

February 14, 2014

The Honorable Sandra L. Pappas
Chair, State and Local Government Committee
Minnesota State Senate
120 Capitol
75 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1606

The Honorable Dan Hall
State and Local Government Committee
Minnesota State Senate
103 State Office Building
100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1206

The Honorable David Tomassoni
Chair, Environment, Economic Development
and Agriculture Division
Minnesota State Senate
317 Capitol
75 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1606

The Honorable Bill Ingebrigtsen
Environment, Economic Development and
Agriculture Committee
Minnesota State Senate
143 State Office Building
100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1206

The Honorable Richard Cohen
Chair, Finance Committee
Minnesota State Senate
121 Capitol
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St. Paul, MN 55155-1606

The Honorable Michael Nelson
Chair, Government Operations Committee
Minnesota House of Representatives
565 State Office Building
100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1206

The Honorable Joyce Peppin
Government Operations Committee
Minnesota House of Representatives
281 State Office Building
100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1206

The Honorable Tim Mahoney
Chair, Jobs and Economic Development
Finance and Policy
Minnesota House of Representatives
591 State Office Building
100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1206

The Honorable Bob Gunther
Jobs and Economic Development
Finance and Policy
Minnesota House of Representatives
277 State Office Building
100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1206

The Honorable Ann Lenczewski
Chair, Taxes Committee
Minnesota House of Representatives
509 State Office Building
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The Honorable Michelle Fischbach
Finance Committee
Minnesota State Senate
15 State Office Building
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St. Paul, MN 55155-1206

The Honorable Greg Davids
Taxes Committee
Minnesota House of Representatives
283 State Office Building
100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1206

The Honorable Rod Skoe
Chair, Taxes Committee
Minnesota State Senate
235 Capitol
75 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1606

Commissioner Katie Clark Sieben
Minnesota Department of Employment and
Economic Development
1st National Bank Building
332 Minnesota Street, Suite E200
St. Paul, MN 55101-1351

The Honorable Julianne Ortman
Taxes Committee
Minnesota State Senate
119 State Office Building
100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1206

The Honorable Matt Flynn
Chair, Olmsted County
Board of Commissioners
151 4th St SE
Rochester, MN 55904

Commissioner Myron Frans
Minnesota Department of Revenue
600 North Robert Street
St. Paul, MN 55101

Re: Destination Medical Center
February 15, 2014 Report

Dear Senators, Representatives, Commissioners and Chairs:

Pursuant to 2013 Minnesota Laws, Chapter 143, Article 10 (the "Act"), the Destination Medical Center Corporation (the "DMCC") and the City of Rochester (the "City") must jointly submit a report by February 15th of each year with respect to the status of the Destination Medical Center initiative.

On behalf of the DMCC and the City, we are pleased to submit this first report, setting forth the progress that has been made since the enactment of the Act.

I. Establishment of the DMCC, Officers

On June 17, 2013, the City gave effect to the Act by adopting a resolution indicating local approval and timely filing it pursuant to Minnesota Statutes Section 645.021, subdivisions 2 and 3.

As required by the Act, the City filed Articles of Incorporation establishing the DMCC as a non-profit corporation in the State of Minnesota on July 23, 2013.

The Act set forth the process for appointing the eight members of DMCC, and specified the appointing authority. Members of the DMCC were timely appointed by the specified appointing authority as follows:

Governor Mark Dayton: Four Members:

Jim Campbell, Retired, Former CEO of Wells Fargo, Minnesota.
Susan Park Rani, President, Rani Engineering
R.T. Rybak, Executive Director, Generation Next; Former Mayor of Minneapolis
Tina Flint Smith, Chair, Destination Medical Center Corporation
Former Chief of Staff to Governor Dayton

City of Rochester: Two Members

Ardell Brede, Mayor
Ed Hruska, Rochester City Council

County of Olmsted: One Member

Jim Bier, Olmsted County Board of Commissioners
Treasurer, Destination Medical Center Corporation

Mayo Clinic: One Member

William George, Professor of Management Practice, Harvard Business School
Member, Mayo Clinic Board of Trustees
Former Chair and CEO, Medtronic Corporation

The first meeting of the DMCC Board was convened by Governor Dayton on August 10, 2013. The Act provided that the Board must elect a Chair from among the Governor's appointees. Ms. Smith was elected unanimously to the office of Chair. Jim Bier was subsequently elected to the office of Treasurer.

II. Establishment of the Economic Development Agency

The Act also required the Mayo Clinic ("Mayo") establish a non-profit economic development agency (the "EDA") to provide experience and expertise in developing and marketing the Destination Medical Center. The Act also set forth the characteristics of the members of the governing board of the EDA: it must be comprised of members of the medical community, City and County.

Mayo filed the Articles of Incorporation to establish the EDA on July 18, 2013. The members of the EDA Board of Directors are:

Patricia Simmons, M.D., Chair

Jerry Bell, former President of the Minnesota Twins

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Lisa Clarke, Executive Director, EDA; Community Engagement Division
Chair, Mayo Clinic Department of Public Affairs

Gary Smith, Olmsted County Resident
President, Rochester Area Economic Development, Inc. (RAEDI)

Wendy Wood, Rochester Resident
Senior Investment Manager at University of Minnesota Foundation Investment
Advisors

Srilatta Zaheer, Ph.D.
Dean, University of Minnesota Carlson School of Management

III. Destination Medical Center Activities to Date

A. Development Plan Process.

The DMCC, working collaboratively with the City, Olmsted County, the EDA and Mayo, has made a strong start in implementing the Act.

In September 2013, the DMCC established specific goals and objectives for the Destination Medical Center initiative and the Development Plan. Simply put, the goals for the project are to create a comprehensive strategic plan, and over the life of the project, to leverage \$585 million in eligible public funds in order to attract \$5 billion in private investment, create 35,000-45,000 new jobs, generate \$7.5 billion to \$8.5 billion in net new tax revenue, and achieve the highest quality patient, visitor and resident experience.

The creation of the Development Plan is the first step to accomplish these goals. It will be the strategic framework for the project, establishing a comprehensive business and economic development strategy. As described in the Act, the Development Plan must address several items, including land use, transportation and infrastructure planning, market research, funding priorities, business and economic development and market strategies.

To procure the required expertise for the Development Plan, the DMCC authorized the EDA to initiate a request for proposal process in the following areas: master planner, transportation planner, infrastructure planner, market consultant and economic fiscal consultant. The EDA issued the requests for proposals, received and reviewed the responses, and conducted interviews. Representatives of the EDA, DMCC, City and County participated in the interviews. Upon receiving the recommendations from the EDA, the DMCC approved a short list of respondents as qualified. The EDA is in the process of negotiating final terms with the successful respondents and the work is anticipated to begin in March 2014.

B. Financial Matters.

The DMCC approved its 2014 funding request and transmitted it to the City, along with the 2014 budget and workplan. The next step is for the City to consider the DMCC funding request, which is scheduled for February 19th. The DMCC has appointed Dale Martinson to act

as Assistant Treasurer to the DMCC. Mr. Martinson is the Director of Finance and Information Technology for the City. In addition, the City will act as fiscal agent for the DMCC.

On July 23, 2013, Olmsted County approved a wheelage tax and ¼% sales tax to support the County's portion of funding contemplated by the Act.

C. Community Outreach.

Ensuring that the community is a full participant in the Destination Medical Center initiative is a paramount concern. In November, the DMCC approved a community outreach plan for the Development Plan phase of the work that will be fully implemented throughout the year, and encourages maximum public engagement and participation. For the first part of 2014, the community outreach planning will involve establishing a design framework, and identifying and creating an inventory of resources and planning efforts in eight core focus areas. More than 80 residents have volunteered for teams that will develop a framework to gather information, opinions and suggestions. To date, there have been 200 meetings or public forums, events on social media and other outreach efforts. Over 100 volunteer ambassadors have been recruited to assist with outreach in the community. Information on the next public forum, scheduled to occur in late March or April, will be available on the DMCC website.

D. WMBE/Small Business Utilization.

The DMCC and City are committed to increasing opportunities for the growth of employment and WMBE/Small Business utilization. The Development Plan will have a specific focus on this priority, and will include strategies to ensure increased opportunities and growth.

In addition, the Act provides that for all public infrastructure projects, the City must make every effort to hire and cause the construction manager and any subcontractors to employ women and members of minority communities, and must establish goals for construction projects. The City is currently working on its plan to comply with the Act.

E. Websites.

The DMCC has established a website: www.dmccorporation.org. The website contains the regular meeting schedule, meeting agendas, minutes and other information on DMCC activities. The EDA has also created a website: www.dmcmmn.org which contains general information on the project, including information about the community outreach process. The City's website, www.rochestermn.gov, also has a link to the DMCC website.

F. DEED Agreement, Transit Aid Agreement.

In order to qualify for general State infrastructure aid, the Act requires that the City and the Commissioner of Department of Employment and Economic Development enter into an agreement that will govern the State funding. The City has taken the lead role in negotiating and drafting the agreement with DEED as well as an agreement with the County, and those discussions are underway.

IV. Specific Elements Required to Be Included in the Report

The Act requires that certain elements be included in this annual report. Some of what is presented here has been referenced above.

A. "The Development Plan and any proposed changes to the Development Plan."

As noted above, the primary work of the EDA in 2014 will be to prepare the Development Plan for submission to the DMCC and to the City. The draft Development Plan is anticipated to be submitted for consideration and approval in early 2015.

B. "Progress of projects identified in the Development Plan".

Because the work to prepare the Development Plan is just getting underway, there are no projects yet identified or approved in the Development Plan.

C. "Actual costs and financing sources, including the amount paid under Minnesota Statutes Section 469.47, and required local contributions of projects completed in the previous two years by the DMCC, City, Olmsted County and Mayo."

As noted above, because the Development Plan is just getting underway, there is nothing to report under this section.

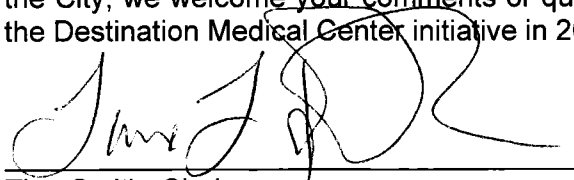
D. "Estimated costs and financing sources for projects to be started in the next two years by the DMCC, City, Olmsted County and Mayo."

Mayo Clinic has announced its first expansion related to the Destination Medical Center initiative: a \$72 million expansion of the St. Mary's campus. In addition, there has been significant third party interest from developers and other entities considering investment opportunities in Rochester. The Act requires that an annual certification of private investment by Mayo or other private investors be made to DEED by April 1 of each year.

E. "Debt service schedules for all outstanding obligations of the City for debt issued for projects identified in the plan."

As noted above, because the Development Plan is just getting underway, no projects have been identified or approved in the Development Plan.

Thank you for your consideration of this annual report. On behalf of both the DMCC and the City, we welcome your comments or questions. We look forward to substantial progress on the Destination Medical Center initiative in 2014.



Tina Smith, Chair
Destination Medical Center Corporation



Ardell Brede, Mayor
City of Rochester