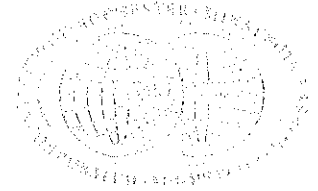




ROCHESTER

Minnesota



January 5, 2009

The Honorable Mayor
and Common Council

STEVAN E. KVENVOLD
City Administrator
City Administrator's Office
201 4th Street SE, Room 266
Rochester, MN 55904-3781
(507) 328-2000
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The adopted budget for 2009 contains appropriations of \$183,604,375. A property tax levy of \$41,487,000 was adopted to assist in the financing of the 2009 budgeted expenditures. The Capital Improvements Program (CIP) is allocated \$4,824,716 of that levy to assist in funding of 2009 planned capital projects. A property tax abatement levy of \$1,300,000 is included in the CIP levy to assist in the redevelopment of the downtown area.

It should be noted that we anticipate the need to significantly revise this 2009 adopted budget. Local government aid totaling \$8,979,816 certified to be paid to the City by the State of Minnesota during 2009 is in serious jeopardy due to the State's projected budget shortfall. All 2009 City expenditures have been restricted to essential needs until final aid amounts can be determined through the legislative process.

My appreciation is expressed to all of the departments and individuals who have participated in the preparation of the 2009 budget. I also wish to acknowledge the valuable assistance provided to me by the Finance Department in the preparation of the 2009 budget.

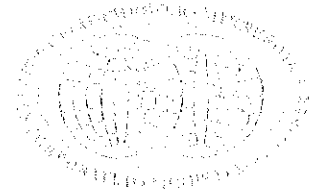
Respectfully submitted,

Stevan E. Kvenvold
City Administrator



ROCHESTER

— *Minnesota* —



November 25, 2008

STEVAN E. KVENVOLD
City Administrator
City Administrator's Office
201 4th Street SE, Room 266
Rochester, MN 55904-3781
(507) 328-2000
FAX (507) 328-2727

The Honorable Mayor and City Council:

Submitted herein for your consideration is the recommended budget for 2009. The total expenditures contained in the recommended budget are \$183,347,798. These expenditures are funded in part by a recommended property tax of \$41,487,000.

The Minnesota State Legislature has imposed a property tax levy limitation for local governments for 2009, 2010, and 2011. The recommended property tax of \$41,487,000 is the maximum property tax levy allowed for the City of Rochester for 2009.

The recommended 2009 property tax levy funds 23% of the recommended 2009 expenditures needed to fund the services provided by the City organization.

\$4,824,716 of the recommended proposed tax is assigned to fund the proposed 2009 capital improvement projects (CIP); this amount is the same amount assigned to fund the 2008 capital improvement projects. \$1,300,000 of the CIP property taxes are designated to assist with the funding of projects within the Downtown Tax Abatement District.

2009 RECOMMENDED EXPENDITURES

The cost of employees is the largest single expenditure in the City's operating budget, representing 72% of the expenditures of the operating budget.

The recommended 2009 budget includes a 3.5% increase in the base compensation for City employees. 2009 represents the third year of a three year compensation contract for the majority of the organization's employees. The three year average compensation increase is 2.75% per year.

The various City Departments requested a total of 23 new positions for 2009. The recommended 2009 budget does not contain any of these requested positions due to the lack of revenues to fund the additional positions and the uncertainty of how the pending State budget deficit may affect the State revenues anticipated in the recommended 2009 budget. If the 2009 State revenues remain as anticipated in the

2009 budget, it may be possible to authorize some of the requested new positions later in 2009.

The expenses associated with pensions increase considerably over 2008 due to pension increases mandated by the Minnesota Legislature in order to attempt to fully fund existing pension obligations. For Police and Fire employees, the City's pension costs increases from 12.9% of payroll in 2008 to 14.1% in 2009. For all other employees, the City's pension costs increase from 6.5% in 2008 to 6.75% in 2009.

The City is self insured for the health and dental insurance. The recommended 2009 budget does not include any increase in premiums charged for health insurance coverage, while dental coverage premiums are recommended to increase by 9% for 2009.

The expenditure areas experiencing the largest increase over 2008 are utilities, fuel, fleet insurance and construction materials. There have also been some realignment of various expenditure line items to better align accounting with required financial reporting requirements. These changes will be discussed during the budget review sessions.

The appropriations for the City's funding of outside agencies remain at their 2008 funding level, with the exception of the Youth Commission.

2009 MAJOR REVENUES

| | 2008 Budget | 2009 Budget | Increase/(Decrease) |
|---------------------------|-------------|-------------|---------------------|
| Tax Levy | 39,965,404 | 41,487,000 | 1,521,596 |
| Local Government Aid | 7,620,306 | 8,979,816 | 1,359,510 |
| Hotel/Motel Tax | 3,500,000 | 3,500,000 | - |
| Cable TV Franchise Fee | 1,200,000 | 1,250,000 | 50,000 |
| Inspection Permits | 2,975,000 | 2,685,000 | (290,000) |
| In Lieu of Tax | 10,531,678 | 10,933,336 | 401,658 |
| Sewer Utility Charge | 12,844,800 | 12,900,600 | 55,800 |
| Storm Water Utility Fee | 3,400,000 | 4,235,741 | 835,741 |
| Library Fund | | | |
| -City Share | 4,970,096 | 5,312,036 | 341,940 |
| -County Share | 879,904 | 982,859 | 102,995 |
| Municipal Recreation Fund | | | |
| -Fee Revenues | 5,921,395 | 6,201,850 | 280,455 |
| -Non-Fee Revenues | 6,016,125 | 6,248,475 | 232,350 |
| Parking Fund | | | |
| -Parking Fines | 554,000 | 548,000 | (6,000) |
| -Parking Ramps | 2,574,056 | 2,794,546 | 220,490 |
| -Street Meters | 643,000 | 638,100 | (4,900) |
| -Parking Lots | 282,036 | 346,126 | 64,090 |

The 2009 property tax levy is limited by State law and increases by \$1,521,596 over the 2008 level compared to an increase of \$2,526,904 in 2008.

The local government aid (LGA) anticipated to be received from the State increases by \$1,359,510 over the 2008 level. The additional LGA reduces the amount of property taxes that can be levied in order that the additional LGA be used for property tax reductions.

No growth in hotel/motel tax receipts are estimated for 2009, while receipts from the Cable TV franchise fee are estimated to show a small increase.

The revenues from inspection permits are estimated to decline by \$290,000 due to the slow down in the new housing market.

In the Library Fund, Olmsted County's share of the Library expenses increase due mainly to the increase in the County circulation numbers.

In the Municipal Recreation Fund, user fees have been raised to increase the fee revenues and the deficit associated with the Golf function is estimated to decrease.

I wish to express my appreciation for the assistance provided by all of the individuals who have participated in the preparation of the recommended 2009 budget.

Respectfully submitted,

A handwritten signature in black ink, reading "Stevan E. Kvenvold". The signature is written in a cursive style with a large, stylized initial 'S'.

Stevan E. Kvenvold
City Administrator