. The St. Cloud voters approved a transportation referendum question that will support additional projects backed by general property taxes. The City issued \$9,280,000 in Infrastructure bonds in 2014 and \$10,255,000 in Infrastructure bonds in 2015. Also included in the 2015 direct net debt was the issuance of the Library Sales Tax Revenue Refunding Bonds in the amount of \$10,015,000. The original Library Sales Tax Revenue Bonds will be paid off in February 2016, so both bonds are included in the direct net debt amount.

In 2016, the City issued over \$23.4 million in direct net debt including \$3,870,000 G.O. Infrastructure Management Bonds to finance various construction projects, \$6.2 million G.O. Infrastructure Management Refunding Bonds, \$3,055,000 G.O. Sales Tax Revenue Bonds for the YMCA/Aquatics Center, \$2,230,000 G.O. Sales Tax Revenue Bonds for the Beaver Island Trail Phase 3, \$3,085,000 G.O. Equipment Certificates for the ERP software system and \$4,990,000 G.O. Equipment Certificates for three fire trucks and the 800 MHz radio project.

In 2017, the City issued over \$22.8 million in direct net debt, including \$3,280,000 G.O. Street Reconstruction Bonds for street reconstruction projects, and \$19,565,000 G.O. Public Safety Facilities Refunding Bonds. The original Public Safety Bonds will be paid off in February 2018, so both bonds are included in the direct net debt amount.

In 2018, the City issued \$7,860,000 in direct net debt, including \$3,800,000 G.O. Infrastructure Management Bonds to finance various construction projects and \$4,060,000 G.O. Street Reconstruction Bonds for street reconstruction projects. The Public Safety Bonds refunded in February 2018 for \$23,700,000 and had previously been included in the direct net debt calculation.

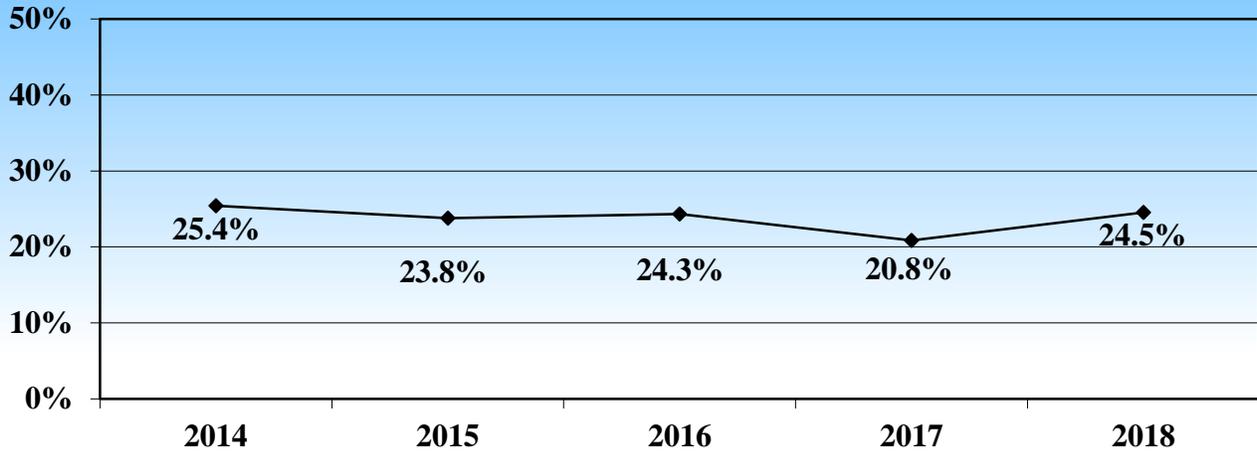
Notes

DIRECT NET DEBT includes all General Obligation (G.O.) Bonds (i.e. Public Safety Facility Bonds, etc.), G.O. Improvement Bonds, G.O. Tax Increment Bonds, G.O. Infrastructure Management Bonds, G.O. Library Sales Tax Revenue Bonds, and long-term leases of duration of seven years or longer. Excluded are all revenue bond issues supported by utility charges or user fees.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 27

Debt Service as a Percentage of Operating Revenues



WARNING TREND

Increasing debt service as a percentage of operating revenues.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------|-------------|-------------|-------------|-------------|
| Total Debt Service | 13,183,514 | 12,531,326 | 12,722,358 | 11,060,550 | 13,802,165 |
| Debt Operating Revenues | 51,837,558 | 52,648,057 | 52,256,543 | 53,051,401 | 56,227,115 |
| Total Debt Service as a Percentage of Debt Operating Revenues | 25.4% | 23.8% | 24.3% | 20.8% | 24.5% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 27

Description

Debt Service is defined as the amount of principal and interest that the City must pay each year on direct net debt plus the interest it must pay on direct short-term debt. As it increases, it adds to the City's obligations and reduces the City's expenditure flexibility. Debt service can be a major part of the City's fixed costs and increases can indicate excessive debt and fiscal strain.

Explanation

The debt service expenses decreased \$1,095,400 in 2014. This is the third consecutive year of debt service payment reductions. This is a direct result of suspending issuance of G.O. Infrastructure debt during 2009 – 2012.

Total debt service payments decreased \$652,188 in 2015. This is the fourth consecutive year of debt service payment reductions. With the transportation referendum approved by the voters in November 2012, the debt service expenses will begin to increase in future years.

In 2016, total debt service payment increased \$191,032. We will start to see a more significant increase in debt service payments in 2018 with the issuance of \$23.4 million of debt in 2016.

In 2017, debt service payments decreased \$1,661,808. This is due to smaller payments on the infrastructure bonds, as older bonds are paid off and newer bonds do not have their first payment until 2018.

In 2018, debt service payments increased \$2,741,615. This is due to the 2016 infrastructure bonds not having their first payment until 2018, along with increasing bond payments as the bonds age.

Standard & Poors upgraded the City's bond rating from AA to AA+ in early 2009. The next step up in bond ratings with S & P is AAA.

Notes

TOTAL DEBT SERVICE is the annual amount of principal and interest paid for long-term debt and any interest payments for short-term debt excluding the principal on called bonds. This constitutes the total annual payments for all G.O. Bonds, G.O. Improvement Bonds, G.O. Tax Increment Bonds, G.O. Infrastructure Management Bonds, Certificates of Indebtedness, and long-term leases for duration of seven years or longer. Excluded are debt service payments for all revenue bond issues.

DEBT OPERATING REVENUES include the General Fund, the Special Revenue Funds, the Debt Service Funds, Permanent Improvement, and Permanent Improvement Redevelopment Funds.

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CITY OF ST. CLOUD, MINNESOTA

Condition of Capital Assets and Infrastructure Indicators

The bulk of the City's wealth is invested in its capital assets and infrastructure – its roads, bridges, curbs and gutters, streets and sidewalks, drainage system and lighting systems. If these assets are not either maintained or allowed to become obsolete, the result is often a decrease in the usefulness of the assets, an increase in the cost of maintaining and replacing them, and a decrease in the attractiveness of the City as a place to live or do business.

Cities often defer maintenance and replacement because it is a relatively painless short-term way to reduce expenditures and ease financial strain. If deferral is continued, however, it can create serious problems that become exaggerated because of the huge sums of money invested in capital facilities. Some of the problems associated with continued deferred maintenance are:

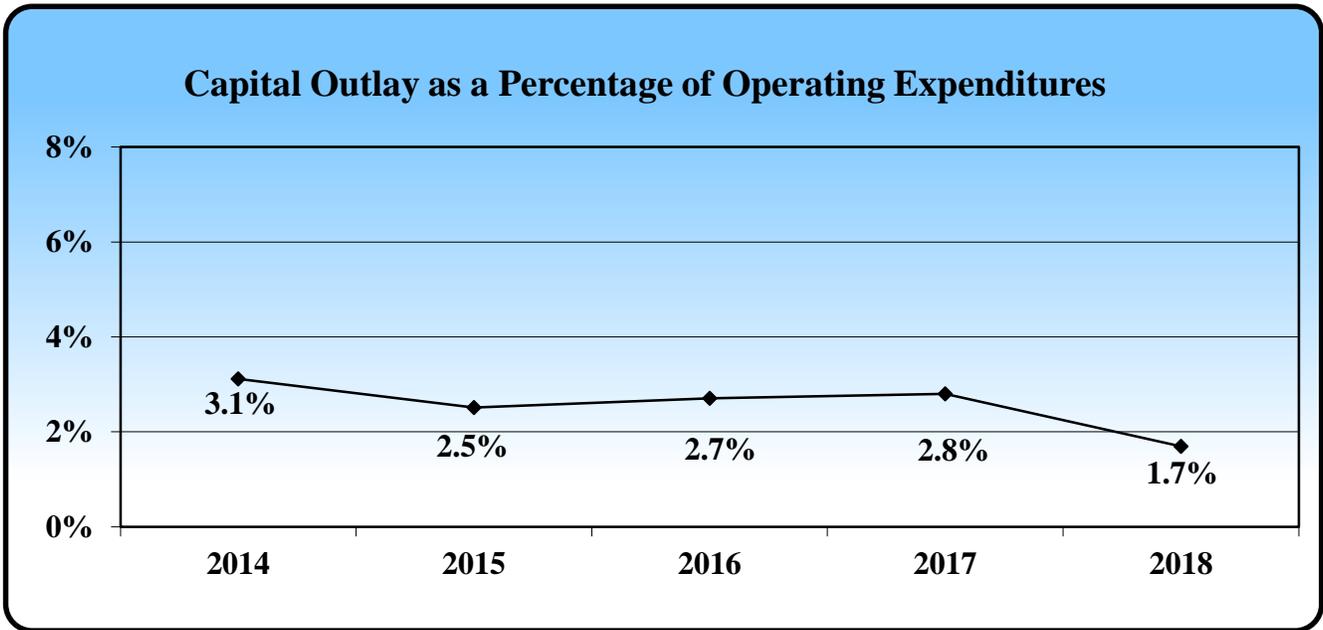
- ◆ Creation of safety hazards and other liability that may result, for example, from a pot-holed street;
- ◆ Reduction in residential and business property values, for example, from areas with damaged streets, broken curbs and damaged street signs;
- ◆ Decreased use of equipment, as for example, an old truck that spends more time in the repair shop than on the street because of repeated breakdowns;
- ◆ Increased cost of bringing facilities up to acceptable levels, as would occur if seal-coating of streets were delayed until they had to be completely reconstructed;
- ◆ Potential unfunded liabilities in the form of a backlog in maintenance, as the result of accelerated deterioration.

The following indicators will be used to analyze the condition of capital assets and infrastructure:

28. Capital Outlay as a Percentage of Operating Expenditures
29. Accumulated Depreciation to Total Depreciable Governmental Fund Capital Assets
30. Accumulated Depreciation to Total Depreciable Enterprise Fund Capital Assets

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 28



WARNING TREND

A three or more year decline in capital outlay as a percentage of operating expenditures.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------------|-------------|-------------|-------------|-------------|
| Capital Outlay | \$1,656,114 | \$1,314,051 | \$1,514,007 | \$1,516,970 | \$981,034 |
| Total Operating Expenditures | 53,106,468 | 52,360,716 | 55,960,808 | 54,134,723 | 57,806,896 |
| Capital Outlay as a Percentage of Operating Expenditures | 3.1% | 2.5% | 2.7% | 2.8% | 1.7% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 28

Description

Expenditures for operating equipment, such as trucks and squad cars, purchased from the operating budget, are usually referred to as capital outlay. Capital outlay items normally include equipment that will last longer than one year and that has an initial cost above a significant set amount, such as \$5,000. Capital outlay does not include capital budget expenditures for construction of infrastructures such as streets, buildings or bridges.

Explanation

In 2015, capital outlay decreased \$400,000. Capital outlay items purchased in 2015 include a Public Works loader and bucket for \$151,000, nine Police squad cars for \$271,000, nine Finance servers for \$130,400 and a wheel loader for the Park Department for \$35,000.

Capital outlay increased \$200,000 in 2016. Major capital outlay items include \$357,000 for 12 police vehicles, \$123,700 for a Public Works tandem truck, \$120,000 for a Public Works dump truck and \$117,000 kitchen remodel at the Whitney Senior Center.

In 2017, capital outlay spending was consistent with 2016 levels. Major capital outlay items include \$309,000 for 10 police vehicles, \$125,300 for a Public Works tandem truck, \$118,000 for two boilers at the library, \$218,000 for new cameras and recording equipment in the City Hall Council Chambers, and \$144,000 for a paint machine.

Capital outlay decreased \$535,936 in 2018. Major capital outlay items include \$107,000 for a truck chassis, \$141,000 for a plow truck, \$68,000 for two police cars, \$55,000 for a grass fire truck, \$46,000 for gym floor refurbishment, and \$35,000 for police department network upgrades.

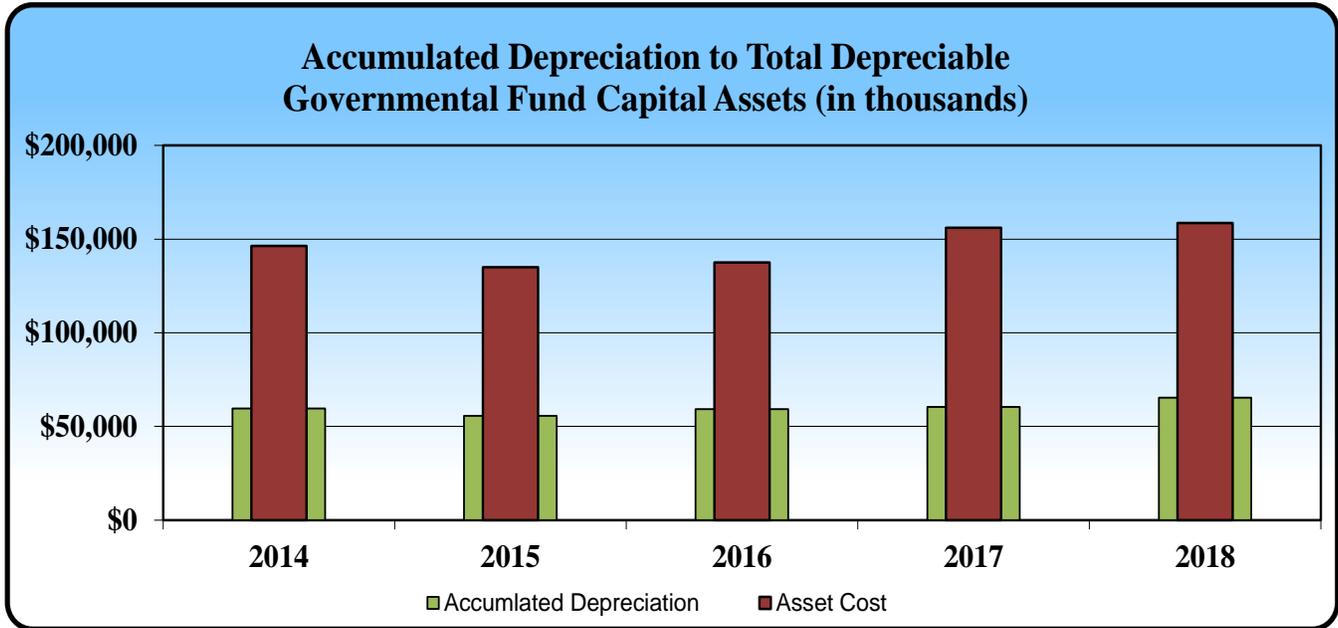
The City has intentionally kept the funding of capital outlay flat for the past five years in order to keep operating budgets in line. City administration is aware that the recent level of capital outlay purchases is not sustainable for an extended period of time.

Notes

CAPITAL OUTLAYS include expenditures for machinery and automotive equipment, furniture and improvements other than buildings in the General Fund and Special Revenue Funds. It does not include Enterprise Funds or Capital Project Funds.

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 29



WARNING TREND

Increasing accumulated depreciation to total depreciable capital asset.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|--------------|--------------|--------------|--------------|--------------|
| Accumulated Depreciation | \$59,485,627 | \$55,663,324 | \$59,214,091 | \$60,354,587 | \$65,271,712 |
| Cost of Depreciable Capital Assets (Excludes Land and Construction) | 146,319,544 | 135,052,534 | 137,490,184 | 156,023,817 | 158,637,980 |
| Accumulated Depreciation as a Percent of Total Depreciable Capital Assets | 40.7% | 41.2% | 43.1% | 38.7% | 41.1% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 29

Description

Depreciation is the mechanism by which the cost of a capital asset is amortized over its useful life. Accumulated depreciation is the total depreciation of each asset over the life of that asset. Total depreciation cost is generally a stable proportion of the cost of capital assets, because older assets that have been fully depreciated are often removed from service and replaced by new assets.

Explanation

Capital assets are defined by the City of St. Cloud as assets with an initial cost of more than \$5,000. Capital assets are recorded at 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 assets or materially extend assets lives are not capitalized.

Infrastructure which includes such items as bridges, streets and storm drain systems is a large part of governmental fund capital assets. Major outlays for capital assets and improvements are capitalized as projects are constructed. However, capital assets are not added until the construction fund is closed. Every year, one of the improvement bond construction funds is closed. In 2014, the 2011 Improvement Construction Fund closeout added \$4.2 million in infrastructure assets and in 2015, the closeout of the 2012 Improvement Construction Fund added \$3.8 million in infrastructure capital assets. The closing of the 2013 Improvement Construction Fund added \$8.3 million in 2016 for infrastructure capital assets. In 2017, the closing of the 2014 Improvement Construction Fund added \$8.7 million for infrastructure capital assets. In 2018, the 2015 Improvement Construction Fund was closed, adding \$9.9 million for infrastructure capital assets.

Depreciable assets that were added in 2015 include \$447,358 for the Fire Alerting System, \$1.2 million for the Airport runway construction, \$271,000 for Police squad cars and \$126,900 for a loader in Public Works.

In 2016, other depreciable capital assets that were added include \$357,000 for 12 police vehicles, \$1,992,000 for three fire trucks, \$123,700 for a Public Works tandem truck, \$120,000 for a Public Works dump truck, \$156,000 for the Cavalry Hill pickle ball court and \$303,000 for Beaver Island Trail IV improvements.

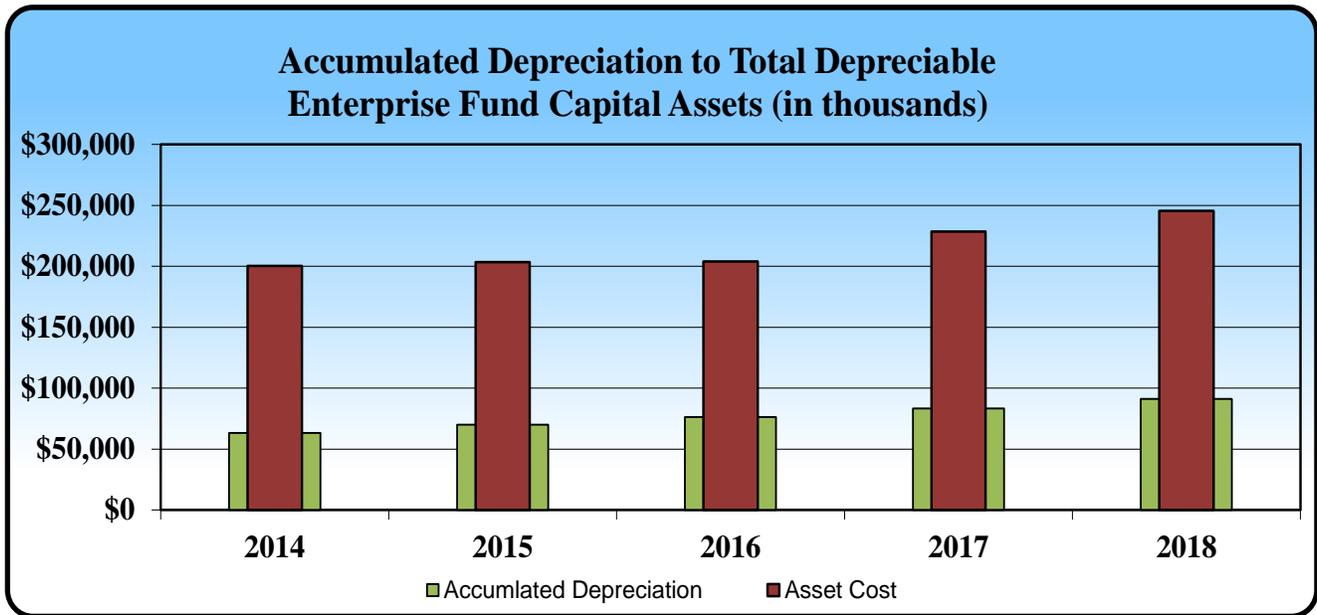
In 2017, other depreciable capital assets that were added include \$21.6 million for the Aquatics Center, \$4.6 million airport runway extension and lighting project, \$532,000 for a roof replacement at the Whitney Center, \$309,000 for 10 new police vehicles, \$218,000 for new cameras and recording equipment in the City Hall Council Chambers, and \$125,000 for a Public Works tandem truck.

In 2018, other depreciable capital assets that were added include \$858,000 in park land purchased, \$1.7 million taxi-lane pavement rehab, \$1.8 million in Motorola radios and accessories, \$448,000 channel expansion related to the new radios, \$455,000 in server and fiber upgrades, \$147,000 in airport security upgrades, \$141,000 for a dump and plow truck, and \$112,000 for a Mack truck chassis. \$69.9 million in assets and \$58.2 million in accumulated depreciation were contributed from the Governmental Funds to the Enterprise Funds, accounting for the significant decrease in 2018.

Notes

COST OF DEPRECIABLE CAPITAL ASSETS including buildings, furniture and office equipment, and machinery and automotive equipment.

**CITY OF ST. CLOUD, MINNESOTA
INDICATOR 30**



WARNING TREND
Increasing accumulated depreciation to total depreciable capital asset.

| DATA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|--------------|--------------|--------------|--------------|--------------|
| Accumulated Depreciation | \$63,190,392 | \$69,948,163 | \$76,308,962 | \$83,331,942 | \$91,137,568 |
| Cost of Depreciable Capital Assets (Excludes Land and Construction) | 200,319,776 | 203,562,189 | 203,897,059 | 228,533,220 | 245,543,089 |
| Accumulated Depreciation as a Percent of Total Depreciable Capital Assets | 31.5% | 34.4% | 37.4% | 36.5% | 37.1% |

CITY OF ST. CLOUD, MINNESOTA

INDICATOR 30

Description

Depreciation is the mechanism by which the cost of a fixed asset is amortized over its useful life. Depreciation is recorded in the Enterprise Funds. Accumulated depreciation is the total depreciation of each asset over the life of that asset. Total depreciation cost is generally a stable proportion of the cost of capital assets, because older assets that have been fully depreciated are often removed from service and replaced by newer assets.

Explanation

In 2014, depreciable assets of \$3,739,455 were added to capital assets. Improvements to the Wastewater Treatment Facility building was constructed in 2014 at a cost of \$441,400. The balance of Enterprise capital assets were machinery and equipment as follows: Refuse trucks of \$394,400, sweeper in Stormwater Utility for \$196,978, two skid loaders for Parking at \$131,400, and mowers at the MAC for \$99,400.

Depreciable assets of over \$10.5 million were added in 2015. Water and sewer infrastructure were added to capital assets in the amount of \$2 million. In addition, Phase IV of the Sewer Interceptor System project was completed adding an additional \$5.4 million to sewer infrastructure. Other capital assets include \$128,800 for a new Zamboni at the MAC, \$240,500 for a new snow blower for Parking Systems, \$163,600 for a Refuse truck, \$173,500 for a lighting retrofit project at River's Edge and \$347,800 for seating replacement at the Paramount Theatre.

In 2016, over \$3.9 million of depreciable capital assets were added including \$96,000 for four trucks at the Water Department, \$2.7 million of Water and Sewer infrastructure, \$1,020,000 for turbine and bulkhead rehab at the Hydroelectric Dam, \$124,000 for a new sweeper and \$170,000 for a new refuse truck.

In 2017, over \$34.2 million of depreciable capital assets were added, including \$3.3 million for a street lighting project, \$11.9 million for the River's Edge West Parking Ramp, \$11.2 million for the Flow Train III project, \$3.5 million for water and sewer infrastructure, \$509,000 for storm system infrastructure, \$263,000 to rehab the River's East parking ramp, \$118,000 for the Abraham Lincoln Memorial Plaza, \$116,000 for a paint machine, and \$96,000 for new parking meter pay stations.

In 2018, over \$32.1 million of depreciable capital assets were added. Significant projects during 2018 included \$425,000 for the crossroads meters and vaults, \$4.4 million for the southside water tower, \$1.4 million to rehab the west water tower, \$871,000 for phase I of the column filter project, \$4.9 million for the main lift station rehabilitation, \$5.3 million on the energy project, \$203,000 to replace the roof on the hydro building, \$1.2 million to rebuild turbine #1, \$3.9 million on the spillway gate replacement project, \$412,000 for a new elevator in the River's Edge parking ramp, and \$5.5 million in water, sewer and stormwater infrastructure. \$69.9 million in assets and \$58.2 million in accumulated depreciation were contributed from the Governmental Funds to the Enterprise Funds, accounting for the significant increase in 2018.

Notes

COST OF DEPRECIABLE CAPITAL ASSETS including buildings, furniture and office equipment, and machinery and automotive equipment for all Enterprise operations.

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