AGENDA
BOARD MEETING
APRIL 25, 2017 - 2:00 P.M.

LOCATION: 380 St. Peter Street, Suite 850, Saint Paul, MN 55102

MINUTES

1. Approval of the Minutes from the March 28, 2017 Regular Board Meeting

CONFLICT OF INTEREST

NEW BUSINESS

ADMNISTRATIVE COMMITTEE

1. **Acceptance of:** 2016 Audits (SPPA, EPUC, Federal Grant Audit)

2. **Resolution No. 4597** Authorization for Continuation of Capital City Properties Corporation

CREDIT COMMITTEE

1. **Resolution No. 4598** Policy Change – BDF Loan Program

GENERAL MATTERS

1. Legislative Update by Kevin Walli of Fryberger, Buchanan, Smith and Frederick, P.A.

2. Such Other Business as May Come Before the Board

PORT AUTHORITY OF THE CITY OF SAINT PAUL
MINUTES OF THE REGULAR BOARD MEETING
MARCH 28, 2017

The regular meeting of the Port Authority Board was held on March 28, 2017 at 2:01 p.m. in the Board Room of the Saint Paul Port Authority located at 380 St. Peter Street, Suite 850, Saint Paul, Minnesota.

The following Commissioners were present:

Harry Melander	John Regal	John Bennett
Paul Williams	Dan Bostrom	Nneka Constantino

Also present were the following:

Lee Krueger	Laurie Hansen	Monte Hilleman
Michael Linder	Ann Kosel	Sarah Savela
Keith Mensah	Ava Langston-Kenney	Laurie Siever
Andrea Novak	Bruce Kessel	

Eric Larson, General Counsel, City of Saint Paul
Tim Nelson, MPR
Fred Melo, Saint Paul Pioneer Press
Gerard Forys, Citizen
Chris Bowen, Irgens
Jane McClure, Midway/Como Monitor
Clare Kennedy, Finance and Commerce
Jessie Van Berkel, Star Tribune

APPROVAL OF MINUTES

Motion was made by Commissioner Regal, seconded by Commissioner Bennett, to approve the minutes of the Board meeting held on February 28, 2017. The motion carried unanimously.

CONFLICT OF INTEREST

There were no conflicts with any of the items on the agenda.

NEW BUSINESS

CREDIT COMMITTEE

RESOLUTION NO. 4595
PUBLIC HEARING – CONVEYANCE OF LAND TO
CITY OF SAINT PAUL, 600 LAFAYETTE ROAD, ST. PAUL, MN

Motion was made by Commissioner Williams to approve Resolution No. 4595 which was reviewed by the Credit Committee and recommended for approval by the Board.

Chair Melander stated that in accordance with Minnesota Law, the Port Authority is required to hold a public hearing regarding Resolution No. 4595, and declared the Public Hearing open. He asked if anyone in attendance wished to address the Board. No one came forward and, therefore, Chair Melander declared the Public Hearing closed and asked to take a roll call vote.

Chair Melander stated that a roll call vote is required under Chapter 469 and the Commissioners voted as follows:

Commissioner Regal	- aye	Commissioner Bennett	- aye
Commissioner Bostrom	- aye	Commissioner Williams	- aye
Commissioner Constantino	- aye	Chair Melander	- aye

The motion carried unanimously.

RESOLUTION NO. 4596
ACCEPTANCE OF A $3,000,000 LOAN/GRANT FROM THE KRESGE FOUNDATION

Motion was made by Commissioner Williams to approve Resolution No. 4596 which was reviewed by the Credit Committee and recommended for approval by the Board. The motion carried unanimously.

GENERAL MATTERS

There being no further business, the meeting was adjourned at 2:05 p.m.

By: ______________________________

Its: ______________________________

/amk

PORT AUTHORITY OF THE CITY OF SAINT PAUL

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2016

PORT AUTHORITY OF THE CITY OF SAINT PAUL
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YEAR ENDED DECEMBER 31, 2016

FINANCIAL SECTION

CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Port Authority of the City of Saint Paul
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the the business-type activities and the discretely presented component unit of the Port Authority of the City of Saint Paul (a component unit of the City of Saint Paul, Minnesota) (Port Authority), as of and for the year ended December 31, 2016, and the related notes to basic financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the Port Authority of the City of Saint Paul as of December 31, 2016, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated REPORT DATE, on our consideration of the Port Authority of the City of Saint Paul's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Port Authority of the City of Saint Paul's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
REPORT DATE

REQUIRED SUPPLEMENTARY INFORMATION

The management of the Port Authority of the City of Saint Paul (the Port Authority), provides this narrative overview and analysis of the Port Authority's financial activities for the fiscal year ended December 31, 2016. We encourage readers to consider this information in conjunction with the complete financial statements presented herein. All amounts, unless otherwise indicated, are presented in thousands of dollars.

The Port Authority's annual report consists of three basic financial statements: the statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows. These statements focus on the financial condition of the Port Authority, the results of operations, and cash flows of the Port AIthority as a whole.

STATEMENT OF NET POSITION

	2016	2015
	$ 119,829	$ 113,162
Current and Other Assets	24,194	21,797
Capital Assets	144,023	134,959
Total Assets		
	1,151	181
Deferred Outflows of Resources		
	72,343	71,086
Long-Term Liabilities	22,144	12,762
Other Liabilities	94,487	83,848
Total Liabilities		
	246	122
Deferred Inflows of Resources		
Net Position:	10,529	9,779
Net Investment in Capital Assets	2,519	8,665
Restricted, Debt Service	236	-
Restricted, Capital Maintenance on Owned Facilities	37,157	32,726
Restricted, Enabling Legislation	$ 50,441	$ 51,170

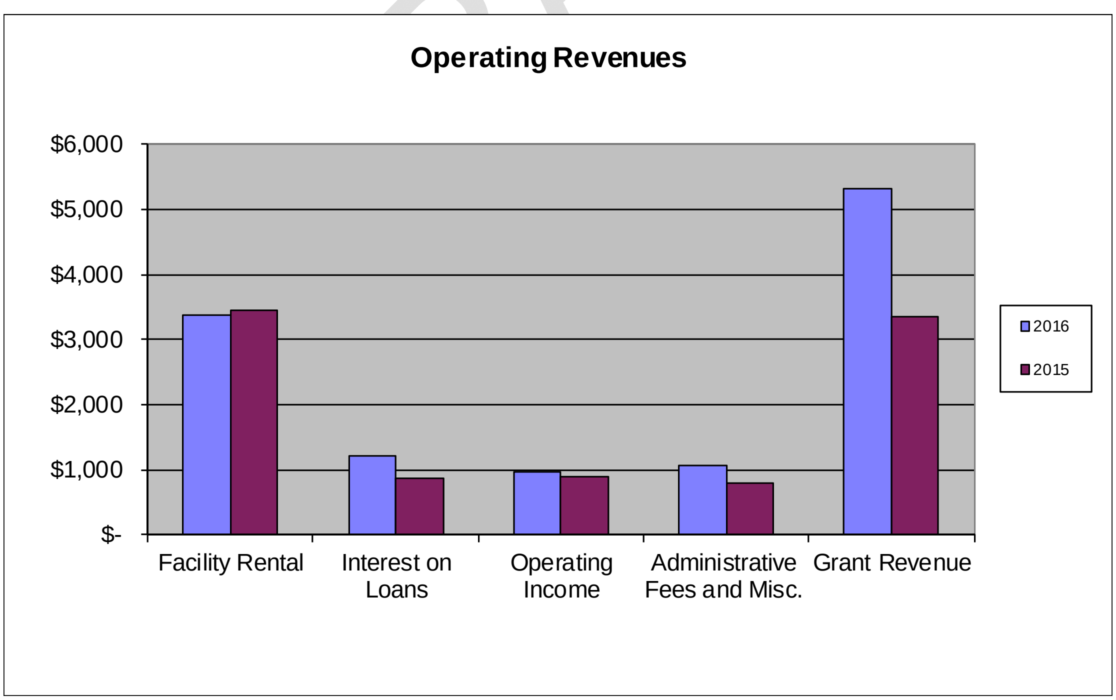
FINANCIAL HIGHLIGHTS

- Total assets were $144 million or .6.7% more than in 2015. Current and Other Assets increased $6.7 million or 5.9% mainly from the following changes. Proceeds from 2016 bond issues resulted in increases in cash and investments available for future Port projects as well as increases in loans receivable related to funds lent for ecomonic development. There were minor changes in most of the other loan programs as well as minor changes in prepaid development costs and related costs. Capital Assets increased $2.4 million, mainly from outlays for a Public Safety Facility being constructed for use by the City of Saint Paul, offset by current year depreciation; the Public Safety Facility is being financed by draws on a construction loan. Deferred Outflows increased $970 thousand over the prior year as a result of a $615 thousand increase in pension related costs associated with the Port's share of the Minnesota state pension as well as $355 thousand related to the current year's advance refunding of debt.

- Total liabilities increased $10.6 million for a 12.7% increase over 2015. Accounts and retainage payable had increases due to more development activity at year end while there were increases to amounts accrued for post employment health benefits and EPUC's four pipe energy system. Other Accrued Liabilities increased $4.6 million, substantially all of which relates to funds associated with the current year bond issue which are being held for future development opportunities. Changes in Long-Term Liabilities are discussed later under Debt Administration. Deferred inflows increased $124 thousand in 2016 as a result of current year pension activity.

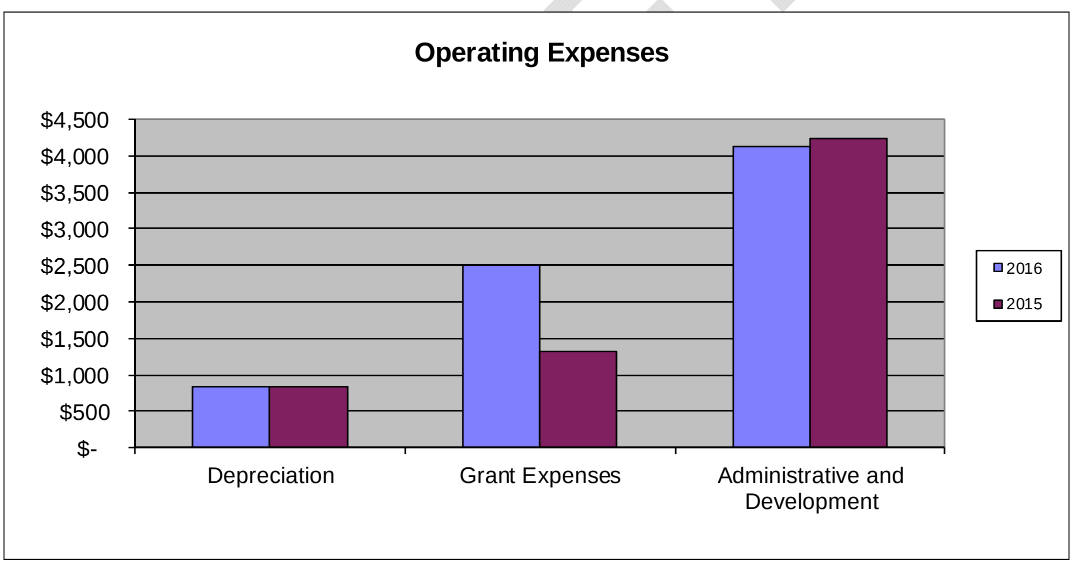
Operating Revenues: Operating revenues increased $2.6 million or 27.6% to $12.0 million in 2016 from $9.4 million in 2015. Facilities and Other Rentals had a small net decrease resulting from increases in rates on most properties offset with slightly higher decreases in fleeting and vacancies at other sites. Grants increased $2 million mainly from the activity related to remediating property at the Midway site as well as grants received to improve harbor sites. Interest on loans increased slightly due to overall more loan activity. Operating Income and Administrative Fees had small adjustments from the prior year. The following schedule presents a summary of the revenues for the years ended December 31, 2016 and 2015, and the percentages of increase or decrease in relation to the prior year's revenues.

	2016	Percentage of Total	2015	Percentage of Total	Increase (Decrease) from 2015	Percentage Change
Operating Revenues						
Facility Rental	$ 3,383	28.3 %	$ 3,446	36.8 %	$ (63)	(1.8)%
Interest on Loans	1,220	10.2 %	864	9.2	356	41.2
Operating Income	961	8.0 %	903	9.6	58	6.4
Administrative Fees and Misc.	1,067	8.9 %	802	8.6	265	33.0
Grant Revenue	5,324	44.5 %	3,356	35.8	1,968	58.6
Total Operating Revenues	$ 11,955	100.0 %	$ 9,371	100.0 %	$ 2,584	27.6 %



Operating Expenses: Operating expenses increased 10.9% to $9.8 million in 2016 from $8.9 million in 2015. Depreciation is mainly related to a distribution system of the Energy Park Utility system and overall was consistent with the prior year. As noted above, grants increased in the current year associated with increased remediation and port efforts. Administrative and Development costs decreased $118 thousand as a result of salaries and other payroll related items decreasing $240 thousand as a result of staff turnover, while development related costs increased $137 thousand; there were minor changes in most other items. Revenues pledged to others relates to pledged leased property revenues which are then passed on to the third parties; while the majority of the main lease rate increase annually, a portion of this revenue is based upon volumn. The following schedule presents a summary of expenses for the years ended December 31, 2016 and 2015, and the percentages of increase or decrease in relation to the prior year's expenses.

	2016	Percentage of Total	2015	Percentage of Total	Increase (Decrease) from 2015	Percentage Change
Operating Expenses:						
Depreciation	$ 833	8.5 %	$ 841	9.5 %	$ (8)	(1.0)%
Grant Expenses	2,498	25.4	1,325	14.9	1,173	88.5
Administrative and Development	4,126	41.9	4,244	47.8	(118)	(2.8)
Revenues Pledged to Others	2,386	24.2	2,466	27.8	(80)	(3.2)
	$ 9,843	100.0 %	$ 8,876	100.0 %	$ 967	10.9 %



Debt Administration: As of December 31, 2016, the Port Authority has several debt issues outstanding. These issues include $36.1 million in general obligation bonds, $16.7 million in taxable revenue bonds, $3.6 million in other bonds, $10.5 million in limited liability bonds and $10.3 million in promissory notes and loans. This was a net increase of $4.3 million from 2015 resulting the issuance of $6 million in new general obligation debt and $1.6 million dollars of draws on a construction loan associated with a Public Safety facility offest with minor changes in miscellanious notes and loans payable as well as scheduled principal payments. The Port Authority's debt is either not rated or, in the case of general obligation debt, is assigned the City of Saint Paul's rating, which is rated AAA by Standard and Poor's Rating Service and Fitch Ratings. The majority of the other bonds, notes and loans were used to remediate land and are anticipated to be repaid with revenues generated from the related projects. See Note 5 for additional information regarding the Port Authority's outstanding debt.

OTHER INFORMATION

Employees: The Port Authority had 18.5 regular fulltime employees as of December 31, 2016 and 2015, respectively.

General Business of the Port Authority: The Port Authority develops industrial business centers, recycles brownfields, and finances tomorrow's jobs. This can result in the Port Authority owning land, buildings and improvements. The Port Authority also owns and operates barge terminals and storage facilities. All of these facilities are located in Saint Paul, Minnesota. The Port Authority contributes to the East Metro's growth and prosperity by providing businesses with cleaner land on which to expand, space on the Mississippi River to receive and ship commodities efficiently, and loans for real estate, equipment purchases, and energy savings.

Recycling Brownfields: The Port Authority continues to market space in two of its redeveloped business centers – the 61-acre Beacon Bluff Business Center on Saint Paul's East side and the River Bend Business Center at Shepard Road and Randolph Street.

Requests for Information: This financial report is designed to provide a general overview of the Port Authority's finances for all those with an interest in the Port Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Port Authority of the City of Saint Paul, Laurie J. Hansen, Chief Financial Officer, 380 St. Peter Street, Suite 850, Saint Paul, Minnesota 55102-1313.

BASIC FINANCIAL STATEMENTS

PORT AUTHORITY OF THE CITY OF SAINT PAUL
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016
(IN THOUSANDS)

	Primary Government	Component Unit
ASSETS		
Cash and Cash Equivalents	$ 1,222	$ 394
Restricted Cash and Cash Equivalents	14,902	649
Accounts Receivable	1,846	248
Accrued Interest Receivable	29	33
Due from Port Authority	-	180
Fuel Inventory	57	-
Prepaid Expenses	170	146
Restricted Investments	11,189	-
Investments	-	8,105
Other Assets	90,414	1,598
Capital Assets:		
Land and Construction in Progress	11,558	5,980
Other Capital Assets, Net of Depreciation	12,636	13,083
Total Assets	144,023	30,416
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources - Pensions	796	-
Deferred Outflows of Resources - Loss on Debt Refunding	355	-
Total Deferred Outflows of Resources	1,151	-
LIABILITIES		
Accounts Payable, Accrued Expenses, and Unearned Revenue	3,208	-
Accrued Interest Payable	1,242	362
Due to Port Authority	-	376
Other Accrued Liabilities	10,027	2,367
Long-Term Liabilities Due Within One Year	7,667	49,325
Long-Term Liabilities	70,419	3,641
Net Pension Liability	1,924	-
Total Liabilities	94,487	56,071
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources - Pensions	246	-
NET POSITION		
Net Investment in Capital Assets	10,529	(4,578)
Restricted for:		
Debt Service	2,519	-
Capital Maintenance on Owned Facilities	236	-
Enabling Legislation	37,157	-
Unrestricted	-	(21,077)
Total Net Position	$ 50,441	$ (25,655)

See accompanying Notes to Basic Financial Statements.

PORT AUTHORITY OF THE CITY OF SAINT PAUL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)

	Primary Government	Component Unit
OPERATING REVENUES		
Revenue Bond Facilities and Loan:		
Facility and Other Rentals	$ 3,383	$ -
Interest on Loans	1,220	-
Operating Income on Owned Facilities	961	1,635
Administrative and Other Fees	1,067	407
Grant Revenues	5,324	-
Total Operating Revenues	11,955	2,042
OPERATING EXPENSES		
Administrative and Development	4,126	163
Operations of Owned Facilities	-	1,092
Revenues Pledged to Others	2,386	-
Depreciation	833	538
Grant Expenses	2,498	1,300
Total Operating Expenses	9,843	3,093
OPERATING INCOME (LOSS)	2,112	(1,051)
NONOPERATING REVENUES (EXPENSES)		
Investment Income	59	180
Equity Earnings on Joint Ventures	-	1,167
Debt Service Levies	6,495	5
Interest Expense on Revenue Bonds and Notes Payable	(3,443)	(4,163)
Provision for Uncollectable Accounts Receivable	-	(20)
Income from Operating Leases	-	127
Fiscal and Development Fees	(5,952)	-
Total Nonoperating Revenues (Expenses)	(2,841)	(2,704)
CHANGE IN NET POSITION	(729)	(3,755)
Net Position - Beginning of Year	51,170	(21,900)
NET POSITION - END OF YEAR	$ 50,441	$ (25,655)

See accompanying Notes to Basic Financial Statements.

PORT AUTHORITY OF THE CITY OF SAINT PAUL
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	$	4,343
Grant Receipts		5,313
Other Operating Receipts		3,738
Payments for Administrative and Development Expenses		(1,538)
Payments to Employees		(1,714)
Grant Expenses and Other Payments for Operations		(2,497)
Net Cash Provided (Used) by Operating Activities		7,645
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES		
Principal Paid on Debt		(5,377)
Interest and Paying Agent Fees on Bonds		(8,029)
Receipts from Debt Service Levies		3,533
Net Cash Provided (Used) by Noncapital Financial Activities		1,132
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds for Issuance of Debt		5,990
Acquisition of Capital Assets		(3,230)
Principal Paid on Capital Debt		(7,295)
Interest and Agency Fees Paid on Capital Debt		(1,781)
Net Cash Provided (Used) by Capital and Related Financing Activities		(6,316)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income		53
Purchase of Investments		3,172
Proceeds from the Sale of Investments		(6,969)
Net Cash Provided (Used) by Investing Activities		(3,744)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(1,283)
Cash and Cash Equivalents - January 1		17,407
CASH AND CASH EQUIVALENTS - DECEMBER 31	$	16,124
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss):	$	2,112
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation		833
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(205)
(Increase) Decrease in Prepaids		(2)
(Increase) Decrease in Loans Receivable		(2,197)
(Increase) Decrease in Other Assets		1,656
(Increase) Decrease in Deferred Outflows		(615)
Increase (Decrease) in Payables		712
Increase (Decrease) in Other Liabilities		5,227
Increase (Decrease) in Deferred Inflows		124
Net Cash Provided (Used) by Operating Activities	$	7,645

See accompanying Notes to Basic Financial Statements.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The Port Authority of the City of Saint Paul (a component unit of the City of Saint Paul, Minnesota) (the Port Authority) is a body corporate of the State of Minnesota and a redevelopment agency within the meaning of Minnesota statutes. The Port Authority is an enterprise fund and accounts for operations similar to private business enterprises, where the intent is that the costs to provide services on a continuing basis be financed or recovered primarily through user charges. The Port Authority's purpose is to increase the volume of commerce and employment in the City of Saint Paul (the City) and the East Metro Area of the Twin Cities through the creation of development districts and the acquisition and construction of industrial, commercial and other revenue-producing projects. The Port Authority finances this development in order to expand the tax base and create job opportunities.

Financial Reporting Entity

The powers of the Port Authority are vested in the seven-member Board of Commissioners, the members of which are nominated by the Mayor and confirmed by the City Council of the City of Saint Paul. Once appointed, the Board of Commissioners exercises all oversight responsibilities, including, but not limited to, matters of personnel, management, finance and budget. The accompanying financial statements present the Port Authority and its component unit, an entity for which the Port Authority is considered to be financially accountable. The discretely presented component unit, described below, is reported in a separate column in the government-wide financial statements to emphasize that is it legally separated from the Port Authority.

Certain Port Authority bond issues have been backed by the full faith and credit of the City. This general obligation pledge has allowed the Port Authority to obtain lower borrowing costs for the purpose of financing redevelopment projects. Governmental Accounting Standards Board (GASB) Codification 2100 states that a primary government that appoints a voting majority of an organization's officials and is obligated in some manner for the debt of that organization is financially accountable for that organization. Based on this criterion, the Port Authority is considered a discretely presented component unit of the City and is included in its basic financial statements.

Discretely Presented Component Unit

Capital City Properties (CCP) is a Minnesota not-for-profit corporation established in 1991 for the purpose of performing the functions and carrying out certain public purposes of the Port Authority. All of the members of the board of directors of CCP are either commissioners or staff of the Port Authority. CCP leases the Capital City Plaza Parking Garage St. Paul, as well as participates in various joint ventures. CCP separately issues its own financial statements which may be obtained by writing to CCP at 380 St. Peter Street, Suite 850, Saint Paul, Minnesota 55102-1313.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The Port Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The GASB is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The Port Authority utilizes the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

The Port Authority excludes from its basic financial statements all debt considered conduit debt as well as the related assets and operations. The Port Authority defines conduit debt as "no-commitment" debt for which the Port Authority has no further obligation, as defined by governmental accounting standards generally accepted in the United Stated of America. See Note 11 for further information related to no-commitment debt.

Use of Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include demand deposit and savings accounts, money market funds, and commercial paper with original maturities of three months or less. Some cash of the discretely presented component unit are deposited with the Port Authority's deposits and invested on a short-term basis in checking, savings and money market accounts. Interest income earned as a result of the pooling is distributed based on the investment fund balances for the proprietary funds. All of the Port Authority's cash and cash equivalents are restricted by bond indentures and/or board resolutions.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Investments

Restricted investments are reported at fair market value, with the unrealized gains and losses reported as a component of investment income, except for debt securities that have a remaining maturity at the time of purchase of one year or less, which are reported at amortized cost. All investments and earnings attributable to these restricted funds are accounted for directly by the Port Authority and are restricted in accordance with the provisions of bond indentures and a board resolution for operations and payments of debt service on the bonds. The funds and accounts the Port Authority is required to maintain are as follows:

- **Operations:** Pursuant to Board of Commissioners Resolution Number 3300 dated February 19, 1991, the Port Authority established an operating reserve account to enable the Port Authority to continue to carry out the covenants made with holders of bonds issued pursuant to certain bond financing programs. The reserve account is reviewed periodically, to determine whether the reserve is adequate.

- **Development programs:** Amounts have been restricted for the project-specific purposes.

Unamortized Bond Discounts and Premiums

Unamortized bond discounts and premiums are amortized over the life of the related debt.

Other Assets

Other assets consist of reimbursable project costs, future tax levies receivable, levied taxes receivable, and loans receivable (see Note 3).

Reimbursable project costs represent costs incurred by the Port Authority for specific projects that will be repaid in the future through various funding sources (tax increment financing, bond proceeds, state or federal grants, etc.). The Port Authority assesses the collectability of these costs on a project by project basis and reserves an amount as uncollectible based on known factors related to future funding sources and the estimated timing of collection.

The Port Authority records a receivable for future tax levies related to various bonds that are issued to finance projects. The bonds issued establish an irrevocable levy which creates a legally enforceable claim for repayment of the outstanding bond proceeds.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Properties and facilities are recorded at cost, including capitalized interest. Rental income is recorded for all properties and facilities under operating leases. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, as follows:

	Years
Land Improvements - Including Steam Utility System	10 - 40
Furniture, Fixtures and Equipment	3 - 5

Impairment of Capital Assets

The Port Authority reviews its capital assets for recoverability whenever events or changes in circumstances suggest that the service utility of a capital asset may have significantly or unexpectedly declined, indicating that an impairment of its capital assets has occurred. If impairment has occurred, the estimated impairment is based on the diminished service utility of the capital asset. To date, management has determined that no impairment of long-lived assets exists.

Pensions

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

Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations. Certain comparative information has been reclassified to conform to the current year presentation.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

In accordance with applicable Minnesota State Statutes, the Port Authority maintains deposits at financial institutions authorized by the Board of Commissioners. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; securities issued by a U.S. government agency; general obligations of local governments rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

Custodial Credit Risk - Deposits – In the case of deposits, custodial risk is the risk that in the event of bank failure, the Port Authority's deposits may not be returned to it. The Port Authority's deposit policy does not provide additional restrictions beyond Minnesota State Statutes. At year-end, the carrying amount of the Port Authority's deposits was entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

Investments

The Port Authority may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and with the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rated "A" or better
- Obligations of a school district with an original maturity not exceeding 13 months which is (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to Minn. Stat. § 126C.55.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks, or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in one of the top two rating categories
- Repurchase or reverse purchase agreements and security lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

(ALL AMOUNTS IN THOUSANDS)

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

The Port Authority held the following investments as of December 31, 2016:

Investment Type	Fair Value
Negotiable Certificates of Deposit	$ 724
U.S. Treasury Notes	3,110
Federal Home Loan Mortgage Corp. (Freddie Mac)	967
Federal National Mortgage Assoc. (Fannie Mae)	2,478
Government National Mortgage Assoc. (Ginnie Mae)	12
Federal Home Loan Bank	1,900
Tennessee Valley Authority	52
U.S. Department of Agriculture Loan Certificates	37
State & Local Obligations: Municipal Bonds	573
Total Investments at Fair Value	$ 9,129

Investment Type	Amortized Cost
Minnesota Municipal Money Market Fund	$ 1,336

Interest Rate Risk – As a means of managing its exposure to fair value losses arising from increasing interest rates, it is the Port Authority's practice to match maturities to its liquidity needs. The Port Authority establishes benchmarks that reflect its expected cash flow needs and minimize interest rates that are materially longer or shorter than those established by the benchmarks chosen. Maximum duration of the portfolio is 120% of the benchmark duration.

The schedule of the average maturities by investment type as of December 31, 2016 is as follows:

	Investment Maturities (In Years)					
Investment Type	Less than 1	1-5	6-10	More Than 10	No Maturity	Total
Negotiable Certificates of Deposit	$ 724	$ -	$ -	$ -	$ -	$ 724
Guaranteed Investment Contracts	-	-	-	-	-	-
U.S. Treasury Notes	200	2,117	793	-	-	3,110
Government-Sponsored Enterprises:						
Federal Home Loan Mortgage Corp (Freddie Mac)	-	939	10	18	-	967
Federal National Mortgage Assoc. (Fannie Mae)	28	1,863	541	46	-	2,478
Government National Mortgage Assoc. (Ginnie Mae)	-	-	12	-	-	12
Federal Home Loan Bank	-	1,900	-	-	-	1,900
Tennessee Valley Authority	52	-	-	-	-	52
U.S. Department of Agriculture Loan Certificates	-	-	-	37	-	37
State & Local Obligations: Municipal Bonds	171	402	-	-	-	573
Minnesota Municipal Money Market Fund	-	-	-	-	1,336	1,336
Total	$ 1,175	$ 7,221	$ 1,356	$ 101	$ 1,336	$ 11,189

(ALL AMOUNTS IN THOUSANDS)

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Credit Risk – As a means of managing its exposure that an issuer of a debt security will not fulfill its obligation, it is the Port Authority's practice to follow state law, which limits investments in authorized securities to certain credit risk ratings and maturities. It is the Port Authority's policy that securities must carry an A- or higher long-term rating by one rating agency or the highest quality short-term rating (without regard to modifiers) by two of the following rating agencies: Standard & Poors, Fitch or Moody's. The Port Authority's investments at December 31, 2016, carried the following ratings:

	Credit Risk (Lowest rating from Moody's, S&P and Fitch Ratings)				
Investment Type	AAA/Aaa	AA/Aa	A	Not Rated	Total
Negotiable Certificates of Deposit	$ -	$ -	$ -	$ 724	$ 724
Guaranteed Investment Contract	-	-	-	-	-
U.S. Treasury Notes	3,110	-	-	-	3,110
Government-Sponsored Enterprises:					
Federal Home Loan Mortgage Corp (Freddie Mac)	-	967	-	-	967
Federal National Mortgage Assoc. (Fannie Mae)	-	2,478	-	-	2,478
Government National Mortgage Assoc. (Ginnie Mae)	-	12	-	-	12
Federal Home Loan Bank	-	1,900	-	-	1,900
Tennessee Valley Authority	-	52	-	-	52
U.S. Department of Agriculture Loan Certificates	-	37	-	-	37
State & Local Obligations: Municipal Bonds	99	396	78	-	573
Minnesota Municipal Money Market Fund	-	-	-	1,336	1,336
Total	$ 3,209	$ 5,842	$ 78	$ 2,060	$ 11,189

Custodial Credit Risk – For an investment, the custodial credit risk is that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Port Authority will not be able to recover the value of its investments that are in the possession of another party. The Port Authority requires all securities purchased to be made in such a manner so that the securities are registered in the Port Authority's name or are in the possession of the Port Authority or a third-party custodian in the Port Authority's name.

Concentration of Credit Risk – The Port Authority diversifies its portfolio in order to minimize the impact of losses from any one individual issuer. It is the Port Authority's policy to limit the amount invested in any one issuer at the time of the purchase, excluding securities of the U.S. Government and government sponsored enterprise securities. There were no violations of the policy during the year.

At December 31, 2016 more than 5% of the Port Authority's investments are in the following issuers:

Investment Issuer:	Percent of Total Investments
Federal Home Loan Mortgage Corp (Freddie Mac)	9%
Federal National Mortgage Assoc. (Fannie Mae)	22%
Federal Home Loan Bank	17%

(ALL AMOUNTS IN THOUSANDS)

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Measurements

The Port Authority uses fair value measurements to record fair value adjustments to certain asset and liabilities and to determine fair value disclosures.

The Port Authority follows an accounting standard which defines fair value, establishes framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Port Authority has categorized its investments, based on the priority of inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quotes and prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset.

Assets of the Port Authority measured at fair value on a recurring basis are as follows:

Investment Type	Level 1	Level 2	Level 3	Total
Negotiable Certificates of Deposit	$ -	$ 724	$ -	$ 724
U.S. Treasury Notes	3,110	-	-	3,110
Government-sponsored Enterprises:				
Federal Home Loan Mortgage Corp (Freddie Mac)	-	967	-	967
Federal National Mortgage Assoc. (Fannie Mae)	-	2,478	-	2,478
Government National Mortgage Assoc. (Ginnie Mae)	-	12	-	12
Federal Home Loan Bank	-	1,900	-	1,900
Tennessee Valley Authority	-	52	-	52
U.S. Department of Agriculture Loan Certificates	-	37	-	37
State & Local Obligations: Municipal Bonds	-	573	-	573
Total Investments Measured at Fair Value	$ 3,110	$ 6,743	$ -	$ 9,853

(ALL AMOUNTS IN THOUSANDS)

NOTE 3 OTHER ASSETS

Other assets consist of the following at December 31, 2016:

Reimbursable Project Costs	$	10,439
Future Tax Levies		59,869
Loans Receivable		26,322
Due from CCP		376
Allowance for Uncollectible Amounts		(6,592)
Total	$	90,414

NOTE 4 CAPITAL ASSETS

Capital asset additions, retirements and balances for the year ended December 31, 2016 were as follows:

	Balance at Beginning of Year	Increases	Decreases	Transfers In	Balance at End of Year
Business-Type Activities:					
Capital Assets, Not Being Depreciated:					
Land	$ 2,045	$ -	$ -	$ -	$ 2,045
Construction in Progress	6,626	2,887	-	-	9,513
Total Capital Assets, Not Being Depreciated	8,671	2,887	-	-	11,558
Capital Assets, Being Depreciated:					
Land Improvements	40,078	239	384	18	39,951
Furniture and Equipment	2,406	104	-	(18)	2,492
Total Capital Assets, Being Depreciated	42,484	343	384	18	42,443
Accumulated Depreciation for:					
Land Improvements	27,406	676	384	3	27,701
Furniture and Equipment	1,952	157	-	(3)	2,106
Total Accumulated Depreciation	29,358	833	384	-	29,807
Total Capital Assets, Being Depreciated, Net	13,126	(490)	-	18	12,636
Business-Type Activities Capital Assets, Net	$ 21,797	$ 2,397	$ -	$ 18	$ 24,194

(ALL AMOUNTS IN THOUSANDS)

NOTE 5 REVENUE BONDS AND NOTES PAYABLE

At December 31, 2016, revenue bonds and notes payable consisted of the following:

Description		Amount
General Obligation Debt:		
Port Authority of the City of Saint Paul, 4.0% to 4.75% Bonds, Series 2008-6, interest due semi-annually with principal due in varying annual installments through 2029, for the Beacon Bluff project.	$	735
Port Authority of the City of Saint Paul, 3.0% to 5.375% Bonds, Series 2009-15, interest due semi-annually with principal due in 2027, for the Beacon Bluff project.		4,395
Port Authority of the City of Saint Paul, 4.10% to 4.20% Bonds, Series 2009-16, interest due semi-annually with principal due in 2030, for the Beacon Bluff project.		2,055
Port Authority of the City of Saint Paul, 2.0% to 3.75% Tax Exempt Tax Increment Revenue Refunding Bonds, Series 2010-2, interest due semi-annually with principal due in varying installments through 2027 for the Williams Hill Project, primarily paid with tax increment but further collateralized with a general obligation pledge.		2,895
Port Authority of the City of Saint Paul, 2.0% to 3.625% Taxable Bonds, Series 2013-1, interest due semi-annually with principal due in varying installments through 2038 for financing the acquisition, remediation and improvement of blighted and marginal land for redevelopment.		7,325
Port Authority of the City of St. Paul, 2.0% to 3.0% Refunding Bonds, Series 2014-1, interest due semi-annually with principal due in varying annual instalments through 2024, backed by the full faith and credit of the City of Saint Paul.		6,940
Port Authority of the City of St. Paul, 1.0% to 2.9%, Taxable General Obligation Bonds, Series 2016-2, interest due semi-annually with principal due in varying annual installments through 2029, for financing the acquisition, remediation, and improvement of blighted and marginal land for redevelopment, backed by the full faith and credit of the City of Saint Paul.		5,990
Port Authority of the City of St. Paul, 2.0% to 4.0%, Tax Exempt General Obligation Refunding Bonds, Series 2016-3, interest due semi-annually with principal due in varying annual installments through 2029, backed by the full faith and credit of the City of Saint Paul.		5,155
Port Authority of the City of St. Paul, 2.0%, Taxable General Obligation Bonds, Series 2016-4, interest due semi-annually with principal due in varying annual installments through 2020, for financing the acquisition, remediation, and improvement of blighted and marginal land for redevelopment, backed by the full faith and credit of the City of Saint Paul.		565
Revenue Bonds:		
Port Authority of the City of Saint Paul, $1,905,000 of 5.45% and $5,595,000 of 5.70% Tax Exempt Revenue Bonds Series 2012-3, interest due semi-annually with principal due in varying annual installments through 2036, for the Energy Park Utility Company Project.		7,500
Port Authority of the City of Saint Paul, 5.00% Taxable Revenue Bonds Series 2012-4, interest due semi-annually with principal due in varying annual installments through 2022, for the Energy Park Utility Company Project.		845
Port Authority of the City of Saint Paul, 4.02% Taxable Revenue Bonds Series 2013-6, interest due semi-annually with principal due in varying annual installments through 2039, for the financing of a new multi-purpose regional ballpark.		8,370
Bonds Collateralized by Tax Increment Financing:		
Port Authority of the City of St. Paul, 6.38%Tax Exempt Tax Increment Revenue Bonds, Series 2007-5, interest due semi-annually with principal due in 2032 for the Riverbend project.		2,250
City of Saint Paul, Minnesota, Neighborhood Sales Tax Revitalization Program STAR Loan, no interest rate, for the Westminster Business Center.		259
Port Authority of the City of Saint Paul, 6.25% Limited Taxable Tax Increment Revenue Notes, Series 2011-2, interest due semi-annually with principal due in 2021, for Energy Lane.		1,075
Limited Bonds Collateralized by Future Tax Levies:		
Port Authority of the City of Saint Paul, 4.0% to 5.0% Limited Tax-Supported Brownfield Redevelopment Program Bonds, Series 2007-2, interest due semi-annually with principal due in 2037.		10,490
Other Debt:		
U.S. Department of Housing and Urban Development - Section 108 Loan, interest due semi-annually with principal due in varying amounts beginning in 2011 and concluding in 2022, backed by the full faith and credit of the Port Authority and the City of Saint Paul, primarily paid with tax increments.		975
Other Notes and Loans Payable		9,277
Net Pension Liability		1,924
Other		89
		79,109
Plus: Unamortized Bond Premium		901
Less: Current Maturities		(7,667)
	$	72,343

(ALL AMOUNTS IN THOUSANDS)

NOTE 5 REVENUE BONDS AND NOTES PAYABLE (CONTINUED)

The Port Authority's lending and development programs are primarily financed by the issuance of various forms of revenue bonds or notes, which are collateralized based upon the circumstances under which the bonds were issued.

The Port Authority's revenue bond and note agreements include various restrictions and covenants.

Scheduled maturities of long-term obligations for the years ending December 31 are as follows:

Year Ending	Principal	Interest	Total
2017	7,564	2,916	10,480
2018	4,710	2,640	7,350
2019	3,810	2,495	6,305
2020	3,945	2,371	6,316
2021	4,101	2,237	6,338
2022-2026	20,182	8,814	28,996
2027-2031	15,000	5,339	20,339
2032-2036	14,174	2,460	16,634
2037-2039	3,610	131	3,741
Total	$ 77,096	$ 29,403	$ 106,499

Long-term liability activity for the year ended December 31, 2016 was as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 31,570	$ 11,710	$ 7,225	$ 36,055	$ 2,170
Taxable Revenue Bonds	17,005	-	290	16,715	305
Development Revenue Bonds	7,425	-	3,841	3,584	121
Limited Tax Supported Bonds	10,780	-	290	10,490	300
Bond Premiums	507	462	68	901	103
Total Bonds Payable	67,287	12,172	11,714	67,745	2,999
Notes and Loans Payable	6,019	5,259	1,026	10,252	4,668
Net Pension Liability	1,301	862	239	1,924	-
Other	84	45	40	89	-
Total Long-Term Liabilities	$ 74,691	$ 18,338	$ 13,019	$ 80,010	$ 7,667

NOTE 6 RELATED PARTY TRANSACTIONS

As discussed in Note 1, CCP's corporate purpose is to perform functions and carry out certain public purposes of the Port Authority. In conjunction with this purpose, CCP makes periodic grants to the Port Authority. During 2016, these grants totaled $1,300.

In 2013, the Port Authority's Energy Park Utility Company (EPUC) entered into a loan agreement payable to CCP in the amount of $650. The terms of the loan include annual principal payments extending through 2021. EPUC also entered into an operating lease agreement with CCP which took effect in 2014 and through which EPUC will lease chiller equipment from CCP. The lease includes monthly payments of $11 which extend through June 2026.

In 2011, the Port Authority refinanced its series 2003-1 Taxable Tax Increment Revenue Note. CCP purchased the series 2011-2 Taxable Tax Increment Revenue Refunding Note of $1,740 with a final maturity in 2031. Under the terms of the note, annual payment will be made from available tax increment from the Energy Lane Business Center Tax Increment Financing District. In 2016, principal and interest payments were $166 and $78, respectively, resulting in an outstanding balance of $1,075 at December 31, 2016.

NOTE 7 DEFINED BENEFIT PENSION PLANS

All employees hired after June 30, 2003, as well as certain other employees, are participants in the General Employees Retirement Fund (GERF), which is a cost sharing, multiple employer retirement plan. The following are descriptions and disclosures related to this plan.

A. Plan Description

The Port Authority participates in the following defined benefit pension plan administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees' Retirement Plan (GERF)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the Port Authority are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits

Benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. In calendar year 2016, the Port Authority was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members. The Port Authority’s contributions to the GERF for the year ended December 31, 2016, were $103. The Port Authority’s contributions were equal to the required contributions as set by state statute.

(ALL AMOUNTS IN THOUSANDS)

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

GERF Pension Costs

At December 31, 2016, the Port Authority reported a liability of $1,924 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Port Authority's proportion of the net pension liability was based on the Port Authority's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Port Authority's proportion was .0237%, which was a decrease of .0014 from its proportion measured as of June 30, 2016.

For the year ended December 31, 2016, the Port Authority recognized pension expense of $239 for its proportionate share of GERF's pension expense.

At December 31, 2016, the Port Authority reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ -	$ 156
Changes in Actuarial Assumptions	377	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	365	-
Changes in Proportion and Differences Between Port Authority Contributions and Proportionate Share of Contributions	-	90
Port Authority Contributions Subsequent to the Measurement Date	54	-
Total	$ 796	$ 246

(ALL AMOUNTS IN THOUSANDS)

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

GERF Pension Costs (Continued)

A total of $54 reported as deferred outflows of resources related to pensions resulting from Port Authority contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expenses Amount
2016	$ 129
2017	129
2018	168
2019	70
2020	-
Thereafter	-

E. Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.70% per year
Salary Increases	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

(ALL AMOUNTS IN THOUSANDS)

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016 for the General Employees Fund:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter, to 1.0% per year for all future years.
- The asumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The long-term expected rate of return on pension plan investments is 7.5%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45%	5.50%
International Equity	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Totals	100%	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.5% for GERF, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(ALL AMOUNTS IN THOUSANDS)

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

The following presents the Port Authority's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Port Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
GERF Discount Rate	6.50%	7.50%	8.50%
Port Authority's Proportionate Share of the GERF Net Pension Liability	$ 2,733	$ 1,924	$ 1,258

H. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary's net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Single Employer Retiree Healthcare Benefit Program

Plan Description: The Port Authority employees hired prior to January 1, 2002 and retiring after 20 or more years of service are eligible for up to $300 per month toward the cost of health insurance. Employees who retired prior to 1996 are reimbursed for 100% of the cost of health insurance for themselves and their spouse. At December 31, 2016, there were eleven beneficiaries receiving benefits. In addition, there are six current employees that may become eligible for benefits in the future. The plan does not issue a stand-alone financial report.

Funding Policy: Retiree health care benefits are currently funded based on the benefit disclosed above on a pay-as-you-go basis. The Board of Commissioners may change the funding policy at any time.

(ALL AMOUNTS IN THOUSANDS)

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PAYABLE (CONTINUED)

Single Employer Retiree Healthcare Benefit Program (Continued)

Annual OPEB Cost and Net OPEB Obligation: The Port Authority's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC). The Port Authority has elected to calculate the ARC and related information using the alternative measurement permitted by GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) over a 30-year period. The following table shows the components of the annual OPEB cost, the amount actually contributed to the plan, and changes in the net OPEB obligation to the Retiree Healthcare Benefit Program.

Annual Required Contribution	$ 47
Interest on Net OPEB Obligation	1
Adjustment to Annual Required Contribution	(3)
Annual OPEB Cost (Expense)	45
Contributions Made	(40)
Increase in Net OPEB Obligation	5
Net OPEB Obligation - Beginning of Year	84
Net OPEB Obligation - End of Year	$ 89

The Port Authority's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligations for 2016:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	$ 42	88.1%	$ 77
December 31, 2015	44	84.1%	84
December 31, 2016	45	88.9%	89

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PAYABLE (CONTINUED)

Single Employer Retiree Healthcare Benefit Program (Continued)

Funded Status and Funding Progress: The actuarial accrued liability for benefits as of December 31, 2016, the most recent valuation date, was $612. The annual payroll for active employees covered by the plan was $1,846 for a ratio of UAAL to covered payroll of 33%. This liability will be phased in over a period not to exceed 30 years based on the requirements of GASB Statement No. 45.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The projections of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions: The Port Authority has estimated the liability associated with this benefit using an alternative valuation method that takes into account the existing age of the individuals, their years of service and life expectancy, probability of receiving a benefit, a health care cost trend factor of 6.2% and a 3% present value assumption. Alternative measurement calculations assume a level of percentage projected payroll 30-year open amortization period. The remaining amortization period at December 31, 2016 was 21 years.

NOTE 9 OTHER PENSION BENEFITS PAYABLE

The Port Authority sponsors a Section 414(d) employee benefit plan covering all full-time employees who were hired prior to June 30, 2003, and did not elect to participate in the GERF. Employee participation in the plan is mandatory, and employees are required to contribute 6.50% of their salary. The Port Authority provides a contribution of 7.50%. Total contributions for the years ended December 31, 2016, 2015 and 2014 were approximately $35, $41 and $43, respectively. The Port Authority does not have significant administrative responsibilities over the plan and, therefore, it is not reported within the financial statements.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Grants: The Port Authority receives financial assistance from numerous federal, state and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Such audits could result in a liability to the Port Authority.

Tax Increment Financing: The Port Authority receives incremental property tax revenue generated by some or all of the value of certain development sites. These funds are used to repay existing tax increment bonds as well as related administrative and economic development activities. The terms of each financing plan are unique for each project as are the tax increment revenues derived from the project. The adequacy of tax increment revenues to meet debt service requirements is dependent upon a number of variables, the outcome of which cannot be predicted with certainty.

Risk Management: The Port Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors or omissions; and general liability, for which the Port Authority carries insurance and also requires lessees, payers under loans receivable, or property managers (in the case of real estate owned and operated) to carry commercial insurance. The Port Authority has not reduced insurance coverage requirements in the past year, and no claims have been paid by the Port Authority in any of the three preceding years.

Capital Assets: The Port Authority has pledged the revenues from certain of its assets, generally those in its barge terminals, to a bond program; the ongoing lease payments associated with these leases are recorded in the financial statements as revenue with an offsetting expense for the payment to the revenue bond program. In addition, if the Authority sells any of these pledged assets before September 1, 2032, the net proceeds from the sale is also pledged to the revenue bond program. No such sales are currently contemplated and therefore no liability is recorded.

Other Contingencies: In the normal course of its business, the Port Authority is subject to contingencies relating to the performance and completion of contracts, environmental matters and claims of others. In the opinion of management and internal legal counsel, the ultimate settlement of known claims or disputes will not adversely affect the financial position or results of operations of the Port Authority.

NOTE 11 NO-COMMITMENT DEBT

The Port Authority has issued certain limited-obligation revenue bonds from the following financing sources:

Authority Resolution No. 876: The Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul (the 876 Bond Fund) includes balances and transactions relating to projects financed by bonds issued under Resolution 876. All debt service on revenue bonds issued under Resolution 876 is payable solely and exclusively from amounts specifically pledged, including amounts to be received under leases or loan agreements and account earnings.

These debt obligations are collateralized by all of the 876 Bond Fund assets and the related proceeds from operations and sale of 876 Bond Fund facilities. The 876 Bond Fund is managed by the Port Authority; however, these obligations are not secured by the credit of the Port Authority.

The 876 Bond Fund did not have adequate cash to pay the full principal amount due on December 1, 2004. Since then it has not made full debt service payments and it is unlikely full principal and interest payments will be made in the future.

The Port Authority and a group of bond holders entered into a mediated settlement which clarified various issues related to the 876 bonds, the pledged revenues and the maturity date of the bonds. The settlement was approved by the Ramsey County District Court in late 2011. As part of the Settlement, US Bank was appointed to act as the Trustee.

Conduit Financings: Conduit Financings represent bonds issued for project financings which are collateralized by the related amounts to be received under leases, loan agreements and property taxes.

None of the debt obligations issued from the above financing sources are secured by the credit of the Port Authority. The Port Authority is not obligated in any manner for repayment of this debt and, accordingly, it is not reported as liabilities in the accompanying financial statements. The aggregate amount of outstanding debt for the 876 Bond Fund and Conduit Financing obligations debt issues was $246,069 at December 31, 2016.

NOTE 12 TAX ABATEMENTS

The Port Authority has entered into various agreements under Minnesota Statutes Section 469.174, Subdivision 10, and Section 469.175, which allow for certain entities to develop tax increment financing plans. As part of developing tax increment financing (TIF) plans, the Port Authority identifies TIF districts for the purpose of financing redevelopment, housing, or economic development through the use of tax increment generated from the captured net tax capacity in the TIF district. The Port Authority has the following types of TIF districts:

Redevelopment Districts – These districts must, per state statue, be parcels with 70 percent of the area occupied by buildings, streets, utilities, parking lots, or other similar structures with more than 50 percent of those structures being substandard and requiring substantial renovation or clearance or be properties consisting of vacant, unused, underused, or inappropriately used rail yards, rail storage facilities, or excessive or vacated railroad rights-of-way.

Economic Development Districts – These districts must, per state statute, be areas which consist of projects which the Port Authority finds to be in the public interest because it will discourage commerce, industry, or manufacturing from moving their operations to another state or municipality, result in increased employment in the state, or result in preservation and enhancement of the tax base of the state.

Hazardous Substance Subdistricts – These subdistricts are created within a TIF district and are made up of any parcels within the TIF district that are designated hazardous substance sites or are contiguous to the hazardous substance sites. Development or redevelopment of these sites would not reasonably be expected to occur solely through private investment and tax increment otherwise available.

As part of the tax increment financing plans, the Port Authority enters into agreements with developers and other entities for Taxable Tax Increment Revenue Notes, or Pay-As-You-Go TIF Notes. Under these agreements, the Port Authority pledges a certain percentage of future tax increment revenue received from the TIF district in return for agreed upon improvements or development activities to be performed within the TIF district by the other entity. Each Pay-As-You-Go TIF Note contains a principal amount and the Notes terminate at the earlier of the date on which the entire principal has been paid in full or a termination date included in the agreement. Once the termination date is reached, the Port Authority has no more liability to make payments on the Note, regardless of whether or not the principal had been paid in full.

During fiscal year 2016, the Port Authority had four such Pay-As-You-Go TIF Notes in place and made payments totaling $97,530 from tax increments received from the TIF Districts. The four agreements have termination dates ranging from 2024 to 2042.

REQUIRED SUPPLEMENTARY INFORMATION

PORT AUTHORITY OF THE CITY OF SAINT PAUL
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
YEAR ENDED DECEMBER 31, 2016
(ALL AMOUNTS IN THOUSANDS)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31, 2014	$ -	$ 592	$ 592	- %	$ 1,916	31%
December 31, 2015	-	588	588	-	2,083	28%
December 31, 2016	-	612	612	-	1,846	33%

PORT AUTHORITY OF THE CITY OF SAINT PAUL
PERA SCHEDULE OF THE PORT AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2016
(ALL AMOUNTS IN THOUSANDS)

	Measurement Date 6/30/2016	Measurement Date 6/30/2015	Measurement Date 6/30/2014
Port Authority's Proportion of the Net Pension Liability	0.0237%	0.0251%	0.0267%
Port Authority's Proportionate Share of the Net Pension Liability	$ 1,924	$ 1,301	$ 1,254
Port Authority's Covered-Employee Payroll	1,522	1,443	1,382
Port Authority's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	126.41%	90.16%	90.74%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.90%	78.20%	78.70%

PORT AUTHORITY OF THE CITY OF SAINT PAUL
PERA SCHEDULE OF THE PORT AUTHORITY'S CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2016
(ALL AMOUNTS IN THOUSANDS)

	Fiscal Year		
	2016	2015	2014
Statutorily Required Contribution	$ 103	$ 114	$ 105
Contributions in Relation to the Statutorily Required Contribution	(103)	(114)	(105)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Port Authority's Covered-Employee Payroll	1,374	1,522	1,443
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.25%

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
Port Authority of the City of Saint Paul
Saint Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Port Authority of the City of Saint Paul (a component unit of the City of Saint Paul) and its component unit (Capital City Properties) (collectively, the Organization) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated REPORT DATE.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions,* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Organization failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, except as described in the Schedule of Findings and Recommendations as item 2017-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Organization's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The Organization's written response to the legal compliance finding identified in our audit is described in the Schedule of Findings and Recommendations. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
REPORT DATE

PORT AUTHORITY OF THE CITY OF SAINT PAUL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2016

FINDING: 2017-001 CONTRACTING AND BIDDING REQUIREMENTS

Minnesota Statute § 574.26 requires public entities to obtain from contractors doing public work both a performance bond and a payment bond in an amount not less than the contract price, if the contract is more than $100,000. We noted one contract greater than $100,000 which was awarded during the year but for which the Port Authority was unable to provide any documentation of performance or payment bonds collected from the contractor.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings
There is no disagreement with the audit finding. The documentation was not retained with the rest of the contract information.

Actions Planned in Response to Finding:
The Port Authority Development team has undertaken a training process to address contract bidding, contract awarding and monitoring. As part of these processes, performance bonds are being addressed. In the future, procedures related to this will be documented and all new employees will be given upfront training versus past practices of learning on the job.

Official Responsible for Ensuring CAP:
The Project Manager along with their supervisor (the Senior Vice-President) will be the officials responsible for ensuring the CAP.

Planned Completion Date for CAP:
The Organization will complete the CAP by the end of fiscal year 2017.

Plan to Monitor Completion of CAP:
The Senior Vice President of Development will monitor completion of the CAP.

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Board of Commissioners
Port Authority of the City of Saint Paul
Saint Paul, Minnesota

In planning and performing our audit of the financial statements of the Port Authority of the City of Saint Paul (a component unit of the City of Saint Paul, Minnesota) (the Port Authority) as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Port Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port Authority's internal control.

However, during our audit we became aware of matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below. We previously provided a written communication dated REPORT DATE, on the Port Authority's internal control. This letter does not affect our communication dated REPORT DATE.

Expense Reimbursement Policy

During the audit we performed a review of an employee expense reimbursement to verify all Port Authority policies were being followed. During this review we noted that the Port Authority's policy is to not reimburse tips larger than 20%, however a tip larger than 20% was expensed and fully reimbursed to the employee by the Port Authority. We recommend that the Port Authority adhere to all of its policies regarding employee expense reimbursements.

Approval Documentation

During our review of employee payroll it was noted that there was a merit increase given to employees during 2016. This merit increase was discussed and approved by appropriate personnel, however this approval was not documented, therefore we were not able to verify the approval. We recommend that the Port Authority document all approval processes as support for the performance of internal control procedures.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Port Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the board of commissioners, and others within the Port Authority, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
REPORT DATE

ENERGY PARK UTILITY COMPANY
(A UNIT OF THE PORT AUTHORITY OF THE CITY OF SAINT PAUL)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

ENERGY PARK UTILITY COMPANY
(A UNIT OF THE PORT AUTHORITY OF THE CITY OF SAINT PAUL)
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Port Authority of the City of Saint Paul
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Energy Park Utility Company (the Company), a Unit of the Port Authority of the City of Saint Paul (the Port Authority), as of and for the years ended December 31, 2016 and 2015, and the related notes to basic financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Energy Park Utility Company, a Unit of the Port Authority of the City of Saint Paul as of December 31, 2016 and 2015, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Omitted Management's Discussion and Analysis

The Company has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Financial Reporting Entity

As discussed in Note 1, the financial statements of the Company are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the Port Authority that is attributable to the transactions of Energy Park Utility Company. They do not purport to, and do not, present fairly the financial position of the Port Authority as of December 31, 2016 and 2015, or the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
REPORT DATE

ENERGY PARK UTILITY COMPANY
(A UNIT OF THE PORT AUTHORITY OF THE CITY OF SAINT PAUL)
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
CURRENT ASSETS		
Cash and Cash Equivalents	$ 176,748	$ 194,168
Restricted Cash and Cash Equivalents	1,413,416	1,321,804
Accounts Receivable	361,442	351,852
Prepaids	25,919	25,919
Inventory	57,353	57,352
Total Current Assets	2,034,878	1,951,095
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	10,345,124	10,577,305
Total Assets	12,380,002	12,528,400
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	321,501	151,950
Accrued Interest Payable	193,745	195,203
Deposits Payable	197,346	197,346
Other Current Payables	68,345	60,697
Current Maturities on Long-Term Debt	123,603	111,829
Total Current Liabilities	904,540	717,025
LONG-TERM LIABILITIES		
Long-Term Debt (Less: Current Maturities)	8,744,867	8,868,470
Total Liabilities	9,649,407	9,585,495
NET POSITION		
Net Investment in Capital Assets	2,426,654	2,918,810
Restricted for:		
Capital Maintenance	236,494	148,097
Debt Service	226,922	223,705
Unrestricted	(159,475)	(347,707)
Total Net Position	$ 2,730,595	$ 2,942,905

See accompanying Notes to Basic Financial Statements.

ENERGY PARK UTILITY COMPANY
(A UNIT OF THE PORT AUTHORITY OF THE CITY OF SAINT PAUL)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Charges for Services	$ 2,825,975	$ 2,884,615
OPERATING EXPENSES		
Operating Costs	1,708,401	1,823,324
Management Fees	123,759	94,751
Administrative Fees	32,961	63,527
Audit	12,160	14,000
Depreciation	470,681	450,484
Total Operating Expenses	2,347,962	2,446,086
OPERATING INCOME	478,013	438,529
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	(722)	(1,215)
Interest Expense	(489,601)	(494,089)
Other Fees	(200,000)	(170,000)
Other Non-Operating	-	(1,000)
Total Non-Operating Expenses	(690,323)	(666,304)
CHANGE IN NET POSITION	(212,310)	(227,775)
Net Position - Beginning of Year	2,942,905	3,170,680
NET POSITION - END OF YEAR	$ 2,730,595	$ 2,942,905

See accompanying Notes to Basic Financial Statements.

ENERGY PARK UTILITY COMPANY
(A UNIT OF THE PORT AUTHORITY OF THE CITY OF SAINT PAUL)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 2,816,385	$ 2,855,631
Payments for Operations	(1,700,083)	(2,022,604)
Net Cash Provided by Operating Activities	1,116,302	833,027
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(239,958)	(197,351)
Principal Paid on Revenue Bonds	(70,000)	(50,000)
Principal Paid on Notes Payable	(41,829)	(40,240)
Other Debt Related Costs	-	(1,000)
Net Cash Used by Capital and Related Financing Activities	(351,787)	(288,591)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Interest Paid	(489,601)	(494,089)
Fees Paid to Port Authority	(200,000)	(170,000)
Net Cash Used by Noncapital and Related Financing Activities	(689,601)	(664,089)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Withdrawals of Investments and Restricted Investments	-	60,272
Interest Received	(722)	(1,215)
Net Cash Provided (Used) by Investing Activities	(722)	59,057
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	74,192	(60,596)
Cash and Cash Equivalents - Beginning of the Year	1,515,972	1,576,568
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 1,590,164	$ 1,515,972
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 478,013	$ 438,529
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	470,681	450,484
Change in Operating Assets and Liabilities:		
Accounts Receivable	(9,590)	(28,984)
Inventory	(1)	(17,560)
Accounts Payable	169,551	(6,016)
Other Current Liabilities	7,648	(3,426)
Net Cash Provided by Operating Activities	$ 1,116,302	$ 833,027

See accompanying Notes to Basic Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Unit

Energy Park Utility Company (the Company) is a unit of the Port Authority of the City of Saint Paul (The Port Authority) and is governed by the Commissioners of the Authority. The Company provides heating and cooling services through the operation of a hot and chilled-water system to businesses and residences located in Energy Park, an industrial and residential development district located in Saint Paul, Minnesota.

Financial Reporting Entity

The financial statements of the Company are intended to present the financial position, and the changes in the financial position and cash flows, of only the Company that is attributable to the transactions of the unit. They do not purport to, and do not, present fairly the financial position of the Port Authority of the City of Saint Paul, as of December 31, 2016 and 2015, or the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

Measurement Focus and Basis of Accounting

The accrual basis of accounting is used by the Company. Under this method, revenues are recorded when earned and expenses are recorded when the related fund liability is incurred.

The Company distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the Company are charges to customers for sales and services. The operating expenses of the Company include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Accounts Receivable

Accounts receivables are due from utility customers that are charged for access to the heating and cooling system as well as the variable costs associated with providing heating and cooling through long-term contracts. At December 31, 2016 and 2015, there is no allowance for doubtful accounts reflected in the financial statements. Accounts receivable are uncollateralized.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Investment Reserve

The restricted investment reserve consists of deposits and investments held by the Port Authority and the Bond Trustee which are reported at fair value. The Port Authority is required to maintain a restricted investment reserve funded with an upfront fee and monthly additions of specified revenues, as defined, for future repairs and plant expansion. The balance was depleted to complete upgrades to the system and is being replenished from future specified revenues related to the new franchise agreement and long-term customer service agreements.

Capital Assets

Capital assets consist of land and a heating and cooling system, which are stated at cost. The heating and cooling system improvements are depreciated on a straight-line basis over the useful life of the asset of 25 years. The 25-year life is based on the life of the Hot and Chilled Water Service Agreements. Equipment related to the heating and cooling system is depreciated on a straight line basis over the useful life of the asset of seven years. Depreciation expense was $470,681 and $450,484 in 2016 and 2015, respectively.

Franchise Fees

The Company collects and remits to the City of Saint Paul a franchise fee of the greater of 6.8% of revenues or $159,000. The Company is not required to collect or remit franchise fees for six months of each year for sales to residential customers, defined in the franchise agreement. Franchise fees collected for the City of Saint Paul were approximately $178,000 and $183,000 in 2016 and 2015, respectively. Franchise fees are collected on behalf of the City of Saint Paul are not included as revenue or expenses in the statement of revenues, expenses, and changes in net position.

Fees Paid to the Port Authority

The Company made payments to the Port Authority for an annual fee as required by the franchise ordinance and may be increased annually based upon changes in the consumer price index for all urban consumers in the Minneapolis/St. Paul area for the latest 12-month period. The amount consists of a fixed reimbursement as well as administrative service charges and other miscellaneous fees. The fixed reimbursement was $200,000 in 2016 and $170,000 in 2015. The administrative service charges were $53,999 and $57,641 in 2016 and 2015, respectively, for a total payment to the Port Authority of $253,999 and $227,641 in 2016 and 2015, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Accounting Estimates

The preparation of financial schedules in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial schedules, and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

Net Position

Net position represents the differences between assets and liabilities in the financial statements. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by any outstanding balance of long-term debt used to build or acquire the capital assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the Company's policy (as a Unit of the Port Authority of Saint Paul) to use restricted first, then unrestricted net position.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

The Port Authority maintains a cash and investment pool that is available for use by all funds including the Company. The Company's portion of this pool is displayed in the statements of net position as "Cash" and "Investments". In accordance with applicable Minnesota State Statutes, the Port Authority maintains deposits at financial institutions authorized by the board of commissioners. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; securities issued by a U.S. government agency; general obligations of local governments rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

Custodial Credit Risk – Deposits – In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the Port Authority's deposits may not be returned to it. The Port Authority's deposit policy does not provide additional restrictions beyond Minnesota State Statutes. At year-end, the carrying amount of the Port Authority's deposits was entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

Investments

The Port Authority may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and which receive the highest credit rating, are rated in one of the two highest rating categories by a nationally recognized statistical rating agency, and all of the investments have a final maturity of 13 months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rated "A" or better
- Obligations of a school district with an original maturity not exceeding 13 months which is (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to Minn. Stat. § 126C.55.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks, or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in one of the top two rating categories
- Repurchase or reverse purchase agreements and security lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers

Interest Rate Risk – As a means of managing its exposure to fair value losses arising from increasing interest rates, it is Port Authority practice to match maturities to its liquidity needs. Additionally, whenever possible, the investment with the shortest duration will be selected when choosing between equal alternatives.

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Credit Risk – As a means of managing its exposure to an issuer of a debt security that will not fulfill its obligation, the trustee has been instructed by Port Authority to follow state law, which limits investments in authorized securities to certain credit risk ratings and maturities. It is also Port Authority policy to diversify the investment portfolio, in order to minimize the impact of losses from any one individual issuer, and to pre-qualify the allowable financial institutions and commercial paper issuers.

Custodial Credit Risk – For an investment, the custodial credit risk is that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Port Authority will not be able to recover the value of its investments that are in the possession of another party. The Port Authority policy for managing custodial credit risk is to follow Minnesota statutes. All securities are held by an independent third-party custodian selected by Port Authority as evidenced by safekeeping receipts in the Port Authority's name.

Concentration of Credit Risk – The Port Authority investment policy states that the maximum allowable exposure to any one issuer shall not exceed 5% of the total portfolio at the time of purchase, excluding securities of the U.S. Government/Federal and government sponsored enterprise securities.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2016 and 2015 was as follows:

	December 31, 2016			
	Balance at Beginning of Year	Additions / Other	Deductions	Balance at End of Year
Capital Assets Not Being Depreciated:				
Land	$ 176,961	$ -	$ -	$ 176,961
Capital Assets Being Depreciated:				
Heating and Cooling System	17,773,218	238,500	-	18,011,718
Less:				
Accumulated Depreciation	(7,372,874)	(470,681)	-	(7,843,555)
Total Capital Assets Being Depreciated, Net	10,400,344	(232,181)	-	10,168,163
Net Capital Assets	$ 10,577,305	$ (232,181)	$ -	$ 10,345,124

NOTE 3 CAPITAL ASSETS (CONTINUED)

	December 31, 2015			
	Balance at Beginning of Year	Additions / Other	Deductions	Balance at End of Year
Capital Assets Not Being Depreciated:				
Land	$ 176,961	$ -	$ -	$ 176,961
Capital Assets Being Depreciated:				
Heating and Cooling System	17,654,406	118,812	-	17,773,218
Less:				
Accumulated Depreciation	(6,922,390)	(450,484)	-	(7,372,874)
Total Capital Assets Being Depreciated, Net	10,732,016	(331,672)	-	10,400,344
Net Capital Assets	$ 10,908,977	$ (331,672)	$ -	$ 10,577,305

NOTE 4 RISK MANAGEMENT

The Company is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; business interruption; error or omissions; employee’s injuries and illnesses; or natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 5 LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following as of December 31, 2016:

Description	2016
Port Authority of the City of Saint Paul Revenue Bonds, Energy Park Utility Company Project Series 2012-3 with maturities from 2022 through 2036 with Interest of 5.45% to 5.7% due semi-annually from February 1, 2013 through maturity.	$ 7,500,000
Port Authority of the City of Saint Paul Taxable Revenue Bonds, Energy Park Utility Company Project Series 2012-4 with principal payments due August 1, 2014 through 2022 with Interest of 5.0% due semi-annually from February 1, 2013 through maturity.	845,000
Note Payable due to Capital City Properties, with principal payments due August 1, 2014 through 2021 with Interest of 4.0% due semi-annually from February 1, 2014 through maturity.	523,470
	8,868,470
Less: Current Maturities	123,603
Long-Term Debt	$ 8,744,867

The Series 2012-3 Bonds and the Series 2012-4 Bonds referred to collectively as the “Series 2012 Bonds” were issued to finance an upgrade from a two pipe to a four pipe system (the Project). In addition, the bonds provided funding for reserve and capital maintenance accounts. The Series 2012 Bonds are payable solely from the Pledged Revenues, which consist of essentially all Company customer charges for services.

Capital City Properties (CCP) is a component unit of the Port Authority of the City of Saint Paul. The note payable to CCP was issued to provide funds to enable EPUC to complete the upgrade to a four pipe system.

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Scheduled maturities and interest payments on long-term obligations for the years ending December 31 are as follows:

	Bonds Payable		Notes Payable		Total	
Year Ending December 31,	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 80,000	$ 464,988	$ 43,603	$ 20,797	$ 123,603	$ 485,785
2018	105,000	460,988	45,389	19,011	150,389	483,999
2019	130,000	455,738	47,248	17,152	177,248	472,890
2020	155,000	449,238	49,144	15,257	204,144	464,495
2021	175,000	441,488	51,197	13,203	226,197	454,691
2021-2025	1,360,000	2,025,588	286,889	11,105	1,646,889	2,036,693
2026-2030	2,175,000	1,580,338	-	-	2,175,000	1,580,338
2031-2035	4,165,000	826,785	-	-	4,165,000	826,785
Total	$ 8,345,000	$ 6,705,149	$ 523,470	$ 96,525	$ 8,868,470	$ 6,805,674

Long-term liability activity for the years ended December 31, 2016 and 2015 are presented below.

	Year Ended December 31, 2016			
	Balance at Beginning of Year	Additions	Retirements	Balance at End of Year
Bonds Payable:				
Tax-Exempt Revenue Bonds Series 2012-3	$ 7,500,000	$ -	$ -	$ 7,500,000
Taxable Revenue Bonds Series 2012-4	915,000	-	(70,000)	845,000
Notes Payable	565,299	-	(41,829)	523,470
Total Long-Term Liabilities	$ 8,980,299	$ -	$ (111,829)	$ 8,868,470

	Year Ended December 31, 2015			
	Balance at Beginning of Year	Additions	Retirements	Balance at End of Year
Bonds Payable:				
Tax-Exempt Revenue Bonds Series 2012-3	$ 7,500,000	$ -	$ -	$ 7,500,000
Taxable Revenue Bonds Series 2012-4	965,000	-	(50,000)	915,000
Notes Payable	605,539	-	(40,240)	565,299
Total Long-Term Liabilities	$ 9,070,539	$ -	$ (90,240)	$ 8,980,299

NOTE 6 COMMITMENTS AND CONTINGENCIES

The Port Authority has contracted with Ever-Green Energy Company LLC (the Ever-Green) pursuant to a management agreement which expires in 2020 for administrative and oversight services necessary for the operation of the System. Ever-Green was paid $102,721 and $94,751 in 2016 and 2015, respectively, to manage the System. In addition, Evergreen was reimbursed $1,708,402 and $1,869,922 for operating costs of the System.

The Company entered into an operating lease in 2013 for chiller equipment which the Company will lease from CCP. The lease agreement, dated October 22, 2013, includes lease terms with 144 monthly payments of $10,550 which commence on July 1, 2014 and run through June 30, 2026.

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Board of Commissioners and Management
Port Authority of the City of Saint Paul
Saint Paul, Minnesota

In planning and performing our audit of the financial statements of the governmental activities of the Energy Park Utility Company as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Energy Park Utility Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Energy Park Utility Company's internal control. Accordingly, we do not express an opinion on the effectiveness of Energy Park Utility Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Energy Park Utility Company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Board of Commissioners, and others within Energy Park Utility Company, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
REPORT DATE

PORT AUTHORITY OF THE CITY OF SAINT PAUL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2016

PORT AUTHORITY OF THE CITY OF SAINT PAUL
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YEAR ENDED DECEMBER 31, 2016

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Port Authority of the City of Saint Paul
Saint Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the Port Authority of the City of Saint Paul (a component unit of the City of Saint Paul, Minnesota) (the Port Authority), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Port Authority's basic financial statements and have issued our report thereon dated REPORT DATE. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards.* This report does not include the results of the testing of internal control over financial reporting or compliance and other matters reported on for the discretely presented component unit, which were issued in a separate report dated REPORT DATE.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Port Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port Authority's internal control.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Port Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
REPORT DATE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Commissioners
Port Authority of the City of Saint Paul
Saint Paul, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the Port Authority of the City of Saint Paul's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Port Authority of the City of Saint Paul's major federal programs for the year ended December 31, 2016. The Port Authority of the City of Saint Paul's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Port Authority of the City of Saint Paul's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port Authority of the City of Saint Paul's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Port Authority of the City of Saint Paul's compliance.

Opinion on Each Major Federal Program

In our opinion, the Port Authority of the City of Saint Paul complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Port Authority of the City of Saint Paul is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port Authority of the City of Saint Paul's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port Authority of the City of Saint Paul's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Board of Commissioners
Port Authority of the City of Saint Paul

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Port Authority of the City of Saint Paul as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Port Authority of the City of Saint Paul's basic financial statements. We issued our report thereon dated REPORT DATE, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
REPORT DATE

THE PORT AUTHORITY OF THE CITY OF SAINT PAUL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

Federal Grantor/ Grant Name	Pass-through Grantor	Federal CFDA Number	Federal Expenditures
U.S. Department of Energy:			
ARRA - State Energy Program	MN Dept. of Commerce	81.041	$ 4,620,400
U.S. Environmental Protection Agency:			
Brownfields Assessment and Cleanup Cooperative Agreements:	Direct	66.818	1,778,919
U.S. Department of Homeland Security			
FEMA Disaster Grants - Public Assistance	MN Department of Public Safety	97.036	209,921
			$ 6,609,240

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Port Authority of the City of Saint Paul (the Port Authority) under programs of the federal government for the year ended December 31, 2016. The information presented in this schedule is presented in accordance with the requirements Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Port Authority of the City of Saint Paul, it is not intended to and does not present the financial position, change in net position, or cash flows of the Port Authority of the City of Saint Paul.

NOTE B SUMMARY OF SIGNIIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Port Authority of the City of Saint Paul does not charge indirect costs to its federal programs and therefore does not utilize the de minimus indirect cost rate allowed under the Uniform Guidance.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

NOTE C STATE ENERGY PROGRAM

The amount reported on the financial statements for the ARRA-State Energy Program (81.041) for the Port Authority is the administrative and collection costs. Below is a summary of the loan activity during fiscal year 2016.

	State Energy Program
Loans Receivable Beginning	14,108,938
New Loans Issued	4,620,400
Loan Repayments	(4,556,554)
Loans Receivable Ending	$ 14,172,784

THE PORT AUTHORITY OF THE CITY OF SAINT PAUL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified

2. Internal control over financial reporting:

• Material weakness(es) identified?	______ yes	__x__ no
• Significant deficiency(ies) identified?	______ yes	__x__ none reported

3. Noncompliance material to financial statements noted? ______ yes __x__ no

Federal Awards

1. Internal control over major federal programs:

• Material weakness(es) identified?	______ yes	__x__ no
• Significant deficiency(ies) identified?	______ yes	__x__ none reported

2. Type of auditors' report issued on compliance for major federal programs: Unmodified

3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ______ yes __x__ no

Identification of Major Federal Programs

Program	CFDA #
U.S. Environmental Protection Agency:	
Brownfields Assessment and Cleanup Cooperative Agreements:	66.818
U.S. Department of Energy:	
ARRA - State Energy Program	81.041

Dollar threshold used to distinguish between Type A and Type B programs: $ $750,000

Auditee qualified as low-risk auditee? __x__ yes ______ no

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

Section IV – Prior Year Findings

There were no matters required to be reported in the prior year.

Board of Commissioners
Port Authority of the City of Saint Paul, Energy Park Utility Company,
Capital City Properties, and Capital City Plaza Parking Garage
Saint Paul, Minnesota

We have audited the financial statements of the business-type activities, the aggregate discretely presented component unit, and each major fund of the Port Authority of the City of Saint Paul (the Port Authority), Energy Park Utility Company (a unit of the Port Authority), Capital City Properties (a component unit of the Port Authority) and the Capital City Plaza Parking Garage (a project of Capital City Properties) as of and for the year ended December 31, 2016, and have issued our report thereon dated REPORT DATE. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Port Authority of the City of Saint Paul, Energy Park Utility Company, Capital City Properties and Capital City Plaza Parking Garage are described in Note 1 to each of the respective financial statements.

No new accounting policies were adopted by any of the entities and the application of existing policies was not changed during 2016.

We noted no transactions entered into by the Port Authority of the City of Saint Paul, Energy Park Utility Company, Capital City Properties and Capital City Plaza Parking Garage during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Qualitative aspects of accounting practices (continued)

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the fair market value of investments, which are based on quoted market prices; depreciation expense on capital assets, which is based on management's estimated useful life of those assets; allowance for uncollectible receivables, including accrued future tax collections, which is based on a review of individual accounts and an aging analysis, estimated tax receipts and historical collection experience; the estimate of the Port Authority's liability for other postemployment benefits, which is based on contractual benefits offered, projected wages, and the projected life spans of retirees; and the Port Authority's net pension liability, which is based on an actuarial study involving assumptions regarding discount rate, investment rate of return, and others. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Corrected misstatements

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letters dated REPORT DATE.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Port Authority’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the Port Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other audit findings or issues

We have provided a separate letter to you dated REPORT DATE, communicating internal control related matters identified during the audit.

Audits of group financial statements

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with governance of the group.

The entity’s ability to continue as a going concern

The following conditions and events, when considered in the aggregate and after considering management’s plans, caused us to conclude that substantial doubt about the Capital City Plaza Parking Garage’s ability to continue as a going concern for a reasonable time remains:

- Significant net position deficit accompanied by delinquent bond payments due to a shortfall of revenues to pay debt service.

These conditions and events and management’s plans for addressing them are disclosed in Note 7 to the Parking Garage’s financial statements. We concluded the disclosures are adequate. The outcome of these uncertainties could result in the realizability of assets and the settlement of liabilities at amounts materially different than their carrying values in the financial statements which were prepared on a going concern basis.

Because we concluded there is substantial doubt about the Parking Garage’s ability to continue as a going concern, we included an emphasis-of-matter paragraph in our auditors’ report reflecting that conclusion. The paragraph states:

> The accompanying financial statements have been prepared assuming that the Garage will continue as a going concern. As discussed in Note 7 to the financial statements, the Garage has suffered recurring losses from operations, its total liabilities exceed total assets, and it has not been able to make sufficient lease payments to service the debt held by the senior and subordinate bondholders. Management's plans in regard to these matters are also described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated REPORT DATE.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * * * * *

This communication is intended solely for the information and use of the Board of Commissioners and management of Port Authority of the City of Saint Paul, Energy Park Utility Company, Capital City Properties and the Capital City Plaza Parking Garage, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
REPORT DATE

SAINT PAUL PORT AUTHORITY

MEMORANDUM

TO: BOARD OF COMMISSIONERS (Regular Meeting of April 25, 2017) **DATE:** April 18, 2017

FROM: Laurie J. Hansen

SUBJECT: AUTHORIZATION FOR CONTINUATION OF CAPITAL CITY PROPERTIES CORPORATION RESOLUTION NO. 4597

Action Requested

A request that the Port Authority Board adopt Resolution No. 4597 confirming its desire that Capital City Properties Corporation (CCP) remain in existence and exempt from the statutory requirements identified originally in Port Authority Resolution No. 3853, and amended by Resolution No. 3902 (copies attached).

Background

In 1999 the Minnesota Legislature adopted legislation prohibiting the further creation of nonprofit corporations by political subdivisions and requiring that nonprofit corporations previously created by political subdivisions take certain actions in order to remain in existence. This legislation applied to CCP, which had been created as an affiliate of the Port Authority in 1991.

Pursuant to this legislation, the Port Authority and CCP adopted resolutions on October 24, 2000 to provide for the continued existence of CCP; to indicate which specific statutory requirements CCP would be subject to and which it would be exempt from; and to agree to comply with these statutory provisions going forward. The periodic supporting resolutions required by this legislation have also been adopted by both the Port Authority and CCP.

Current Status

One of the requirements imposed by the 1999 statutes is a requirement that the nonprofit corporations be audited on an annual basis, and that this audit be presented to the applicable political subdivision at a regularly scheduled meeting. The CCP audit will be presented to the Port Authority Board on April 25, 2017 and to the CCP Board on April 25, 2017.

The 1999 statutes also require that the political subdivision periodically reaffirm the actions originally taken to continue the existence of the nonprofit corporation and the exemption from statutory requirements. This requirement is the subject of this report.

Recommendation

We recommend adoption of Resolution No. 4597 confirming the Port Authority's desire that CCP remain in existence and exempt from the statutory requirements described in prior resolutions.

LJH:amk
Attachments

Resolution No. 4597

RESOLUTION
OF THE
PORT AUTHORITY OF THE CITY OF SAINT PAUL

[CONTINUATION OF CAPITAL CITY PROPERTIES CORPORATION]

WHEREAS, in the 81st legislative session, the Minnesota Legislature adopted Minn. Stat. §465.719, requiring that political subdivisions, such as the Port Authority of the City of Saint Paul (the "Port Authority") who have either created or have a relationship with a non-profit corporation (such as Capital City Properties ("CCP")) adopt a resolution at a regularly scheduled meeting in order to provide for the continued existence of such non-profit corporation;

WHEREAS, on October 24, 2000, the Port Authority adopted its Resolution No. 3853 in which the Port Authority provided for the continued existence of CCP, as contemplated by Minn. Stat. §465.719 and for the exemption of CCP from certain statutory requirements otherwise applicable to the Port Authority; which exemptions are described in Attachment 1 attached hereto;

WHEREAS, by Resolution No. 3902 adopted August 28, 2001, the Port Authority expanded the scope of CCP activities;

WHEREAS, by Resolution Nos. 3930 adopted May 28, 2002; 4010 adopted May 27, 2003; 4087 adopted August 24, 2004; 4164 adopted April 25, 2006; 4216 adopted June 26, 2007; 4261 adopted on June 24, 2008; 4299 adopted on May 26, 2009; 4344 adopted on June 22, 2010; 4382 adopted on May 24, 2011; 4227 adopted on June 26, 2012; 4460 adopted on May 28, 2013; 4503 adopted on June 24 2014; 4541 adopted on May 26, 2015; and 4572 adopted on May 24, 2016; the Port Authority determined that the exemptions provided for in Resolution Nos. 3853 and 3902 should continue to apply to CCP and provided for the continued existence of CCP under the scope and exemptions provided in Port Authority Resolution Nos. 3853 and 3902;

WHEREAS, at the regularly scheduled meeting of the Board of Commissioners of the Port Authority held on April 25, 2017, CCP presented to the Port Authority an audit of its financials for the calendar year ending December 31, 2016, conducted by CliftonLarsonAllen, and the Port Authority has reviewed such audit and the activities of CCP and, on the basis of such review, has determined that the continued existence of CCP under the scope and exemptions provided in Resolution Nos. 3853 and 3902 is appropriate.

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Port Authority of the City of Saint Paul as follows:

1. The Port Authority hereby authorizes the continued existence of CCP under the scope and exemptions provided for in Resolution Nos. 3853 and 3902 as more fully described in Attachment 1.

2. Port Authority management is hereby authorized and directed to file a certified copy of this resolution with the Secretary of State, as required by Minn. Stat. §465719, Subdivision 10.

Adopted: April 25, 2017

PORT AUTHORITY OF THE
CITY OF SAINT PAUL

By ___________________________
Its ___________________________

ATTEST:

By ___________________________
Its ___________________________

Resolution No. 3853

RESOLUTION OF THE
PORT AUTHORITY OF THE CITY OF SAINT PAUL

WHEREAS, the Port Authority of the City of Saint Paul ("the Port Authority") is a political subdivision of the state of Minnesota within the meaning of Minnesota Statutes § 465.719, subdivision 1(a).

WHEREAS, on July 30, 1991, Saint Paul Port Authority Properties Corporation, now known as Capital City Properties ("CCP") was formed by Victor P. Reim, James J. Bellus and Kenneth R. Johnson (then the Chair, President and Vice President of the Port Authority, respectively) as a Minnesota non-profit corporation for the purpose of:

(a) aiding, assisting and advising the Port Authority in, and engaging in, the planning for and development and improvement of the Saint Paul area;

(b) providing advice, support, funds, capital, gifts and all other lawful forms of assistance, financial or otherwise, to or for the use of the Port Authority in connection with the development of the Saint Paul area; and

(c) aiding, supporting and assisting, by loans, guaranties, investments and other lawful forms of assistance, other persons or organizations seeking to develop and improve the Saint Paul area.

WHEREAS, at its formation, and continuing today, the Port Authority is the sole member of CCP.

WHEREAS, on July 30, 1991, the Port Authority adopted its Resolution No. 3330 in which the Port Authority:

(a) pledged its full support for the creation and operation of CCP;

(b) approved the Articles of Incorporation of CCP; and

(c) authorized certain financial support for CCP and pledged to work closely with, and provide all assistance to, CCP to ensure its successful operation.

WHEREAS, under the Articles of Incorporation, as amended, the affairs of CCP are to be managed by a board of directors consisting of not less than five nor more than 11 persons, a majority of which shall be either (a) a commissioner or commissioners of the Port Authority or (b) one or more full-time employees of the Port Authority.

WHEREAS, on April 2, 1993, CCP applied to the Internal Revenue Service for recognition of exemption under Section 501(c)(3) by virtue of its relationship with, and activities on behalf of, the Port Authority, which exemption was granted by the Internal Revenue Service on February 2, 1994.

WHEREAS, in the 81st legislative session, the Minnesota Legislature adopted Minn. Stat. §465.717, requiring that political subdivisions, such as the Port Authority, who have either created or have a relationship with a non-profit corporation (such as CCP) adopt a resolution at a regularly scheduled meeting in order to provide for the continued existence of such non-profit corporation.

WHEREAS, the Port Authority wishes to provide for the continued existence of CCP, as contemplated by Minn. Stat. §465.717, pursuant to the terms and conditions described herein.

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Port Authority of the City of Saint Paul as follows:

1. The Port Authority hereby finds that CCP has fulfilled the purpose for which it was created, which was to be a supporting organization to the Port Authority, with the intent being that CCP would undertake activities at the request of and under contract with the Port Authority, in carrying out land acquisition, development and property management responsibilities that would otherwise have been undertaken by the Port Authority, and that CCP should continue in existence in order to continue those activities on behalf of the Port Authority. The Port Authority continues to believe the land acquisition, development and property management responsibilities currently carried on by CCP on behalf of the Port Authority are best carried on by CCP for the reasons more specifically stated in Attachment 1 to this resolution.

2. The Port Authority intends that CCP have such power and authority as is granted in its Articles of Incorporation and Bylaws. The Port Authority specifically finds that the authorities and powers of CCP shall not exceed the authorities and powers of the Port Authority, except as provided in paragraphs 4 and 5, below.

3. The Port Authority hereby elects to continue the provisions of the Articles of Incorporation of CCP requiring that a majority of CCP's directors be either Port Authority commissioners or employees, for the reasons more specifically stated in Attachment 1.

4. The Port Authority hereby determines that CCP should comply with every law that applies to the Port Authority, as if CCP is a part of the Port Authority, except for the following laws, from which the Port Authority hereby elects to exempt CCP, for the reasons more specifically set forth on Attachment 1.

- Uniform municipal contracting law [Minn. Stat. §471.345]
- Limitation on compensation of employees based on governor's salary [Minn. Stat. §43A.17]
- Equitable pay [Minn. Stat. §471.991 to 471.99]

- Prohibition on acceptance of gifts from interested parties [Minn. Stat. §471.895]

- Municipal tort liability [Minn. Stat. §466]

- Identification of owned vehicles [Minn. Stat. §471.346

- Itemization and declaration of claims [Minn. Stat. §471-38 to 471.41]

- Prohibition on advances of pay, the making or guarantee of loans or the provisions in-kind benefits, unless authorized by law

5. In connection with the determination made in paragraph 4, above, with respect to the applicability of certain laws to CCP, the Port Authority hereby understands that CCP may not be exempted from the Minnesota Open Meeting Law (Minn. Stat. §471.705), laws governing records management (Minn. Stat. §§138.163 to 138.25) or the Minnesota Government Data Practices Act (Minn. Stat. Chapter 13). In this regard, however, the Port Authority further understands and finds that CCP is entitled to treat the following data as private data under Minn. Stat. §13.02, subdivision 12 or as nonpublic data under Minn. Stat. §13.02, subdivision 9, all data relating either to (a) private businesses consisting of financial statements, credit reports, audits, business plans, income and expense projections, customer lists, balance sheets, income tax returns, and design, market and feasibility studies not paid for with public funds, or (b) enterprises operated by CCP that are in competition with entities offering similar goods and services, so long as the data are not generally known or readily ascertainable by proper means and disclosure of specific data would cause harm to the competitive position of the enterprise or private business, provided that the goods and services do not require a tax levy.

6. The Port Authority hereby undertakes to review the activities of CCP on an annual basis, in connection with the Port Authority's annual review of the CCP audit, and to determine after each such review whether the exemption provided in the preceding paragraph 4 should be continued. Following such review, the Port Authority shall adopt a resolution to continue any exemption which it then deems appropriate to continue, and shall file a certified copy of such resolution with the Secretary of State.

7. Port Authority management is hereby authorized and directed to file a certified copy of this resolution with the Secretary of State, as required by Minn. Stat. §465.717, Subdivision 2.

8. CCP is hereby authorized and directed to adopt and file such amendments to its Articles of Incorporation as may be necessary to make CCP's Articles of Incorporation consistent with this resolution, and to provide for the application of the laws described in paragraphs 4 and 5, above.

Adopted: October 24, 2000

PORT AUTHORITY OF THE CITY
OF SAINT PAUL

By ______________________
Its Chair

ATTEST:

____
Its Secretary

ATTACHMENT 1

1. Need for Corporation. CCP was created to assist the Port Authority in carrying out its purposes by holding and/or operating repossessed real estate on behalf of the Port Authority, thereby reducing or eliminating from the Port Authority those burdens. Since its creation in 1991, this has proven to be true. CCP, as a separate legal entity, has operated the Radisson Riverfront Hotel and the Radisson City Center Hotel, and is currently in the process of constructing a parking ramp to serve those two facilities, as well as the City of Saint Paul in general. In carrying on these activities, CCP, as a separate legal entity, has insulated the Port Authority from the related liabilities, complications and risks associated with the related businesses. CCP's ownership has allowed the Port Authority to avoid adding as many as 500 private employees to its public payroll and related benefits, and has allowed CCP to negotiate employment and collective bargain agreements, as well as other claims which arise in connection with the ownership and operation of the hotels and parking ramps, maintaining those obligations and responsibilities at a non-public level, protecting the resources and taxing authority of the Port Authority.

2. Board Membership. CCP's Articles of Incorporation require that a majority of CCP's directors be either Port Authority commissioners or employees. The Port Authority believes that it is important to continue this requirement, since this continuity of leadership and management between the Port Authority and CCP helps to ensure that CCP will conduct its activities in a way that is consistent with the goals and priorities of the Port Authority, and in fulfillment of the Port Authority's public purpose objectives.

3. Exemption from certain Laws.

A. Uniform municipal contracting law [Minn. Stat. §471.345] – The Port Authority hereby finds that CCP should be exempt from the uniform municipal contracting law because, in its general activities, CCP is providing for the construction and/or renovation of properties that are private and proprietary in nature, although being operated for a public purpose through repossession or otherwise. CCP is also not financing its construction activities with taxpayer or other public funds, and instead is accessing the revenue bond market for funds necessary for these projects. As a result, the safeguards which would generally be appropriate in a governmental project are not necessary in connection with CCP's activities.

B. Limitation on compensation of employees based on governor's salary [Minn. Stat. §43A.17] – As described above, CCP's activities are generally of a proprietary and private natures, relating to properties that, as a general rule, have come into public ownership through repossession. CCP, as the owner of the Radisson Hotel Riverfront and Radisson City Center Hotel, employees approximately 500 people, pursuant to existing contracts and collective bargaining agreements. These employees are hotel employees, and do not consider themselves government employees. As a result, it would be inappropriate, and noncompetitive, to require that CCP be limited by requirements otherwise imposed on governmental employees. [Note – this exemption only applies to CCP employees, and will not apply to Port Authority employees who might, from time to time, do work for CCP on a contract basis. Port Authority employees, would remain subject to any salary limitation imposed on government employees.]

C. Equitable pay [Minn. Stat. §471.991 to 471.99] – As described above, the employees that work for CCP are, for the most part, union employees entitled to benefits established under collective bargaining agreements negotiated with the unions. As described above, these employees do not consider themselves municipal employees, and should not be entitled to compensation and employment benefits which are generally available only to government employees, and are not generally available in the private sector.

D. Prohibition on acceptance of gifts from interested parties [Minn. Stat. §471.895] – As described above, CCP's employees do not consider themselves to be governmental employees, and are not governmental employees. Instead, they are private employees for all other intents and purposes and should not be subject to gift ban limitations imposed by Minnesota Statutes on governmental employees. Also, as employees of CCP, these employees do not fall within the definition of "local official", and are not in a position to influence the activities of local officials. [Note – this exemption only applies to CCP employees, and will not apply to Port Authority employees who might, from time to time, do work for CCP on a contract basis. Port Authority employees, would remain subject to any gift ban imposed on government employees.]

E. Municipal tort liability [Minn. Stat. §466] – Since CCP is not a governmental entity, and is operating businesses which are, for all intents and purposes, private businesses, CCP should not be allowed to unjustly protect itself and these businesses from tort liability. Instead, the businesses operated by CCP should be required to carry insurance to cover risks, as their competitors do.

F. Identification of owned vehicles [Minn. Stat. §471.346] – The vehicles owned by CCP, or by the businesses operated by CCP, will be owned and operated in connection with the proprietary businesses, and not in direct connection with any municipal or governmental services. These vehicles will include hotel airport vans, which need to be clearly identified as belonging to the hotel. Identification of these vehicles with the Port Authority would cause consumer/user confusion.

G. Itemization and declaration of claims [Minn. Stat. §471-38 to 471.41] – CCP is operating its businesses in a proprietary marketplace. The sheer volume of expenditures, and the timing of such operations, precludes compliance with this statutory requirement. Since claims against CCP's businesses are payable solely out of the revenues of such businesses, standard and prudent operational practices will provide the necessary safeguards, without need for these additional statutory protections.

H. Prohibition on advances of pay, the making or guarantee of loans or the provisions in-kind benefits, unless authorized by law – CCP's relationships with its employees are, for the most part, governed by contract or collective bargaining agreements. CCP is obligated to be competitive within the industry in which these businesses operate, which may require, from time to time, pay advances and other activities which would otherwise be precluded by these requirements. Since CCP's operating revenues come from the operation of the businesses in question, public money is not at risk, and the statutory protections are not necessary. [Note – this exemption only applies to CCP employees, and will <u>not</u> apply to Port Authority employees who might, from time to time, do work for CCP on a contract basis. Port Authority employees, would remain subject to any prohibitions imposed on government employees.]

Resolution No. 3902

RESOLUTION OF THE
PORT AUTHORITY OF THE CITY OF SAINT PAUL

WHEREAS, in the 81st legislative session, the Minnesota Legislature adopted Minn. Stat. §465.719, requiring that political subdivisions, such as the Port Authority of the City of Saint Paul (the "Port Authority"), who have either created or have a relationship with a non-profit corporation (such as Capital City Properties ("CCP")) adopt a resolution at a regularly scheduled meeting in order to provide for the continued existence of such non-profit corporation and to specify what authorities and powers the corporation should possess.

WHEREAS, on October 24, 2000, the Port Authority adopted its Resolution No. 3853 in which the Port Authority provided: for the continued existence of CCP, as contemplated by Minn. Stat. §465.719; for the exemption of CCP from certain statutory requirements otherwise applicable to the Port Authority; and for CCP to have authorities and powers which do not exceed the authorities and powers of the Port Authority.

WHEREAS, subsequent to the adoption of Resolution No. 3853, the Port Authority has determined that in addition to the powers and authority available to the Port Authority, CCP should retain and have powers which would otherwise be available to a nonprofit corporation, to enter into partnerships, joint ventures and corporate share ownership arrangements, in furtherance of the mission and activities of CCP and the Port Authority.

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Port Authority of the City of Saint Paul as follows:

1. The findings and conclusions contained in Resolution No. 3853 are hereby ratified and affirmed, as amended hereby.

2. The Port Authority hereby determines that, in addition to the powers and authorities of the Port Authority, CCP should retain and have the power and authority that a corporation would otherwise have to enter into partnership, joint venture or stock ownership arrangements, as necessary to enable CCP to participate in partnerships, joint ventures or the ownership and operation of other corporations in furtherance of the mission and activities of CCP and the Port Authority, notwithstanding any limitation that would otherwise be imposed on the Port Authority with regard to such activities.

3. Port Authority management is hereby authorized and directed to file a certified copy of this resolution with the Secretary of State, as required by Minn. Stat. § 465.719, Subdivision 2.

Adopted: August 28, 2001

PORT AUTHORITY OF THE CITY
OF SAINT PAUL

By Kathy Harty
Its ~~Chair~~ Acting Chair

ATTEST:

Its ~~Secretary~~ Asst. Secretary

SAINT PAUL PORT AUTHORITY

MEMORANDUM

TO: BOARD OF COMMISSIONERS (Regular Meeting of April 25, 2017)

DATE: April 20, 2017

FROM: Peter M. Klein

SUBJECT: **POLICY CHANGE - BDF LOAN PROGRAM RESOLUTION NO. 4598**

Action Requested:
Approval of a BDF loan program policy change to allow for the funding of PACE approved loans.

Background:
The original $8,500,000 of BDF bonds were issued in 1991. In December 2003, the bonds were refinanced to lower the interest rate. The bonds have been paid off and the BDF fund has a balance of just under $9,000,000. Earnings from the BDF fund are used for Port Authority operational expenses.

In 2004, several changes were made to the BDF guidelines including the allowance to use funds for New Markets Tax Credit (NMTC) transactions and Port Authority redevelopment projects. Since that change, we have funded two redevelopment projects, one NMTC project and one typical BDF project. A summary of the current outstanding balances of those loans is:

Twin City Glass (NMTC)	$ 154,000
Beacon Bluff (Redevelopment)	380,000
Diamond Products (Redevelopment)	1,986,000
Pier Foundry (Traditional)	501,000
Total	$3,021,000

Current Status:
BDF is underutilized and has approximately $6,000,000 that is currently not deployed. The Trillion BTU loan program is currently fully deployed and provides approximately $500,000 annually for Port Authority operations. We have been able to sell off some PACE loans to free up Trillion BTU for the next projects. However, the utilization of BDF funds to free up Trillion BTU funds, would allow us to make more loans and could provide approximately $200,000 annually for Port Authority operations.

Proposal:
BDF funds would be utilized for financing Board approved PACE loans. BDF funds would only be utilized in East Metro areas and be limited to $2,000,000 for any one project. The intent is to fund PACE projects which are limited to 20% of the assessed value of the

property. Should other uses for BDF arise, Trillion BTU funds could be utilized to replenish BDF as it is able. PACE loans can be sold to banks should there be a need to rapidly replenish BDF.

The utilization of BDF will allow us to maximize the PACE pipeline of projects. It will also provide additional operating revenue to the Port Authority.

Recommendation:
We recommend approval of a BDF loan program policy change to allow for the funding of PACE approved projects.

PMK:djk

RESOLUTION OF THE
PORT AUTHORITY OF THE CITY OF SAINT PAUL

[POLICY CHANGE – BDF LOAN PROGRAM]

WHEREAS, the Port Authority of the City of Saint Paul (the "Port Authority") created in 1991 a business development fund ("BDF") to support the Port Authority's economic development mission; and

WHEREAS, the Port Authority now has a business development/energy savings program known as Property Assessed Clean Energy (PACE); and

WHEREAS, the Port Authority desires to include as part of the BDF's loan program policy that the Port Authority's BDF fund may be used to finance Port Authority PACE projects.

NOW, THEREFORE, be it resolved by the Port Authority of the City of Saint Paul that the BDF Loan Program policy is amended to allow for the funding of PACE approved loans.

Adopted: April 25, 2017

PORT AUTHORITY OF THE
CITY OF SAINT PAUL

____
Its Chair

ATTEST:

____
Its Secretary