



FACTORS INFLUENCING THE 2024-2025 BUDGET

April 24, 2023





Policy Considerations

1. Are there any specific programs or policy issues the Council would like evaluated as part of the two-year budget process?
2. Any policy feedback you want to help guide the process? Think about:
 - Service Levels
 - Priority Areas
 - Challenges
 - Opportunities



VISION, PRINCIPLES AND PRIORITIES



Strategic Priority:
Affordable Living

Areas of Focus

- Housing variety and affordability
- Transportation options and access
- Equitable regulatory landscape and creative incentives
- Access to opportunities and amenities

Strategic Priority:
Economic Vibrancy and Growth Management

Areas of Focus

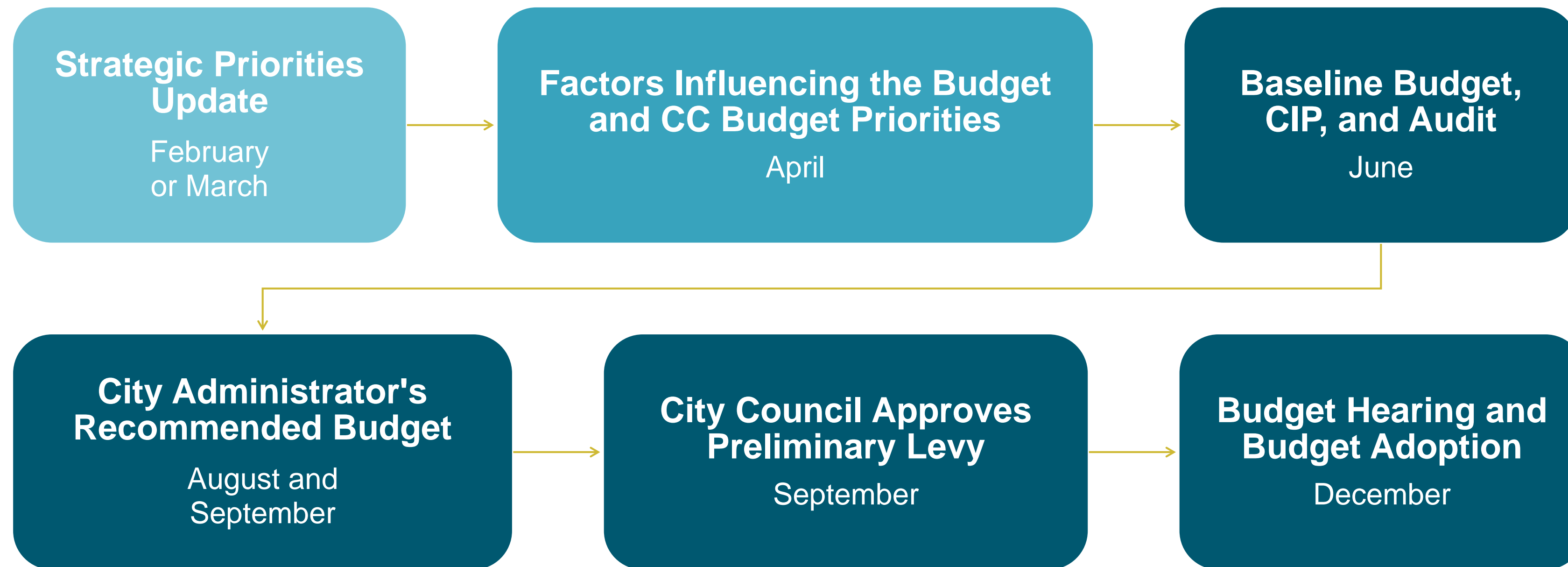
- Create clarity, alignment and unity with economic development partners in defining city leadership and community values
- Establish competitive and sustainable approach to effectively allocate DMC resources, Legislative allocations, and city revenue
- Develop implementation tools and strategies for Comprehensive Plan to ensure current decisions reflect future projections
- Adopt design guidelines that better reflect Council and community values

Strategic Priority:
Quality Services

Areas of Focus

- Cultural and Recreational opportunities that provide access and equity
- The organization and Services reflect changing demographics and needs identified by community
- Operations are sustainable, integrated, and easy to navigate
- Service delivery is optimized, cost effective, and reflect our Foundational Principles

2024-2025 Budget: Key City Council Engagement Points



Budget Documents:

<https://www.rochestermn.gov/government/departments/finance-information-technology/reports/current-budget-summary-cip/2023-supplemental>



2024-2025 Strategic Priorities and Action Plan

Strategic Priorities

Strategic Priority:
Affordable Living

Strategic Priority:
Economic Vibrancy and
Growth Management

Strategic Priority:
Quality Services

Key goals based on Council discussion

1

Construct market rate and affordable owner occupied housing.

2

Invest in public realm to advance:

- Economic Vibrancy
- Resident Experience
- Visitor Experience
- Talent Attraction

3

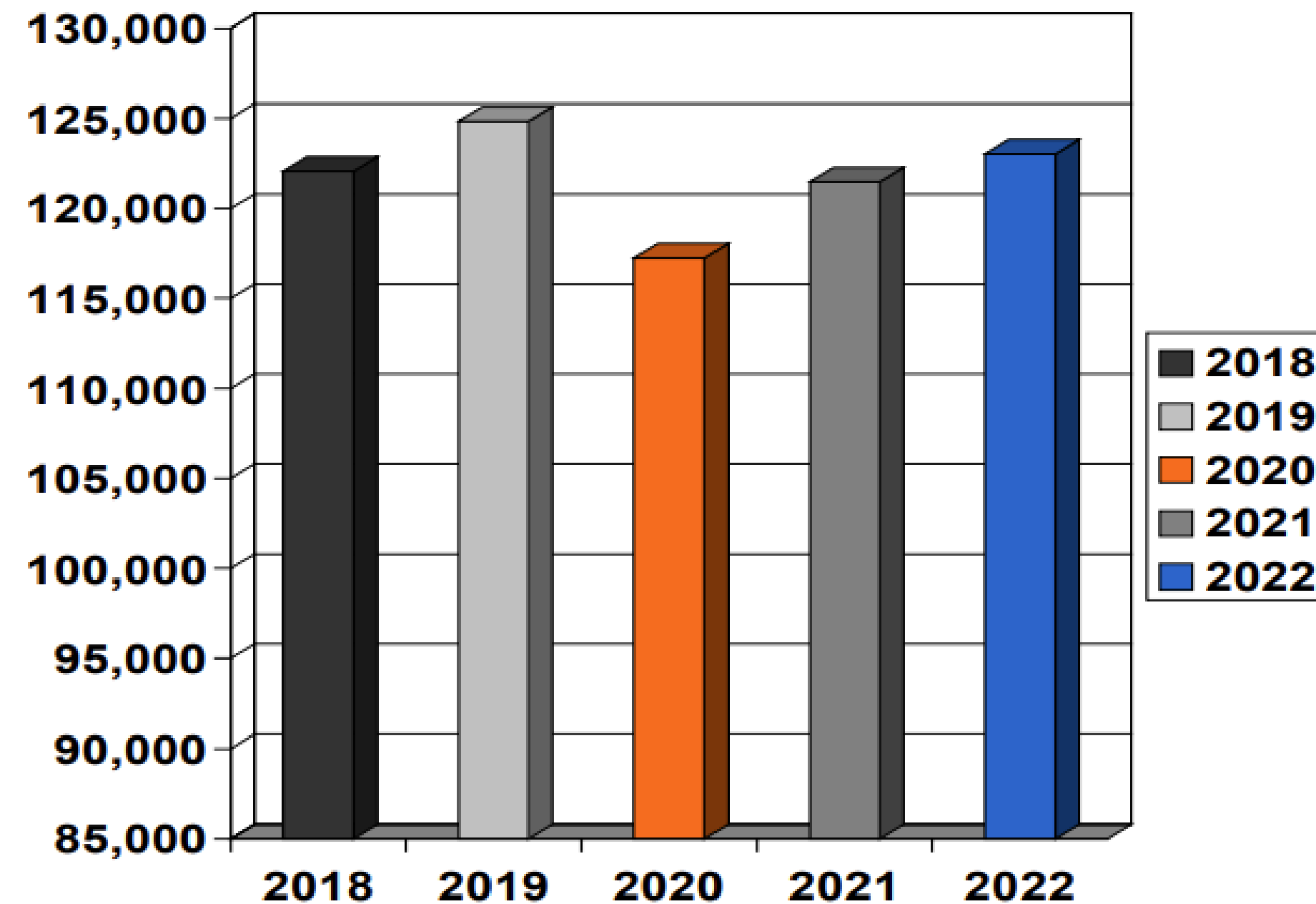
Develop a transition plan for post 2030 power supply needs.





Economic Indicator-Employment

- Total nonfarm employment was up at the end of 2022 showing improvement from 2020 and 2021, but not back to pre-pandemic levels



- Rochester's unemployment rate at the end of 2022 was 2.5% which is up 0.2% from the prior year, but below state and U.S. averages



Economic Indicator - Building Permit Valuations

2022 permit valuation totals **were up 7.9%** from 2021

Commercial and Residential Annual Building Permits Past 5 Years

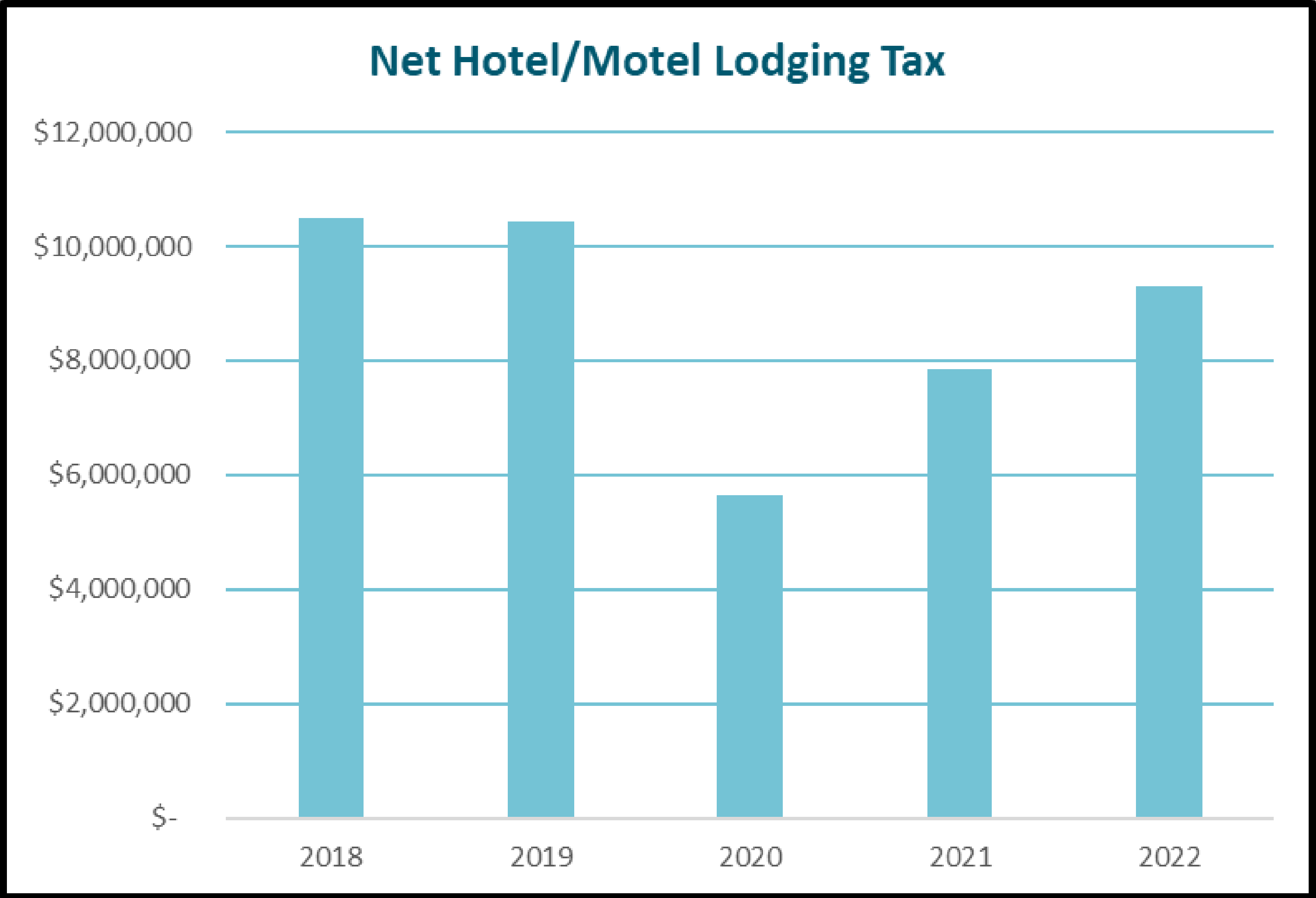
	<u>Valuation</u>	<u>Total Permits</u>
2022	\$562,379,893	2,205
2021	\$521,166,413	2,254
2020	\$366,671,424	1,970
2019	\$483,468,201	2,270
2018	\$587,794,238	2,305

Source: *Building Safety - City of Rochester*



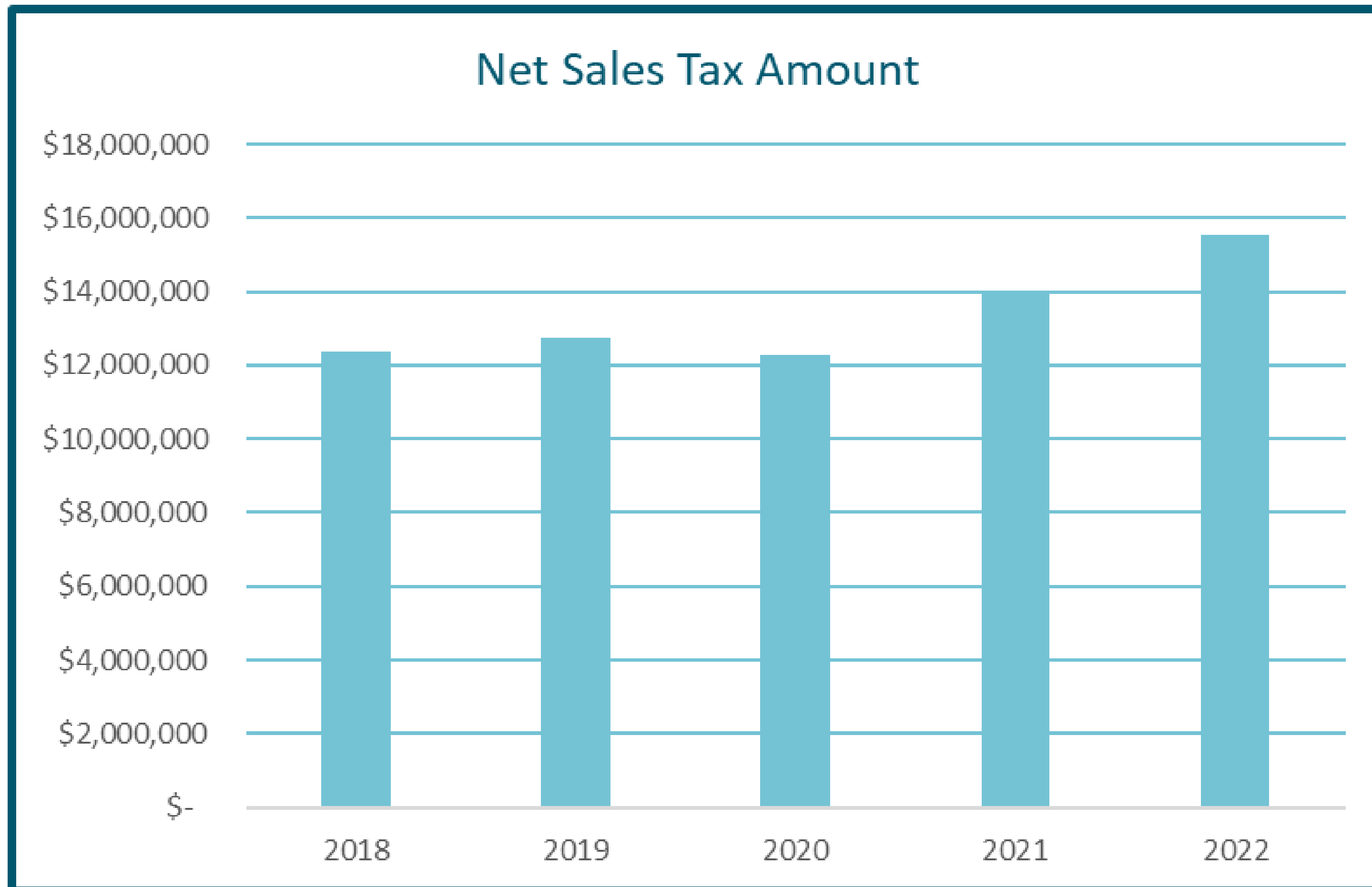
Economic Indicator - Net Lodging Tax

Net Hotel/Motel Lodging Tax	
Year	Annual Amount
2018	\$ 10,501,152
2019	\$ 10,439,911
2020	\$ 5,647,316
2021	\$ 7,837,773
2022	\$ 9,315,539





Economic Indicator - Net Sales Tax



Net Sales Tax	
Year	Amount
2018	\$ 12,370,630
2019	\$ 12,757,101
2020	\$ 12,262,842
2021	\$ 13,950,484
2022	\$ 15,540,090





Preliminary Estimated Market Valuation

- **Pay 2024 Property Valuation Growth: Preliminary estimates:**

New Construction	1.6%
Valuation Adjustment	<u>4.4%</u>
Total Growth In EMV	6.0%

- **Valuation drives how local levies are allocated and do not automatically translate into property tax increases.**
- **Local levy decisions determine each properties final property tax amount.**
- **Taxes can shift among property classes, which will likely happen in the next few years.**



Preliminary Estimated Market Value: Residential

- **Preliminary** summary of assessment year 2022 data indicates large residential increases in estimated market value (EMV)

Assessment Year 2022 Preliminary Summary

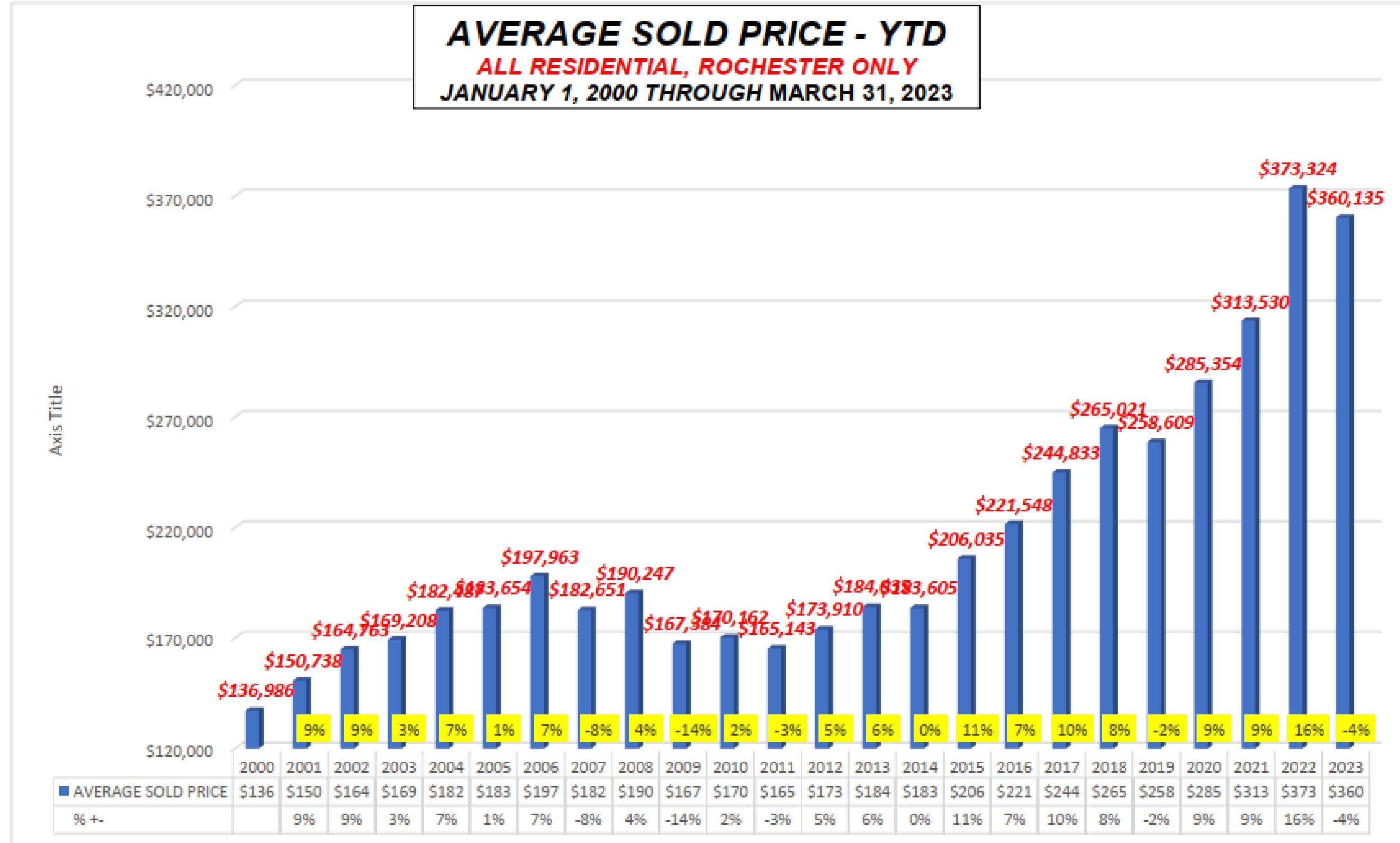
	AY 2021	AY 2022
TOTAL TAXABLE MARKET VALUE	\$21.02B	\$24.68B
TOTAL TAXABLE NEW CONSTRUCTION	\$293.1M	\$436.2M

CITY OF ROCHESTER - RESIDENTIAL

QUADRANT	% CHANGE	AVERAGE EMV	# OF PARCELS
NE ROCHESTER	12.43	\$ 334,900	5,368
CENTRAL ROCHESTER	17.09	\$ 233,900	6,111
NW ROCHESTER	14.67	\$ 273,800	15,631
SW ROCHESTER	13.13	\$ 395,800	6,548
SE ROCHESTER	15.60	\$ 244,000	4,423
CITYWIDE	14.33	\$ 293,500	38,081



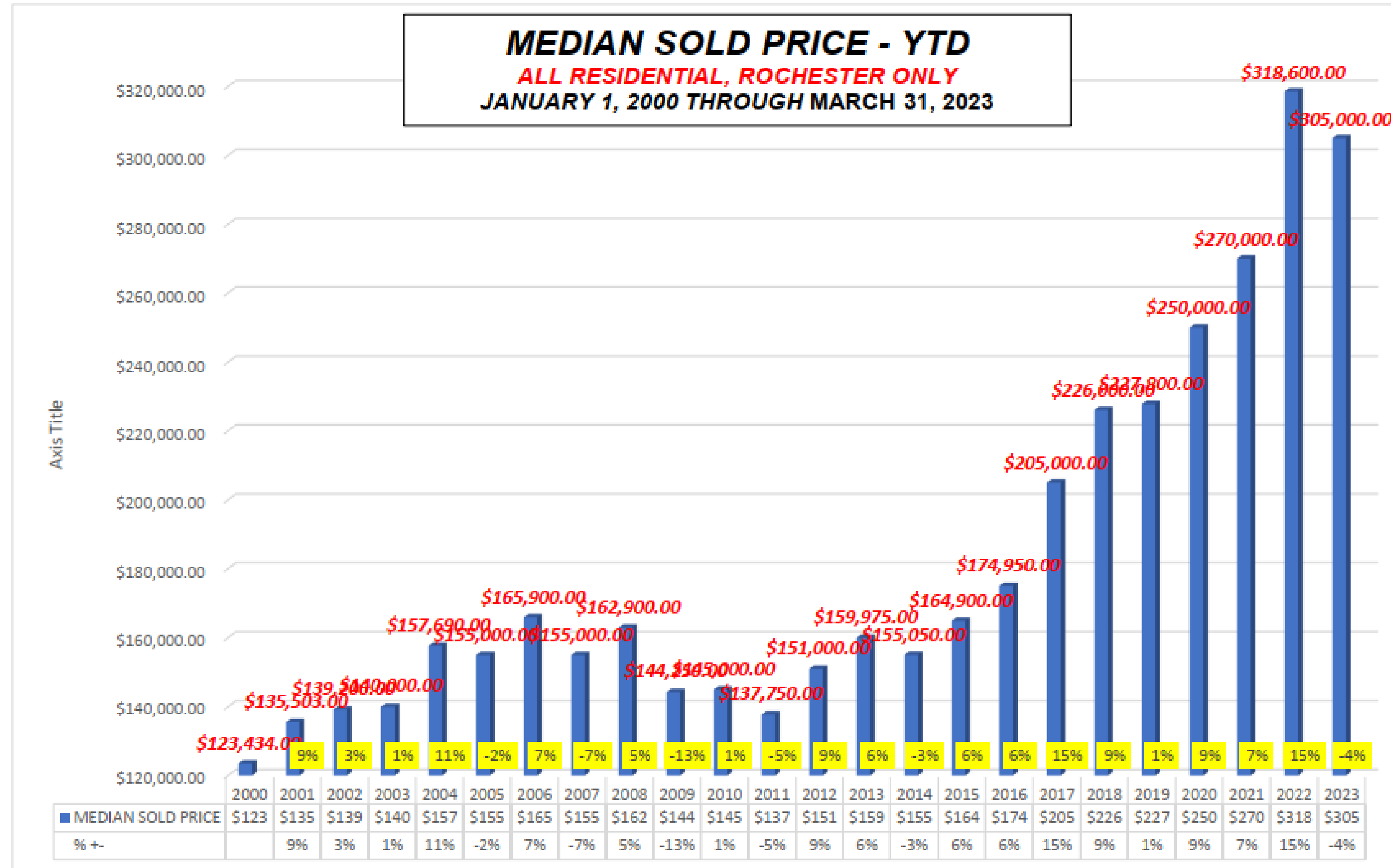
Homes Average Sold Price - YTD



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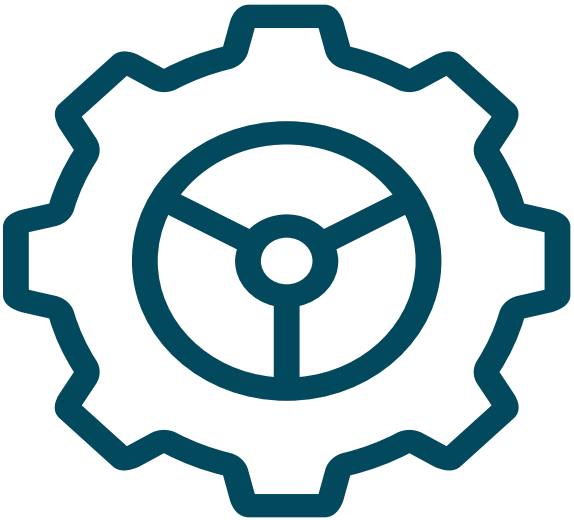
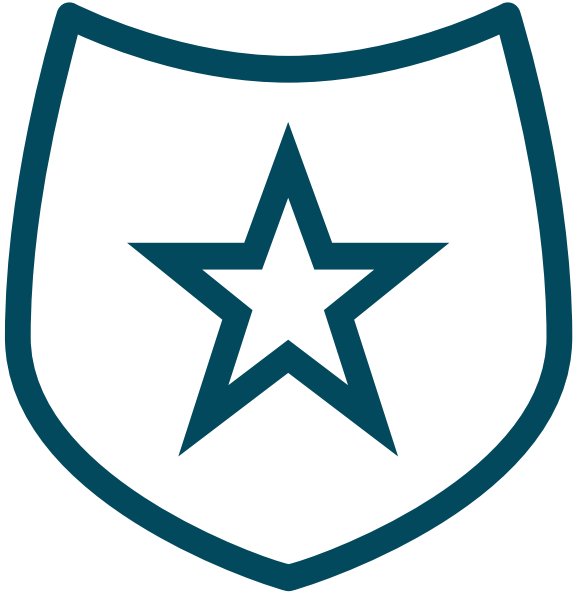
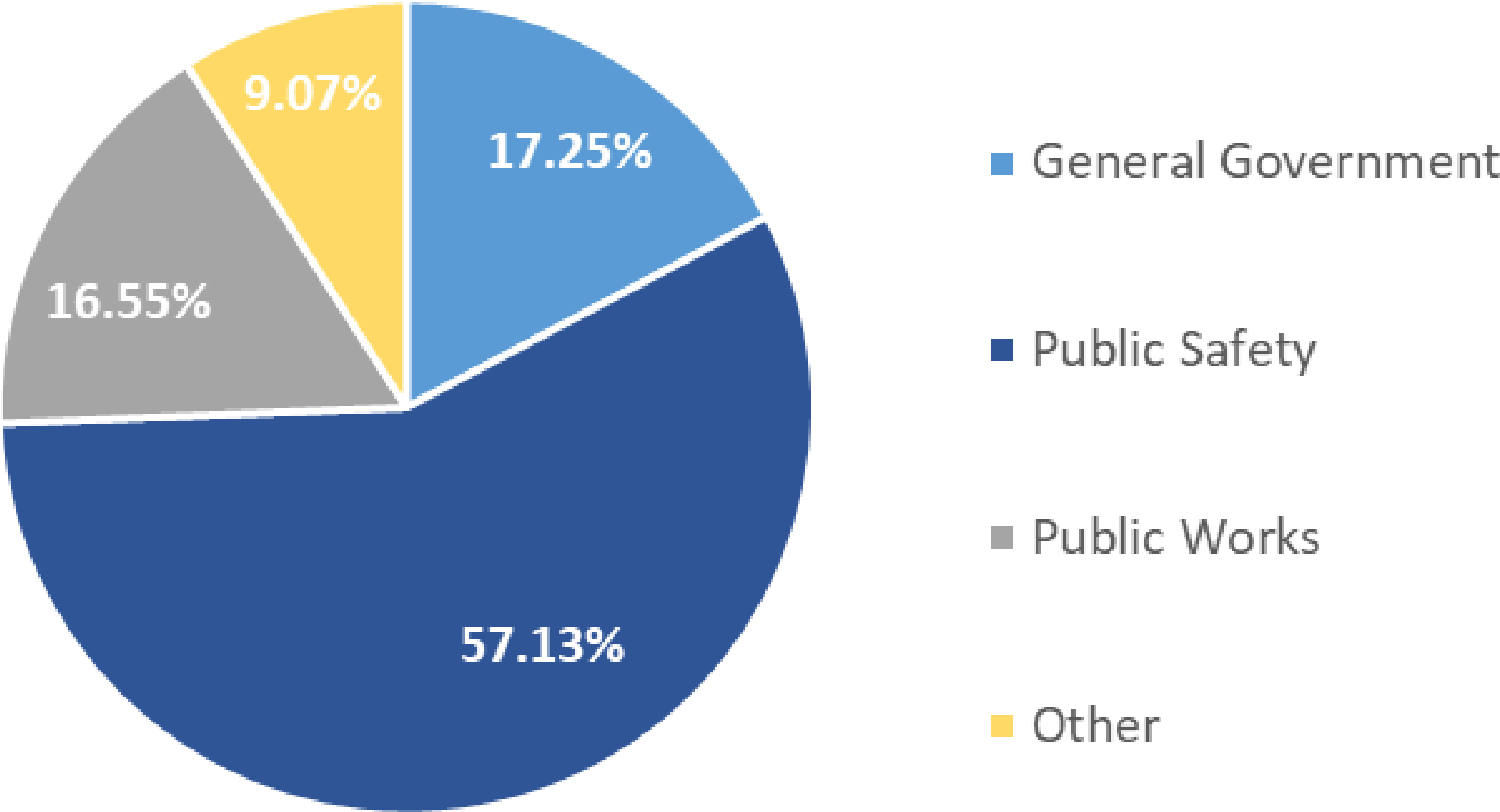
Homes Median Sold Price - YTD



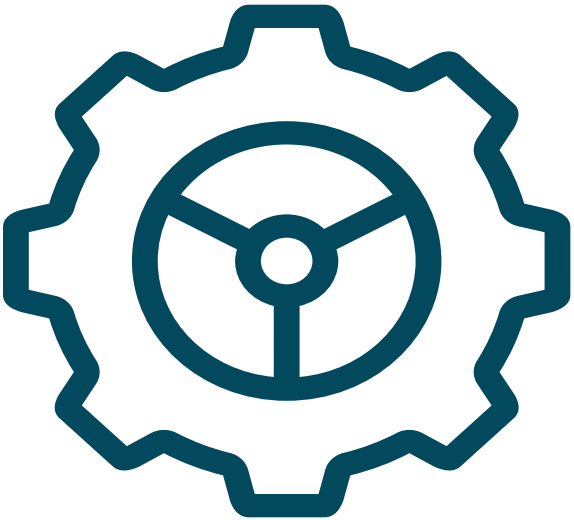
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2023 Adopted Budget

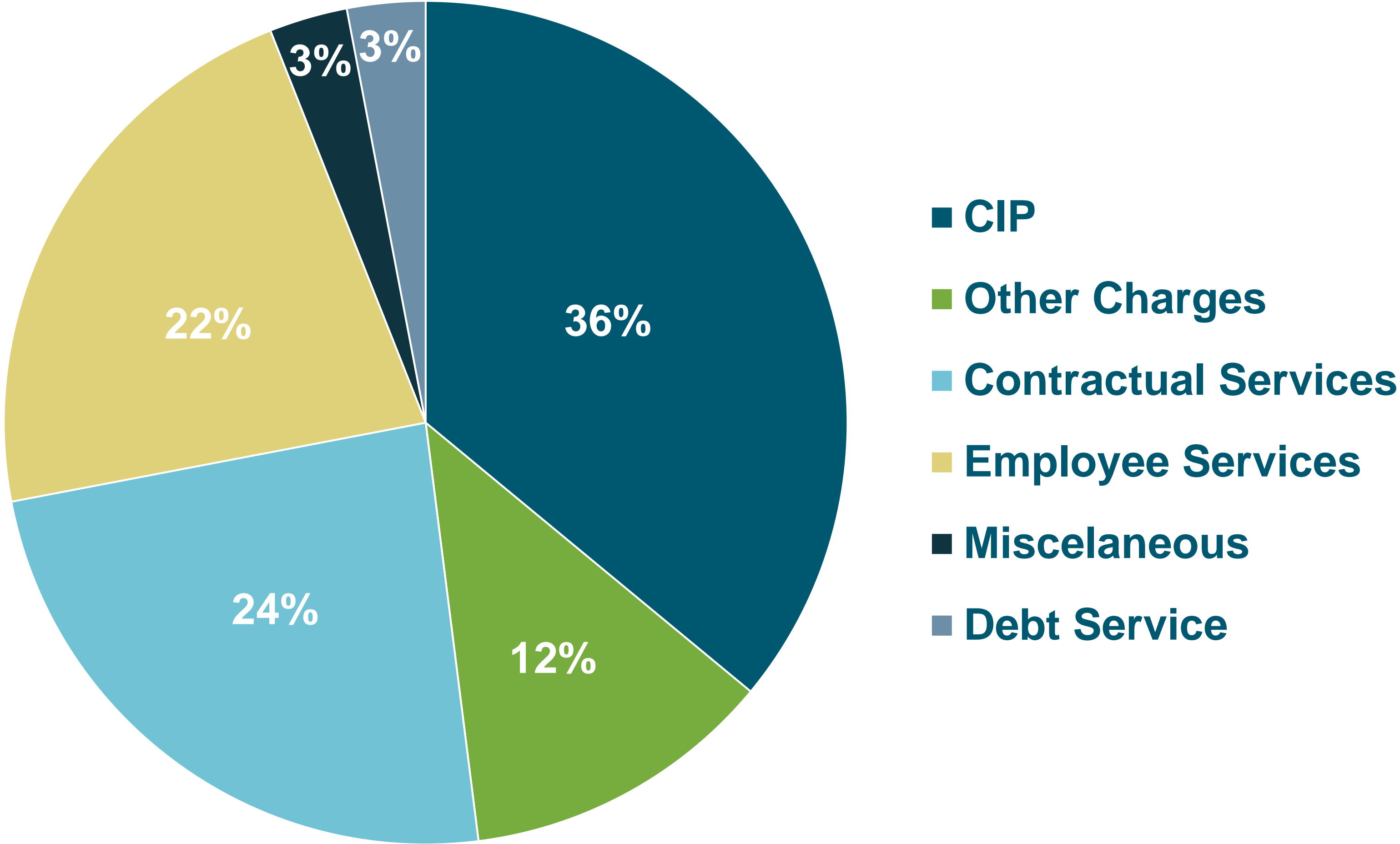
General Fund Expense
\$105,343,869



2023 Adopted Budget

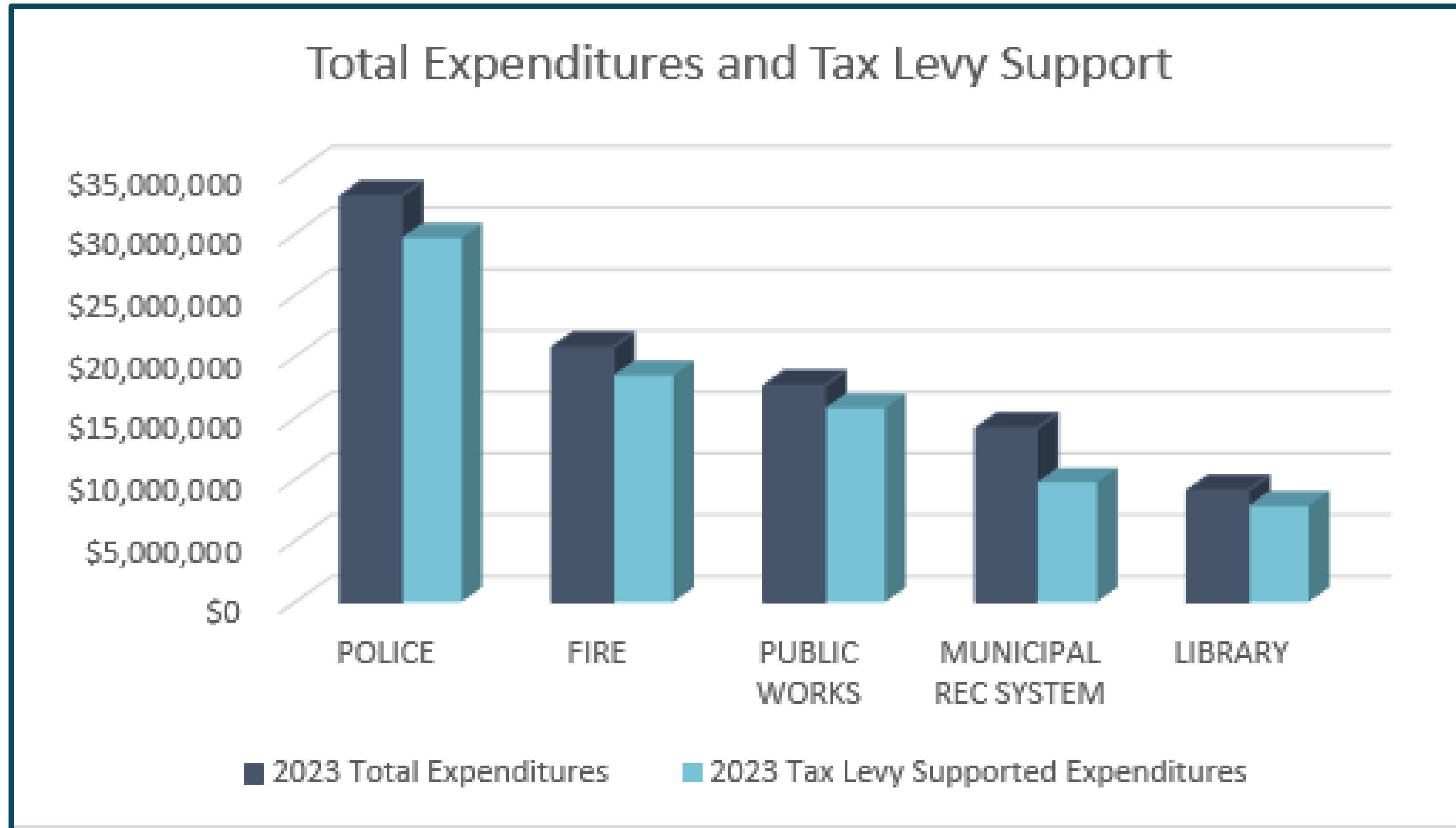


2023 Adopted Budget of \$600.9 Million





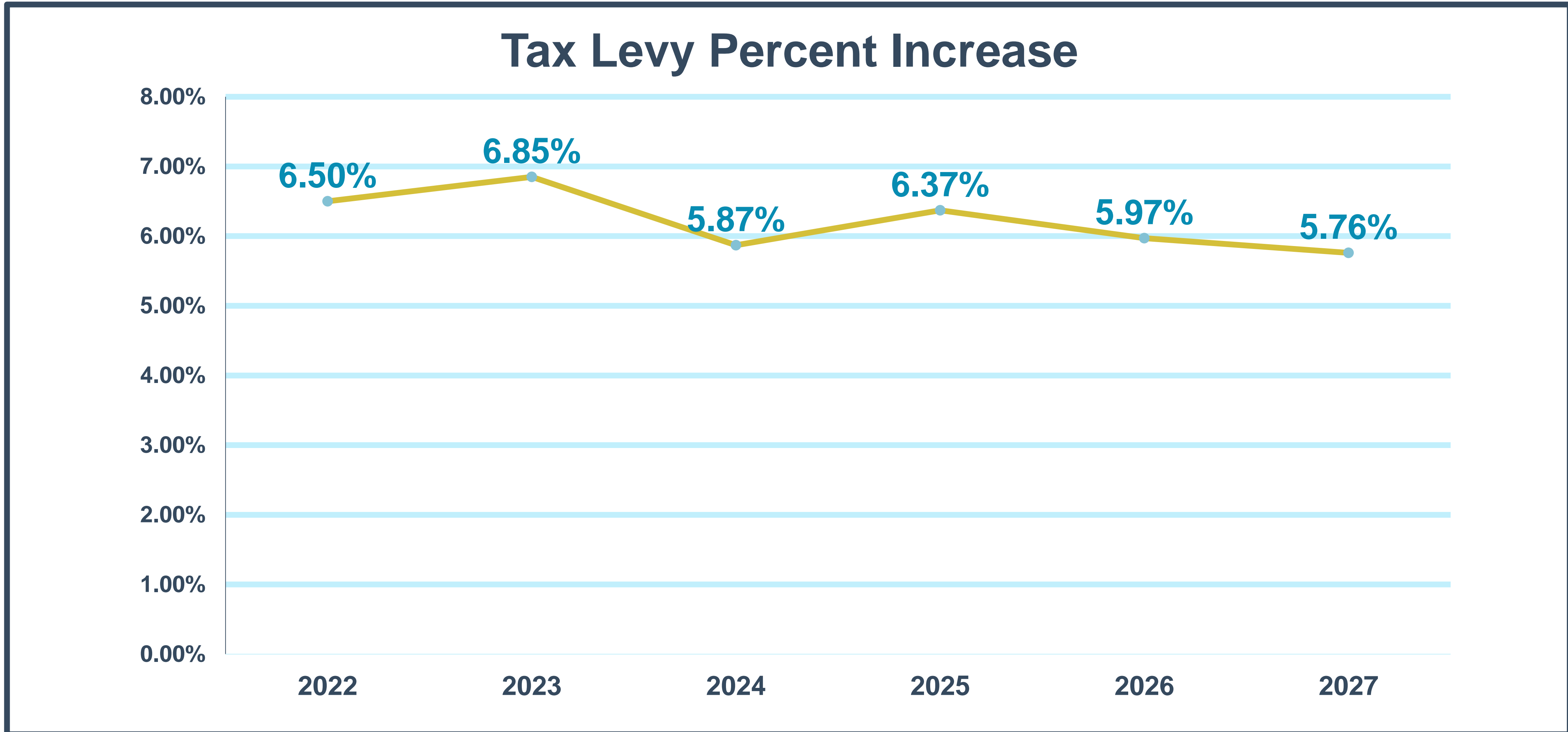
2023 Total Expenditures and Tax Levy Support





Long-Range Financial Management Plan

Forecasted Levy Increases - Sustains Current Service Levels Only





Long Range Financial Management Plan: What is Different Since Budget Adoption?

1. Employee services projections do not reflect open or settled labor contracts for 2024 or 2025.
2. The impact of inflationary pressures on material costs, fuel, utilities and related expenses not fully reflected.
3. Vehicle and fleet replacement costs are significantly ahead of projection.
4. Facilities fund replacement of \$800,000 reflected as one time and not included in the projection.
5. Software maintenance costs are trending higher.
6. Public safety workers compensation and related costs not included.
7. Debt levy for downtown building energy transition not included.
8. Investment income has been higher than projected.
9. 2020/2021 street light project not realizing projected savings.



Six Year Forecast –

Holistic Budget Stability Fund Support

This is one-time funding moderating levy increases allowing us to catch up from reduced revenue, \$7M in unsustainable operating reductions, a 0% levy in 2021 and \$721,000 in reserve utilization.



Budget Stability Funding

- 2022 - \$1,467,446
- 2023 - \$2,368,028
- 2024 - \$1,427,500
- 2025 - \$ 713,750
- 2026 - \$ 285,500
- 2027 - \$ 0

Local Government Aid Uncertainty



2022 CERTIFIED
LGA \$6,372,634



2023 CERTIFIED
LGA \$3,958,994

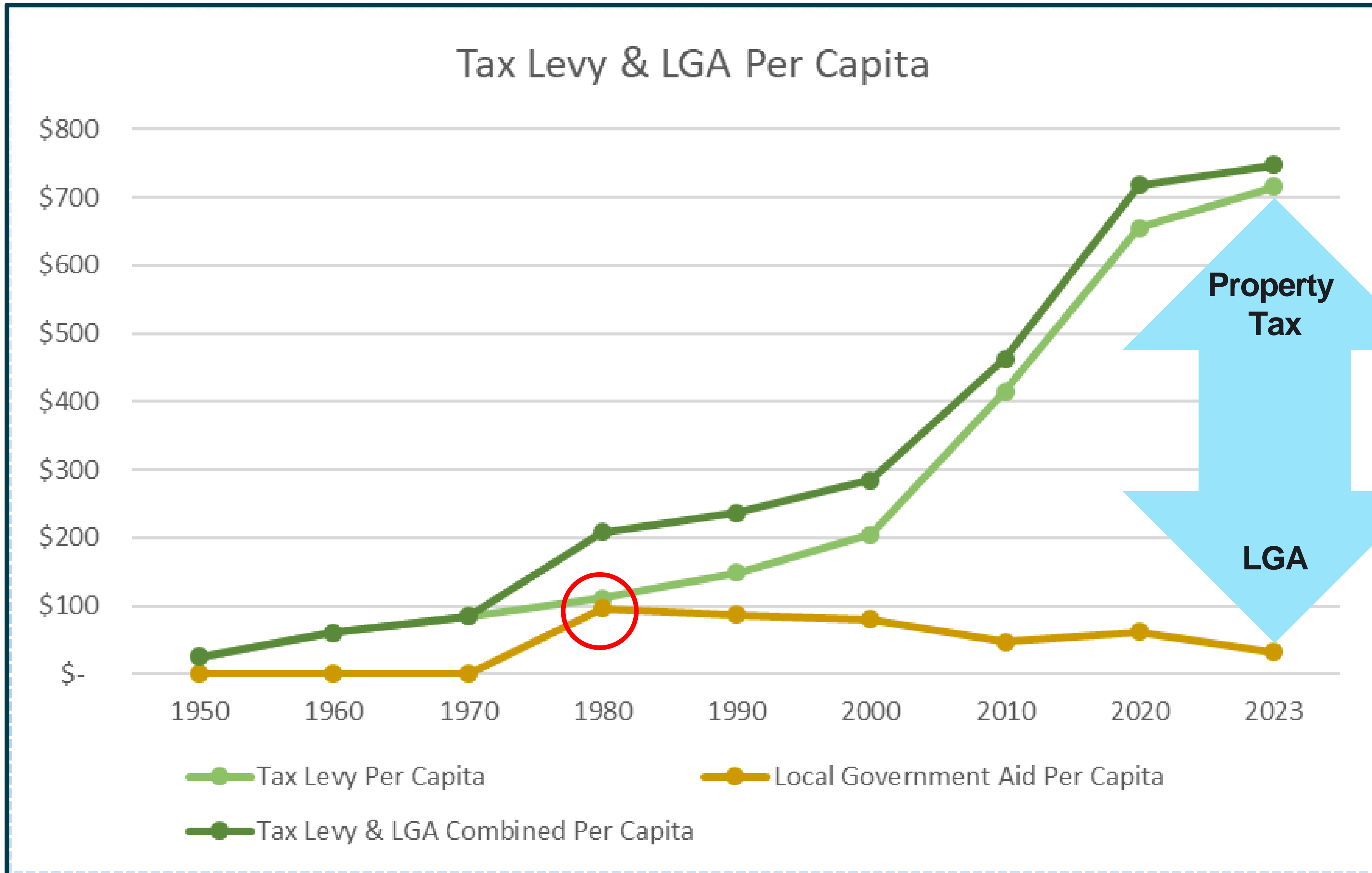


2024-2025 LGA
?
INCREASE BEYOND 2023 AMOUNT
PROPOSED FOR ONE TIME USES





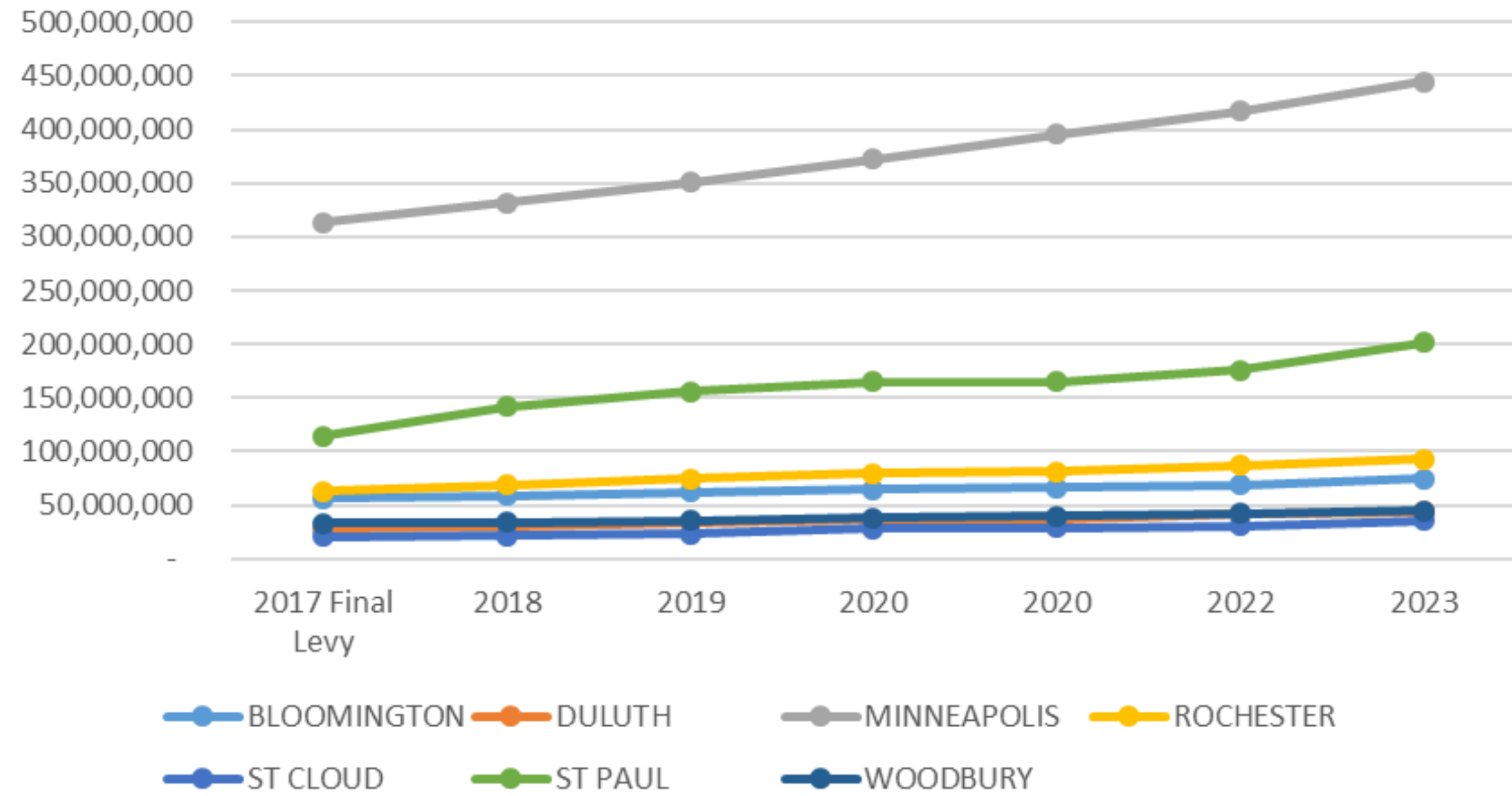
Tax Levy and LGA Per Capita Decade Trends



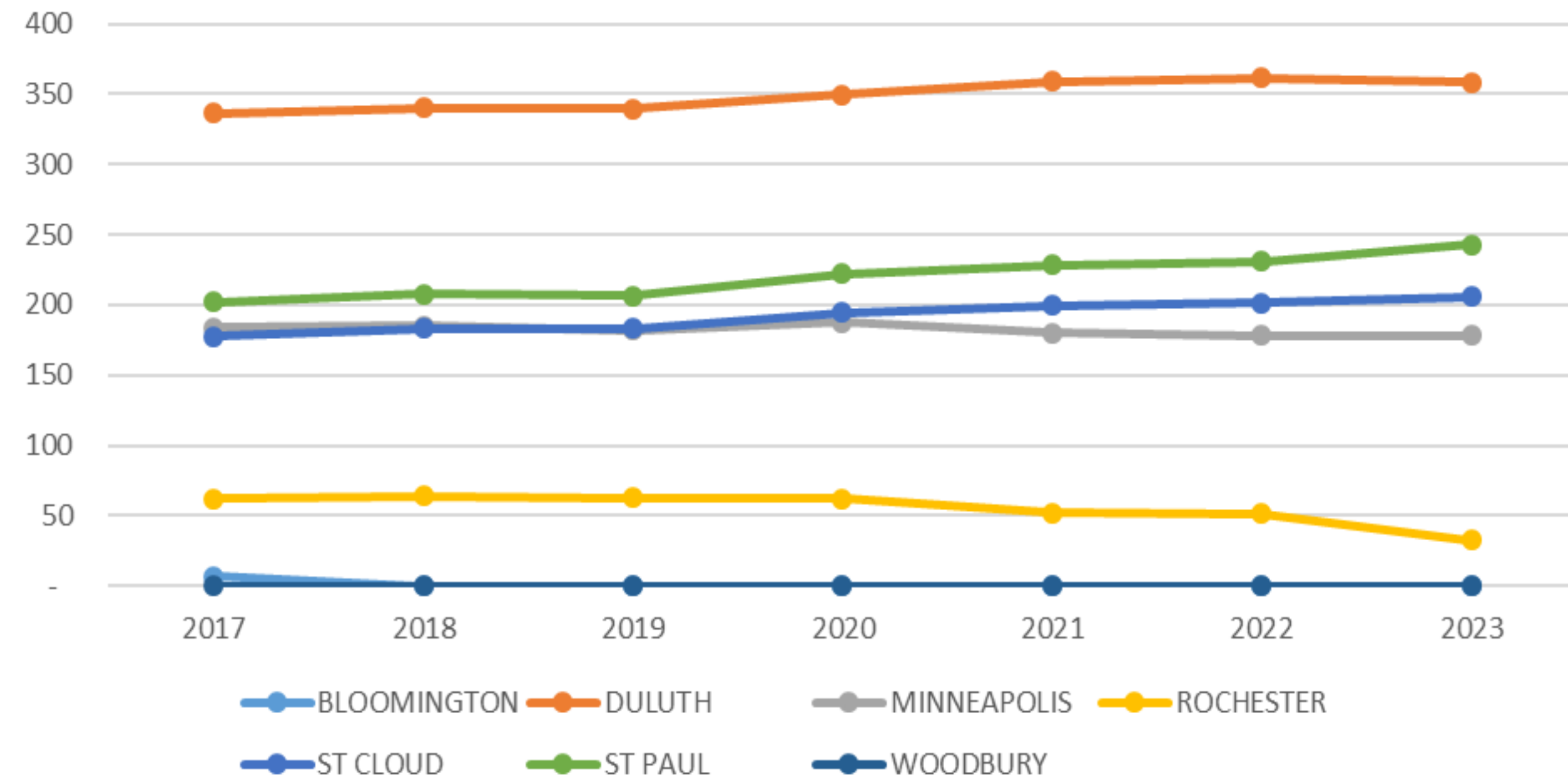


Tax Levy and LGA Per Capita Benchmarking

Tax Levy



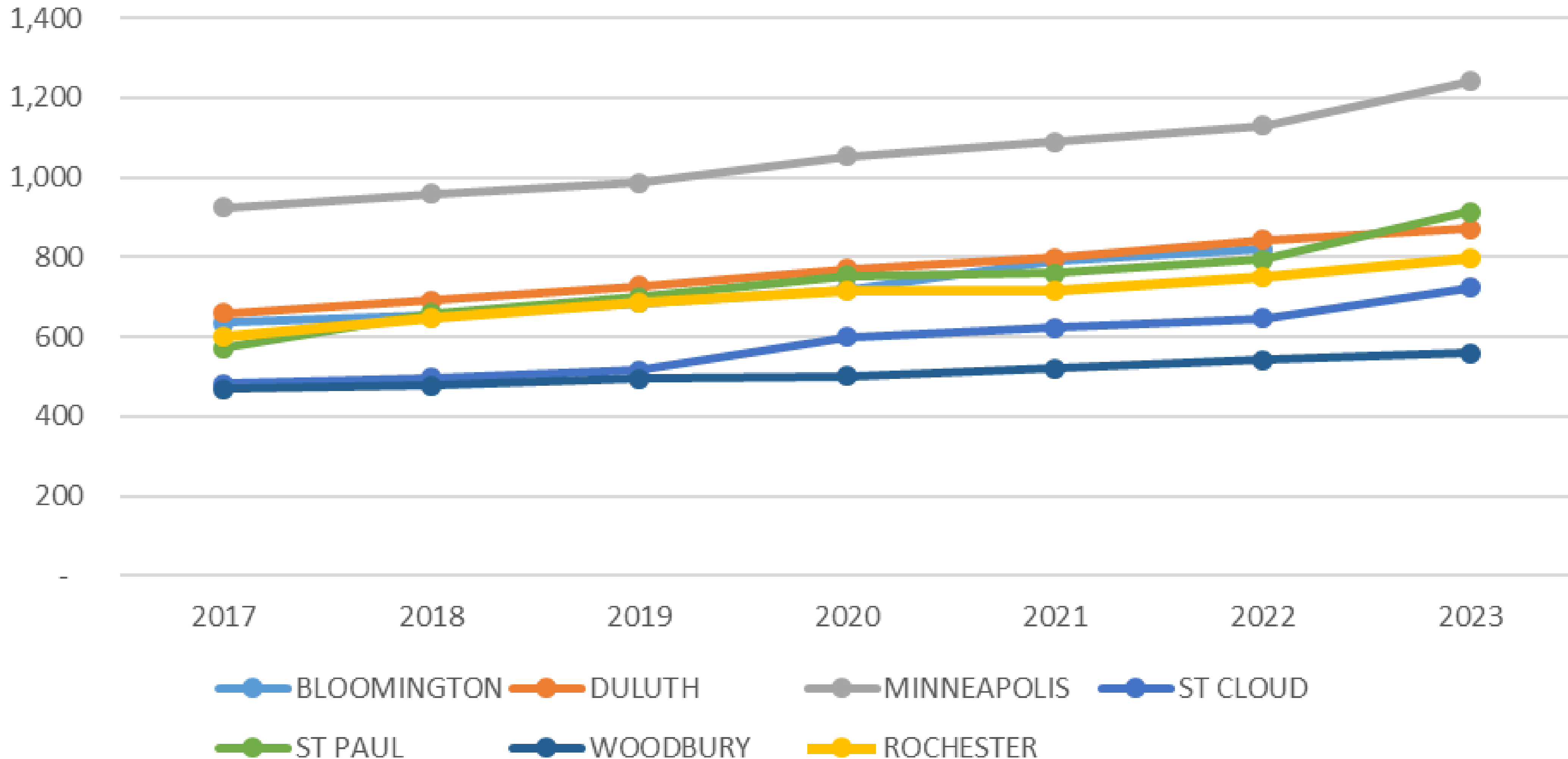
LGA Per Capita





Tax Levy and LGA Per Capita Benchmarking

Tax Levy and LGA Per Capita





Benchmark Cities – Service Profiles

SERVICE	ROCHESTER	MINNEAPOLIS	ST. PAUL	DULUTH	ST. CLOUD	BLOOMINGTON	WOODBURY
AIRPORT	YES	NO	NO	YES	YES	NO	NO
LIBRARY	YES	NO	YES	YES	YES	NO	NO
WASTEWATER	COLLECTION AND TREATMENT	COLLECTION	COLLECTION	COLLECTION AND TREATMENT	COLLECTION AND TREATMENT	COLLECTION	COLLECTION
TRANSIT	FULL SERVICE	N/A	N/A	FULL SERVICE	FULL SERVICE	N/A	N/A
ELECTRIC	YES	NO	NO	NO	NO	NO	NO
REGIONAL PARKS	YES	NO	NO	YES	YES	NO	NO

Revenue Notes for Levy Supported Operations

- **LGA Uncertainty**
- **Lodging Tax:** Still recovering, but not at 2019 levels. Projections below provided by Jones Lange LaSalle (JLL).

City of Rochester Hotel Tax Six-Year Projection								
Revised Q1 2023								
Year	Market Occupancy	Annual ADR	Rooms in Market	Hotel Rooms Revenue	Hotel Tax Rate	Hotel Tax Collected	Hotel Tax Into Operating Budget	% Change from YE 2021 Update
<i>Original 2020</i>	49%	\$ 94	5,250	\$ 88,262,475	7%	\$ 6,178,373	\$ 3,530,499	
<i>Revised Q4 2020</i>	38%	\$ 107	5,450	\$ 80,882,905	7%	\$ 5,661,803	\$ 3,235,316	
2021	45%	\$ 107	5,500	\$ 96,661,125	7%	\$ 6,766,279	\$ 3,866,445	
2022	53%	\$ 109	6,405	\$ 134,193,119	7%	\$ 9,393,518	\$ 5,367,725	9%
2023	54%	\$ 115	6,296	\$ 141,651,186	7%	\$ 9,915,583	\$ 5,666,047	15%
2024	55%	\$ 117	6,296	\$ 147,878,874	7%	\$ 10,351,521	\$ 5,915,155	20%
2025	57%	\$ 120	6,500	\$ 162,279,000	7%	\$ 11,359,530	\$ 6,491,160	31%
2026	57%	\$ 122	6,650	\$ 168,790,965	7%	\$ 11,815,368	\$ 6,751,639	36%

Expense Trends



CITY OF
ROCHESTER
MINNESOTA

- **Step and Salary Adjustments:** Being evaluated as we finalize collective bargaining.
- **Health and Dental:** On trend with approved budget.
- **Fixed Service Contract Renewals:** Inflationary Adjustments-Some Significant.

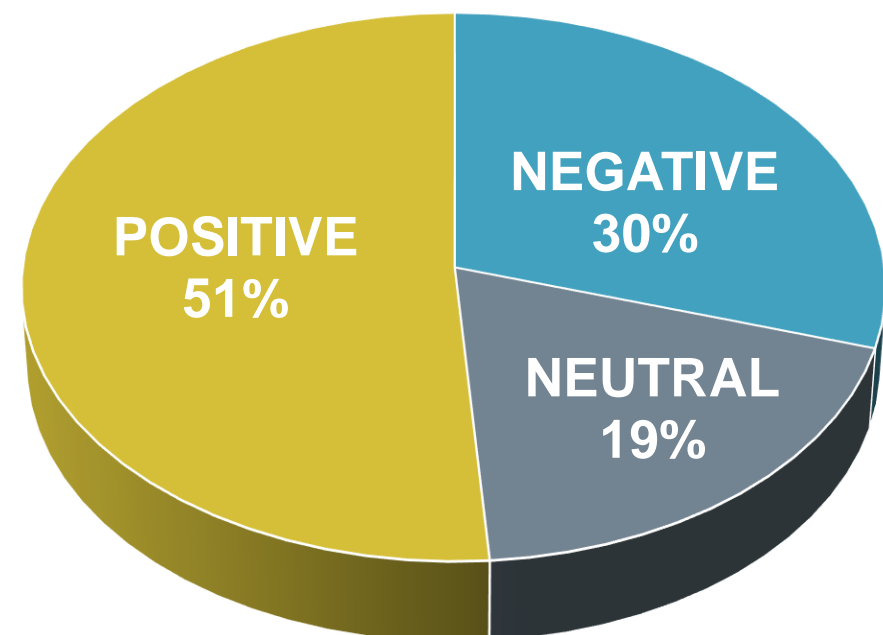


Teammate Pay & Benefits Satisfaction

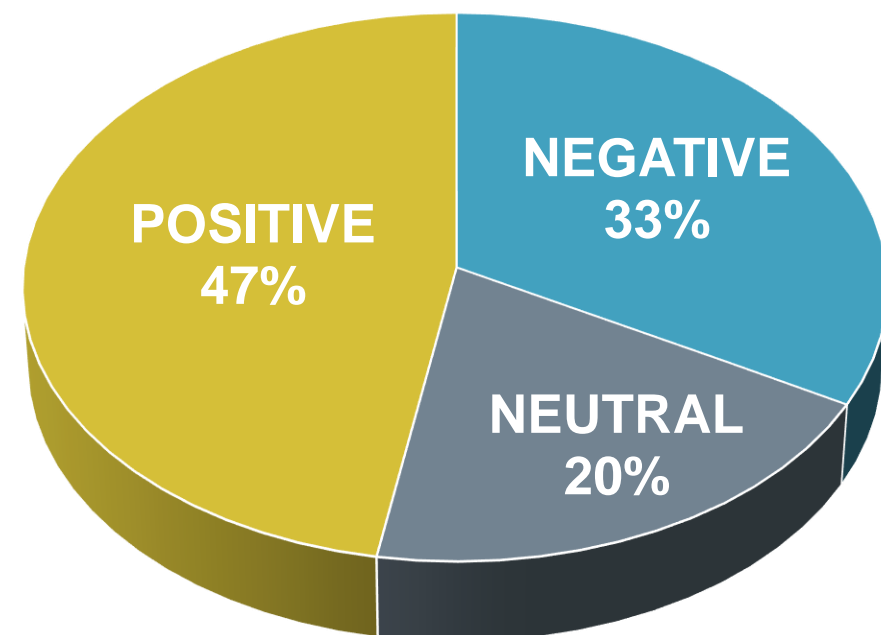
Questions	Negative	Neutral	Positive	Mean	Weight	Gap*
1. I am paid fairly for the work that I do	29.70%	19.10%	51.20%	3.24	14	-19
2. Compared to people doing a similar job in other government organizations, I feel my pay is reasonable	33.10%	19.70%	47.30%	3.16	10	-16
3. I feel that my pay adequately reflects my performance	32.80%	22.70%	44.50%	3.13	13	-16
4. I am satisfied with my total benefits package (e.G., Retirement, health insurance)	24.50%	20.80%	54.70%	3.36	20	-16
5. I am satisfied with my employment conditions (e.G., Vacation or leave options, flexible work arrangements)	14.40%	12.80%	72.80%	3.74	43	-7

*Gap compared to scores from 2019 - negative gap indicates scores went down in 2022

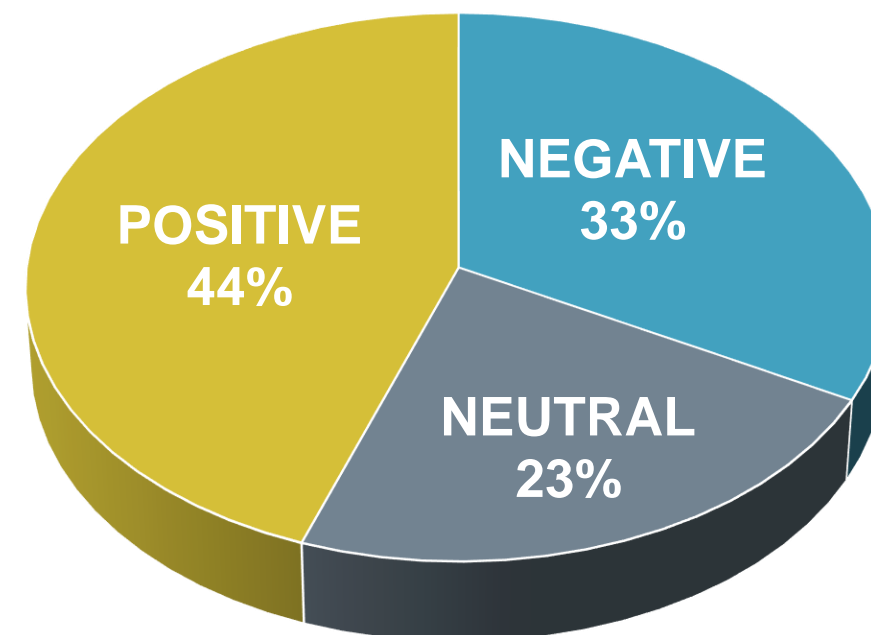
1. I am paid fairly.



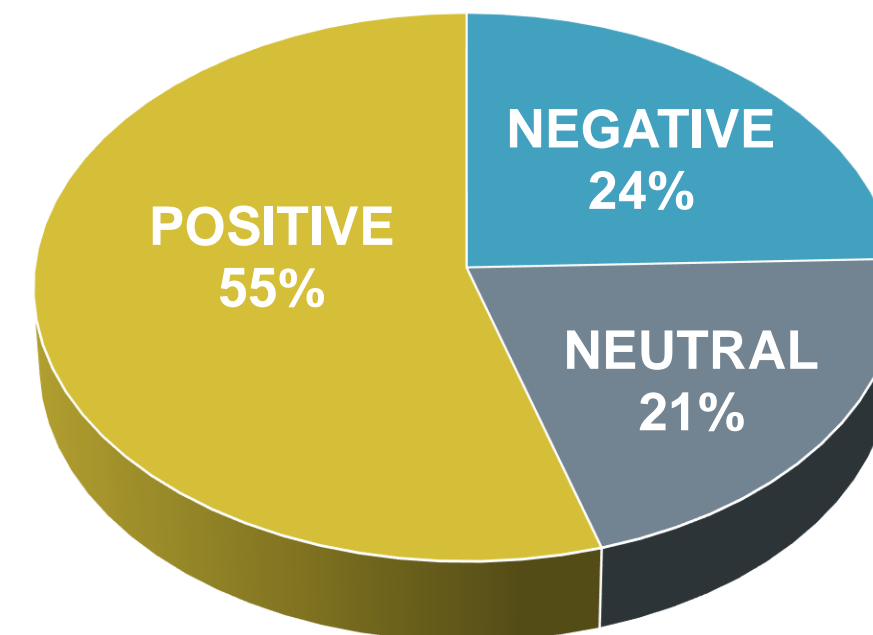
2. Pay compared to others.



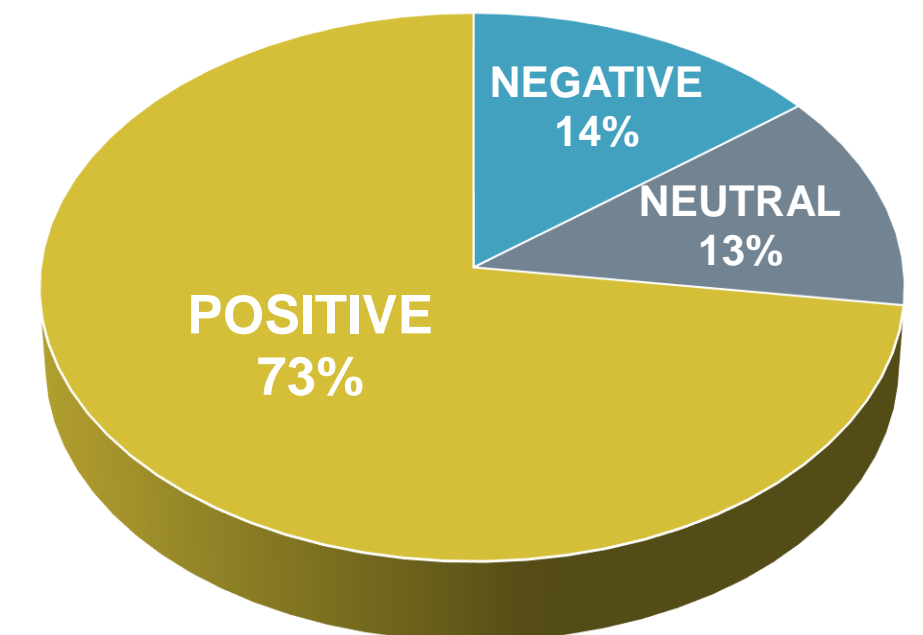
3. Pay reflects performance.



4. Satisfied with benefits.



5. Satisfied with conditions.



Expense Trends Continued

- **Inflation-** Inflation is moderating but we are still noticing impacts to the cost of construction, purchased services, and related items. Current inflation from March 2022 to March 2023 is 4.9% (Midwest Consumer Price Index). Construction material pricing is still challenging.
- **Travel and Training-** Restoring pre-pandemic levels of funding.

Expense Trends Continued

- **Other Variables:**

- Final allocations for outside agencies
- New bonding rating evaluation criteria around cybersecurity readiness and environmental, social, and governance considerations.
- Paid family leave requirements being adopted by the state.



Infrastructure Liabilities



Streets



Flood Control System



Facilities

Infrastructure Liabilities



Sidewalks

Recommendation if Local Option Sales Tax is Approved

Flood Control System

Local Option Sales Tax

Streets

Tax Levy

Assessments (based on parcel value)

Local Option Sales Tax

Sidewalks

Tax Levy for ADA acceleration and Sidewalk Improvement District



Recommendation if Local Option Sales Tax is Not Approved

Flood Control System

Tax Levy (increase needed to address non-storm water related costs)

High Level Storm Water Rates & Fees (increase rate \$2.00/mo residential & \$17.00/mo commercial; \$1.6 million/yr)

Flood Control Funds in reserve currently estimated to run out in 2027.

Streets

Tax Levy (\$20 million or 21.6% increase needed to address annual funding gap)

Assessments (based on parcel value)

Natural Gas Franchise Fees (enact 5% fee)

Sidewalks

Sidewalk Improvement District (Implemented)





Other Funds

- **Equipment Revolving** – Significant vehicle /equipment price escalations will require additional investment. We currently have \$7.7 million in eligible replacement and a fund balance of \$8.5 million.
- **Workers Compensation Fund** –
Surcharging the Police and Fire budgets is being evaluated given the significant escalation in duty related disability claims. Wellness needs are also being evaluated



EXAMPLE:

REPLACING A 2013 SNOW PLOW

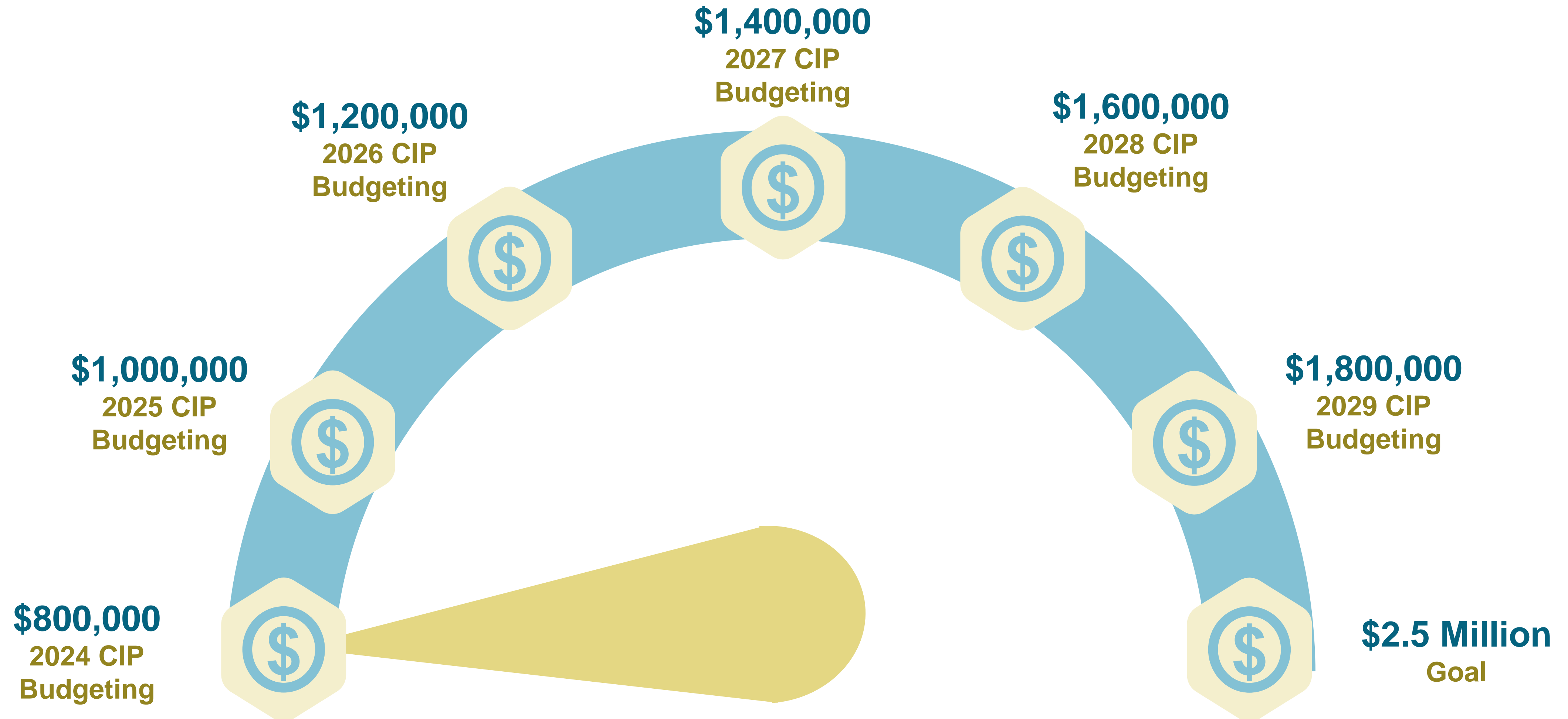
ORIGINAL PROJECTED REPLACEMENT COST AND REPLACEMENT RESERVE	\$198,165 PLUS \$30,000 IN TRADE
2023 PROJECTED REPLACEMENT COST	\$383,790



Other Funds

Facility Renewal – Addressing Deferred Facility Maintenance

- Projected **annual need** of \$2.5 million with phased funding starting in 2023.



2024-2029 Capital Improvement Plan

1. The Council will receive a recommended version of the CIP in June.
2. Tax Levy supported requests for 2024 were **\$17,239,663** with a target of **\$8,556,480**.
3. Tax Levy supported requests for 2025 were **\$14,438,790** with a target of **\$8,804,174**.
4. ADA pedestrian ramp funding and golf funding are included in the working version.

Recommended Capital Improvement Plan
To be presented in June

2024

Requests: \$17.24 M

Target: \$8.56 M

2025

Requests: \$14.44 M

Target: \$8.80 M





2024-2029 Capital Improvement Plan

Revise the downtown building energy transition recommendation.

- **Existing recommendation:** Project supported by City Council and Capital Budget adopted amount of \$15.6 million; \$7.0 million funded by Holistic Budget Stability Funds plus \$8.6 million of General Obligation Bond funds. With a projected annual debt service amount of \$625,000.
- **Proposed:**
 1. Issue \$13.2 million General Obligation Bond funds with an estimated annual debt service amount of \$1.0 million
 2. Reallocation of Holistic Budget Stability funding to Capital Improvement Plan budget for **Enterprise Resource Planning and Financial Software Transition** and **Recreation Center Roof replacement**.



2024-2029 Capital Improvement Plan

Enterprise Resource Planning and Financial Software Transition

One-time total project cost: **\$5,550,000**

On-going annual cost: **\$336,081**

1. Action Plan indicates transition away from current software (JDE) which has a declining support model.
2. Transition to new software, enhancing:
 - Data & Evidence Based Decisions
 - Efficiency
 - Data Security
 - Customer Service
 - Asset Management
3. Integral to our strategic goal of Fiscal Responsibility and Sustainability.

Recreation Center Roof Replacement

Estimated total project cost: **\$2,500,000**

- Multiple roof sections are beyond useful life. Need replacement to protect against water intrusion that damages asset and decreases it's useful life.





Other Issues: Rethinking Lodging Tax

Proposed prioritization for use of Lodging Tax funds (amounts are approximations):

1. Annual Debt Service Fund for 2015 Mayo Civic Center Expansion = **\$4M**
2. Experience Rochester's (ER) support for operations (increase for "civic") of Mayo Civic Center = **\$4M** (with an annual increase for inflation)
3. Additional Support for One Roof Expenditures = **\$55,400**
 - Total One Roof Support = \$410,000; \$354,600 Tax Levy Support
4. City Retained Mayo Civic Center Expenses = **\$363,203**
 - Property Insurance, Energy Improvement Loan, Badge ITRF, etc.
5. Capital Budget Contribution = **\$496,552**
 - ER Capital Budget Contribution = \$500,000 (varies based on performance)
 - Estimated projected annual need is **\$1.5M** based on **\$3/sq ft**
6. Rochester's Sports Commission = **\$600,000**
7. General Fund Contribution = **\$400,000**



Other Considerations: Implementation of the Golf Recommendations

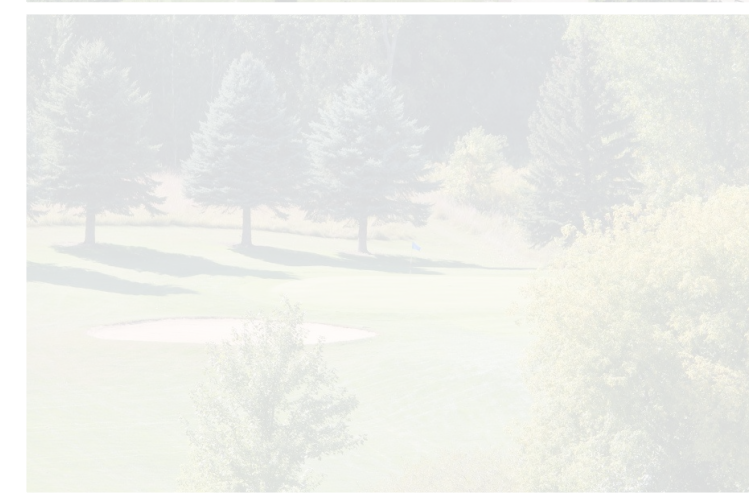
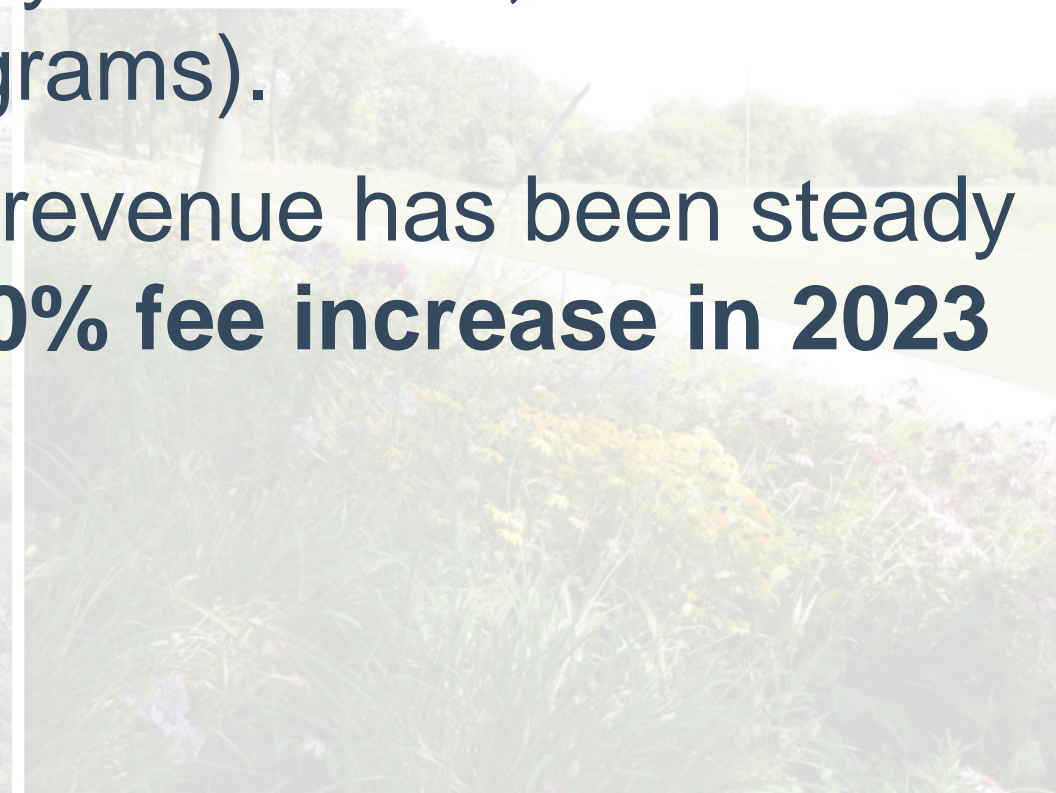
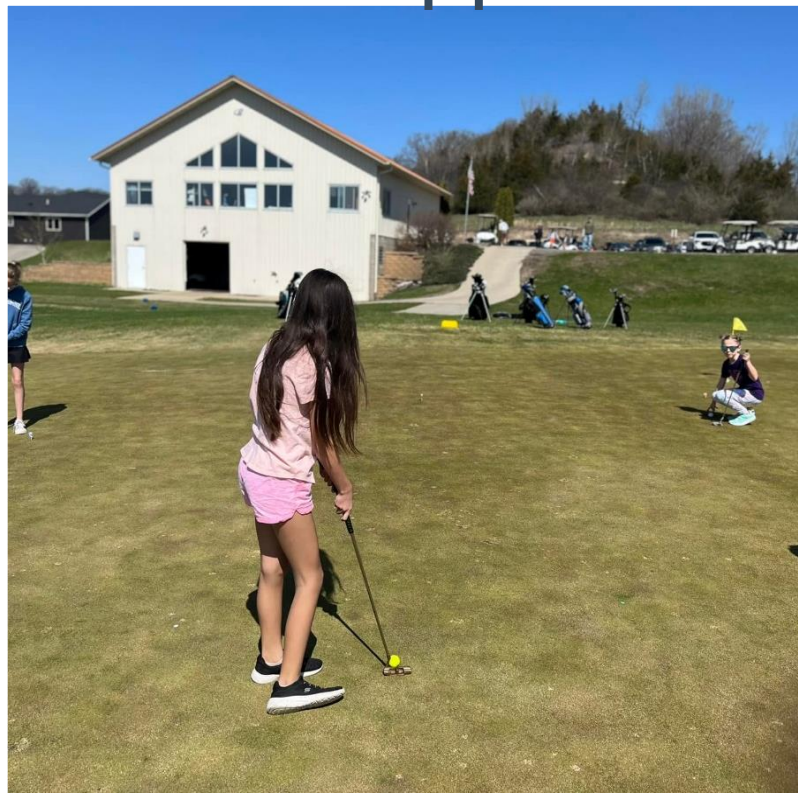
Municipal Golf Proposal

Approved by Council January 9, 2023

- **Annual \$250,000 tax levy investment** (combination of Operating Budget and CIP)
- Adjust golf user fees to achieve **\$250,000 in annual net revenue by 2025**
- Combined tax levy and user fee revenue to be invested as follows:
 - **\$100,000** in Golf Operations
 - **\$400,000** in Golf CIP
- Maintain current complement of 4 courses
- Support First Tee program

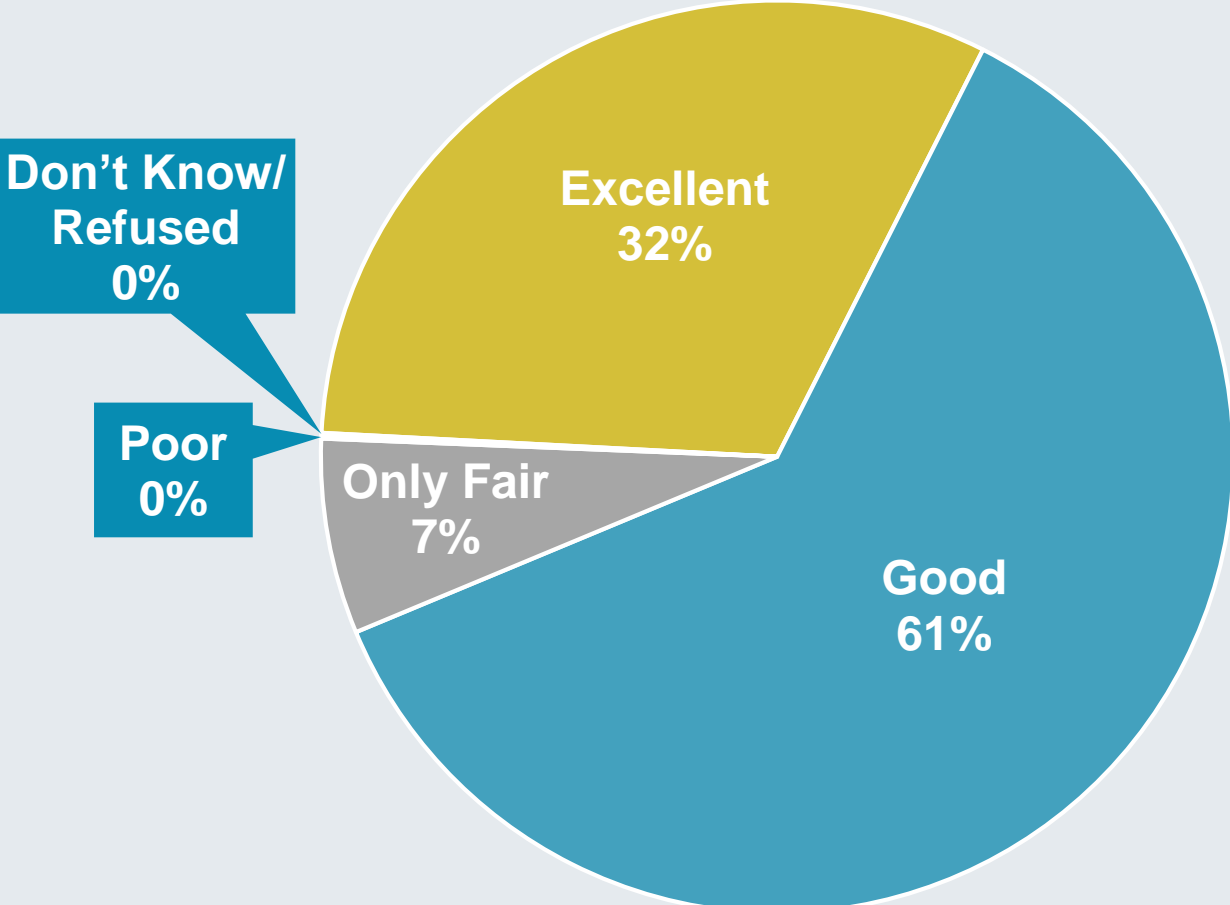
2024 Budget Highlights

- **\$200,000 CIP** requested for golf projects (Northern Hills entry road, paving improvements at Hadley, various irrigation and drainage projects). Request is forthcoming to accelerate Northern Hills entry road.
- **\$54,000** requested for seasonal golf course maintenance positions.
- Vacant partial year contracted Golf Pro position to be converted to **full time Recreation Coordinator**. Duties will include managing operations at Hadley Creek Golf Course, First Tee program, and off-season assistance at recreation facilities and programs (i.e. Volleyball Center, Rec Center or outdoor winter programs).
- Pass and daily fee revenue has been steady following **10% to 20% fee increase in 2023**

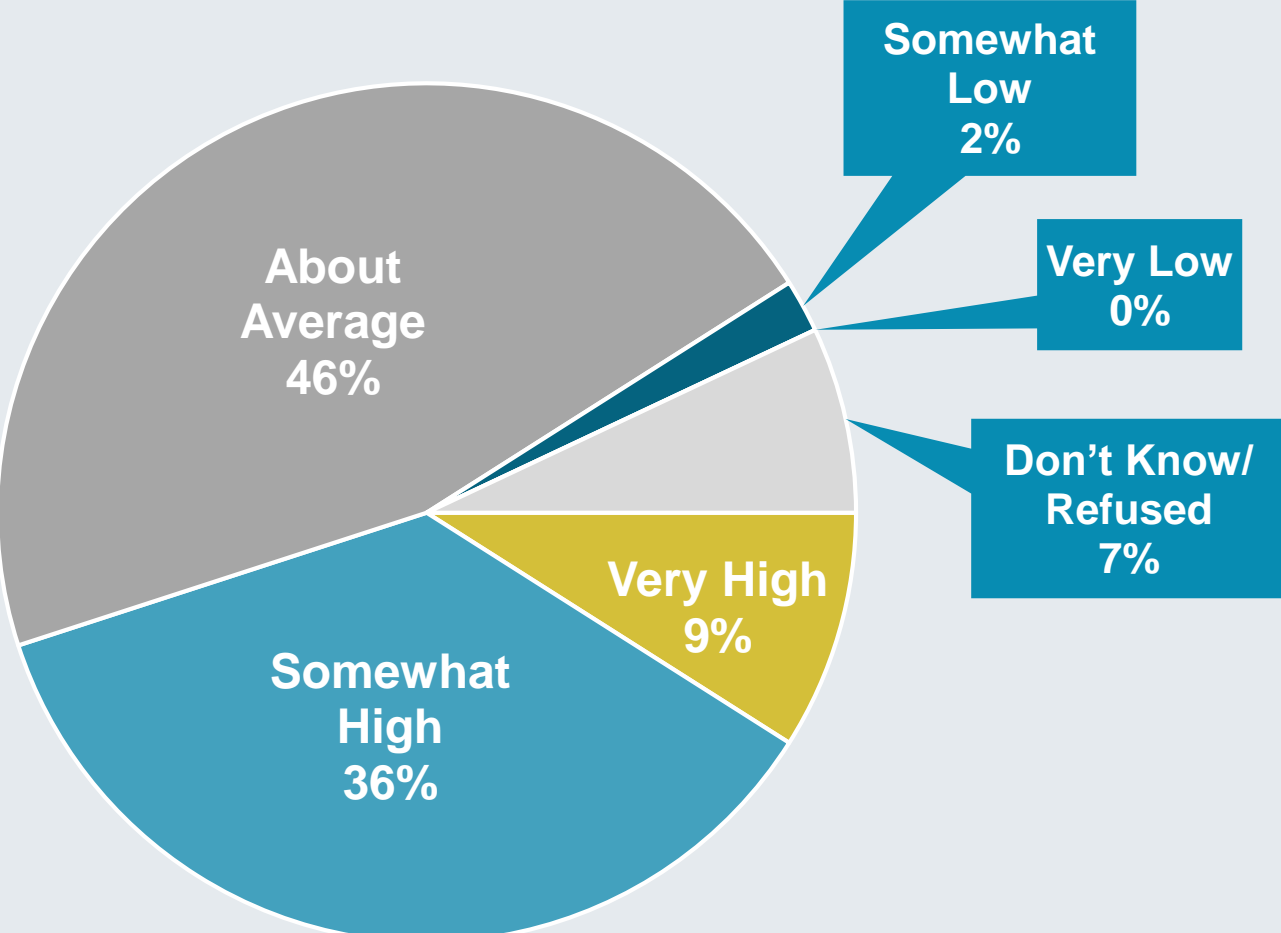


Resident Perception of Investing in City Services

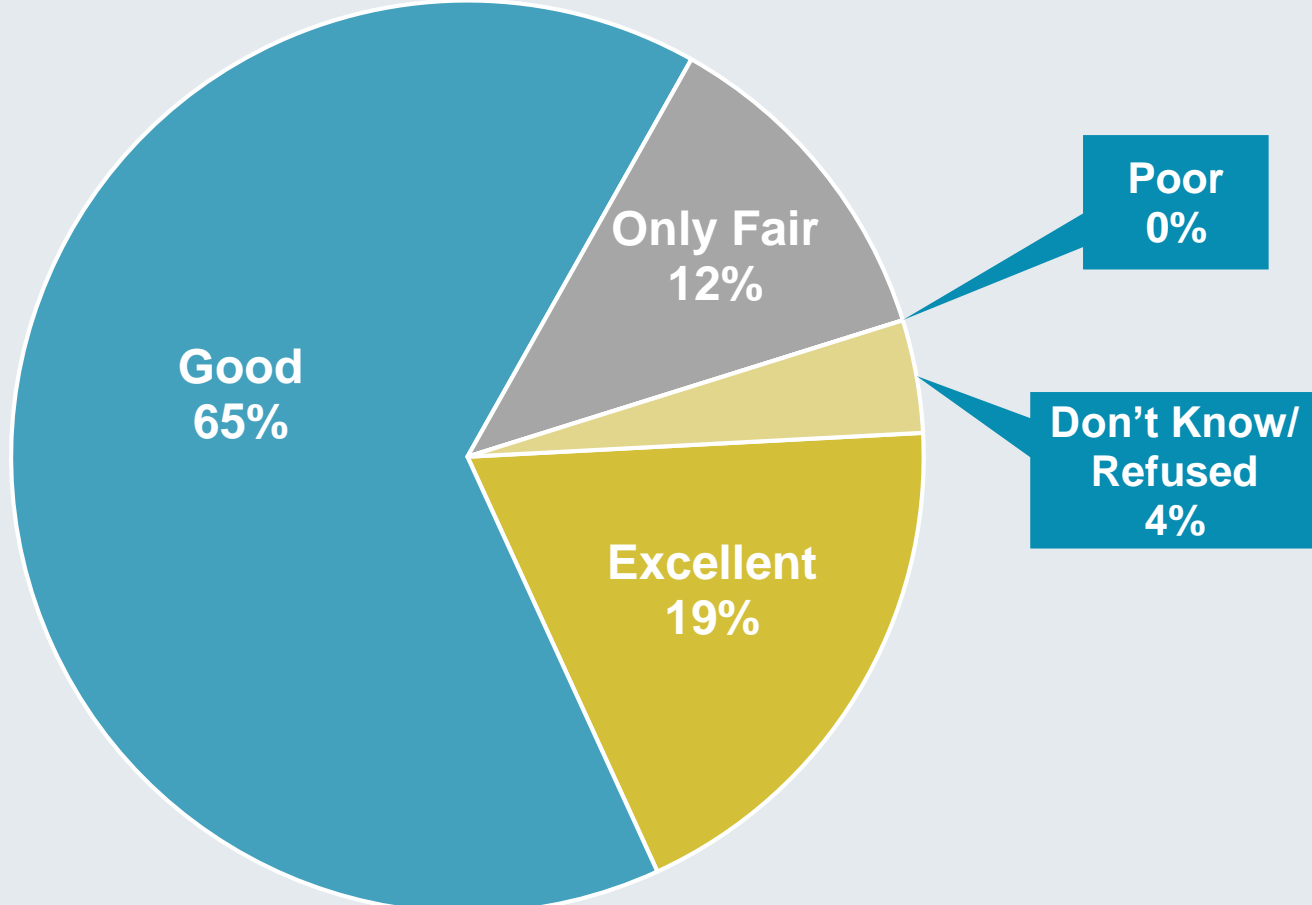
Quality of Life Rating



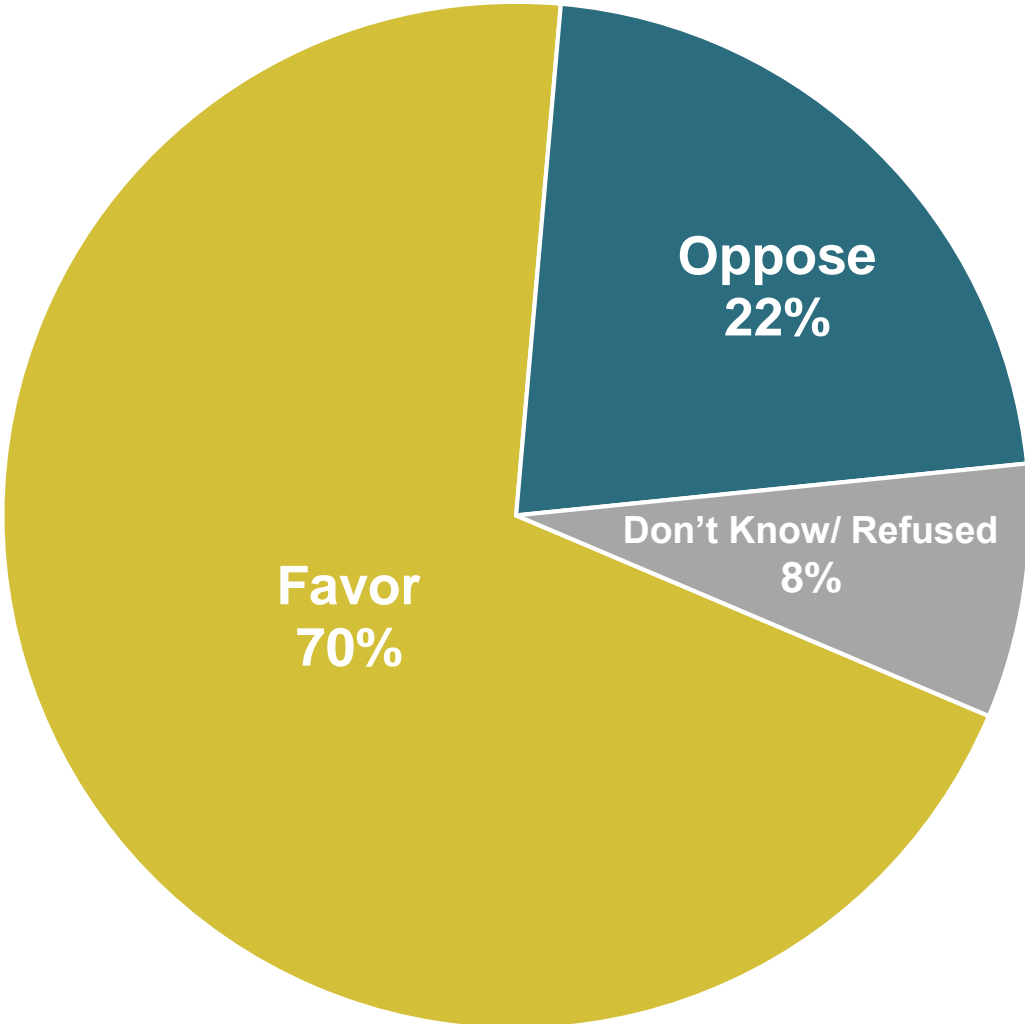
City Share of Property Taxes compared with Neighboring Cities



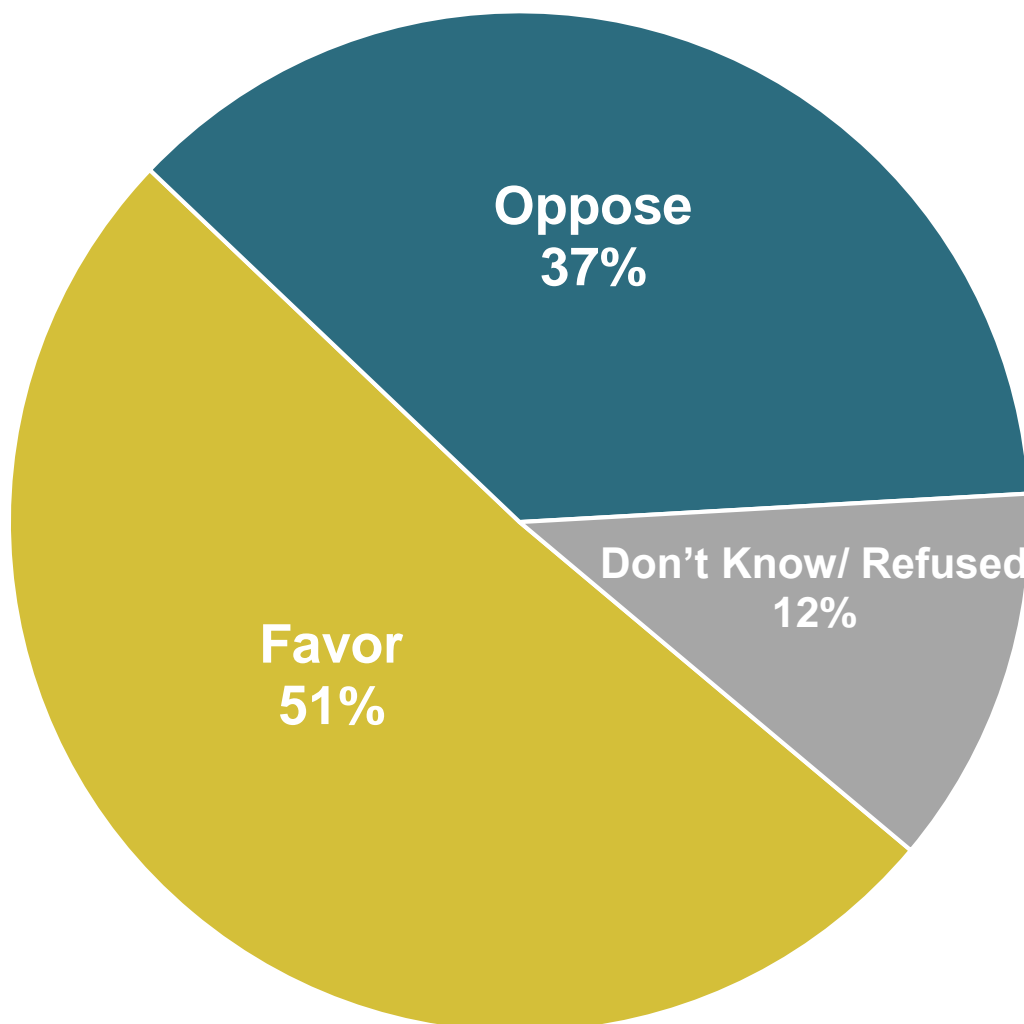
Value of City Services



Increase Taxes to Maintain Services



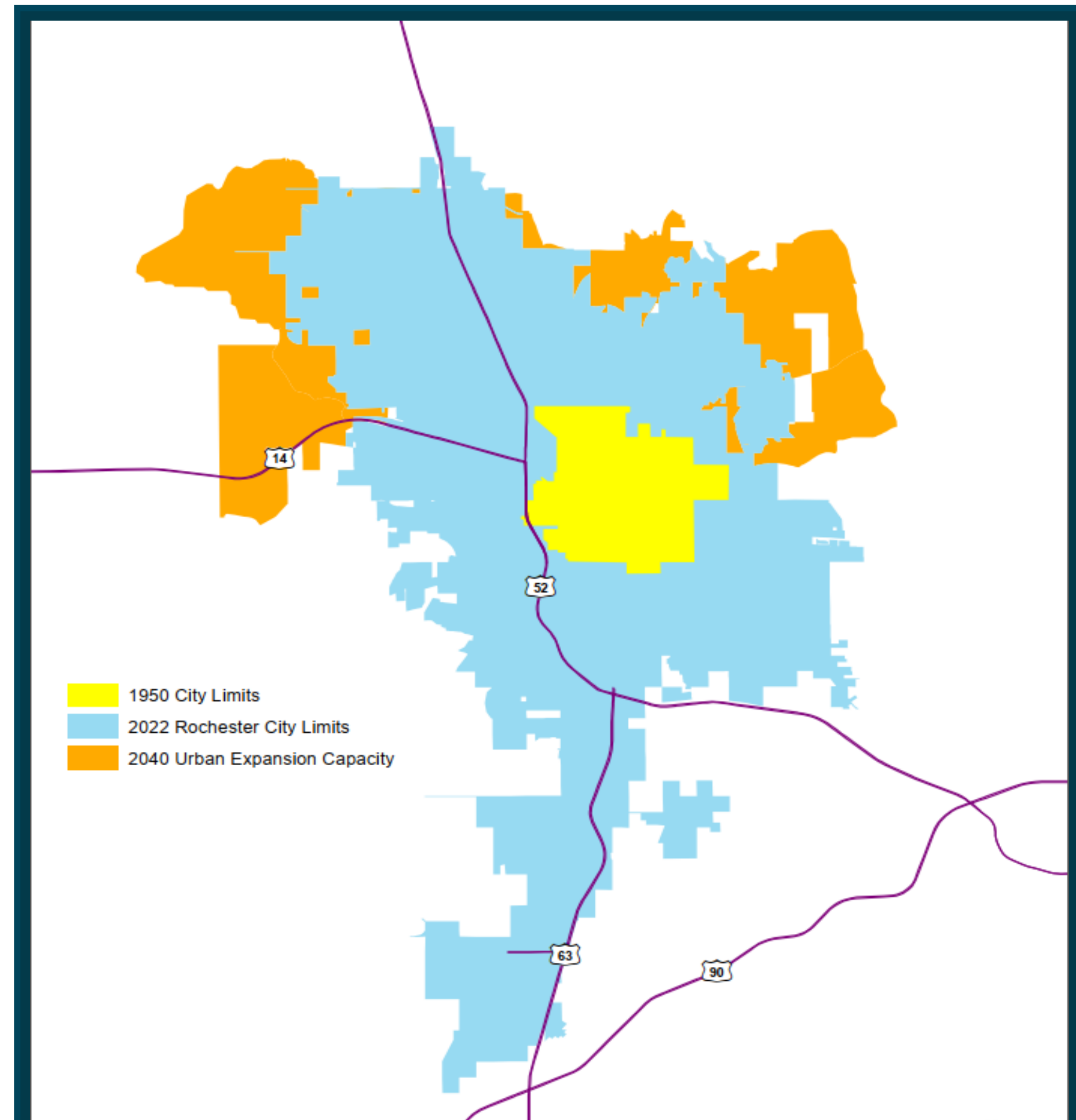
Increase Taxes to Enhance Services





Other Considerations: Strategic Operational Investments

1. Decision packages being evaluated to enhance services, advance strategic priorities, or respond to unfunded mandates.
2. Growing maintenance needs, escalating data practices requests, public safety needs, and prioritization of citizen responsiveness are notable needs that are being evaluated.



Rochester city limits grew 50.71 square miles from 1950 (5.15) to 2020 (55.86) to accommodate the population growth of 91,510 during that same period.

Rochester: Community Evolution

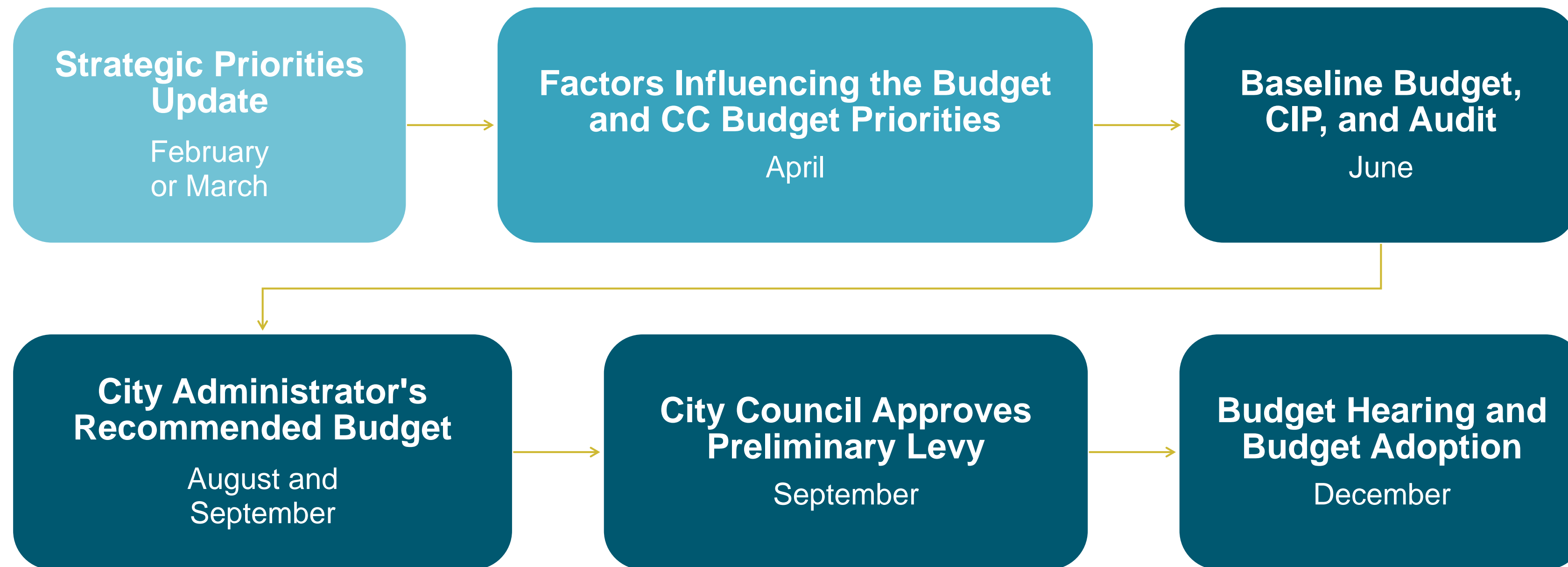
- From 1950 to 2020 the number of acres of parks has grown by 3,267 to a total of approximately 4,500 acres.
- From 1970 to 2020 the number of parks has grown from 25 to 135 (increase of 110).
- From 1980 to 2020 the number of playgrounds has grown from 28 to 88 (increase of 60).
- From 1990 to 2020 the forestry division has gone from maintaining 35,000 trees to 100,000 park & boulevard trees.
- Street miles increased by 471 miles from 80 to 551 between 1950 to 2020 (589% increase).
- 42 miles of streets were added in 1970; with a 50 year life expectancy those 42 miles should all be reconstructed in the 2020's and they will not be.



Policy Considerations

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DISCUSSION