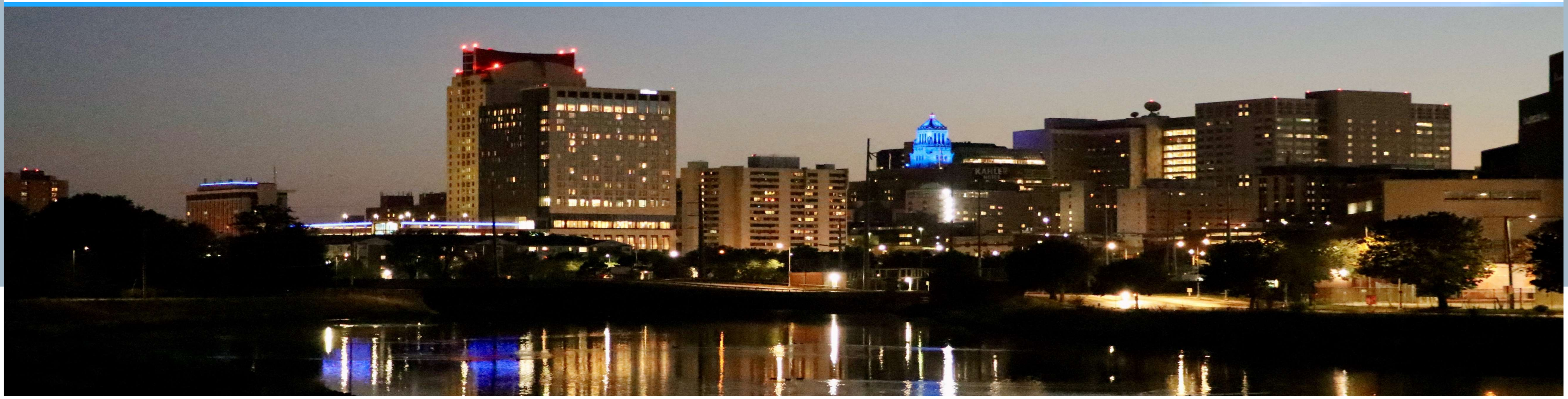
Factors Influencing the 2027 Supplemental Budget



April 13, 2026

CITY OF ROCHESTER

Policy Considerations

- Is the 2027 Supplemental Budget and levy request in alignment with the City Council's priorities?
- Are there any specific issues the Council would like evaluated as part of the supplemental budget process?

Priorities & Principles

Strategic Priorities

We will focus our resources and initiatives to drive progress in these areas:

- Economic Resilience
- Housing Access
- Inclusive Growth Management
- Responsible Environmental Stewardship
- Transformational Capital Projects

Foundational Principles

We will approach every action and decision through a lens of:

- Compassion
- Fiscal Responsibility and Sustainability
- Inclusive Decision-Making
- Public Safety
- Quality Services
- Social Equity

CITY OF ROCHESTER MINNESOTA

2027 Supplemental Budget Timeline

City Team Completing Supplemental Budget Requests and Internal Review
March-May

→

Factors Influencing the Budget
April 13

→

Review of 2025 Audit, Budget Update, and Fee Schedule
July 13

→

City Administrator's Recommended Supplemental Budget
August 24th and September 14th

→

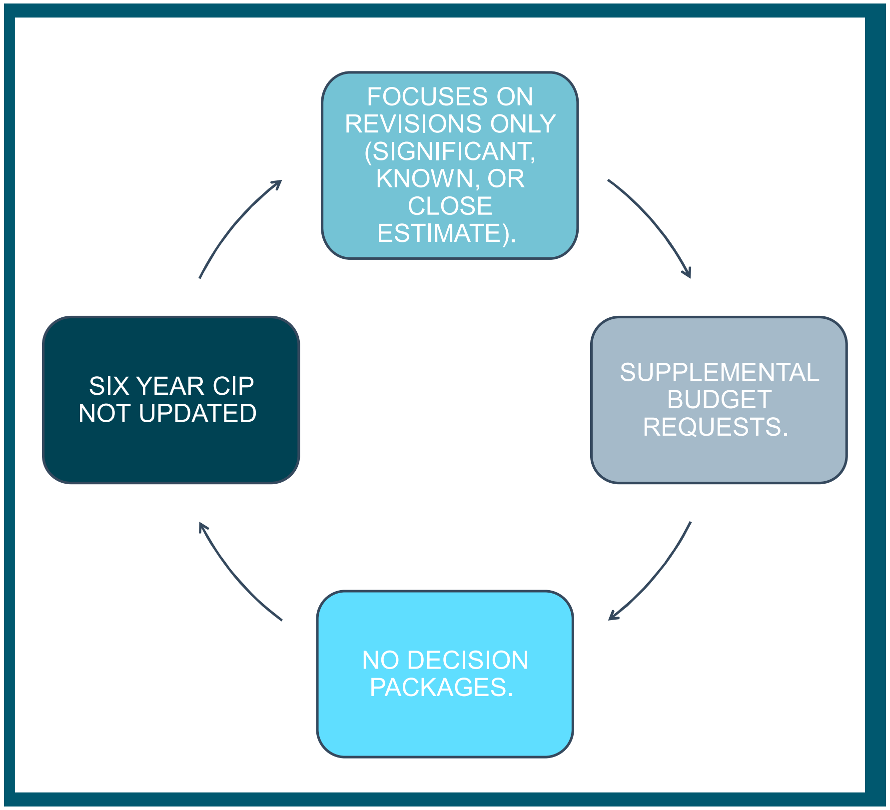
City Council Approves Preliminary Levy
September 21

→

Budget Hearing and Budget Adoption
December 7

CITY OF ROCHESTER

2027 Supplemental Budget Process



2027 Supplemental Budget Process

The 2027 Tax Levy is currently $127,035,711 which represents an 7.4% increase from 2026.

The 2027 General Fund budget is currently $142,546,035 which represents a 3.6% increase from 2026

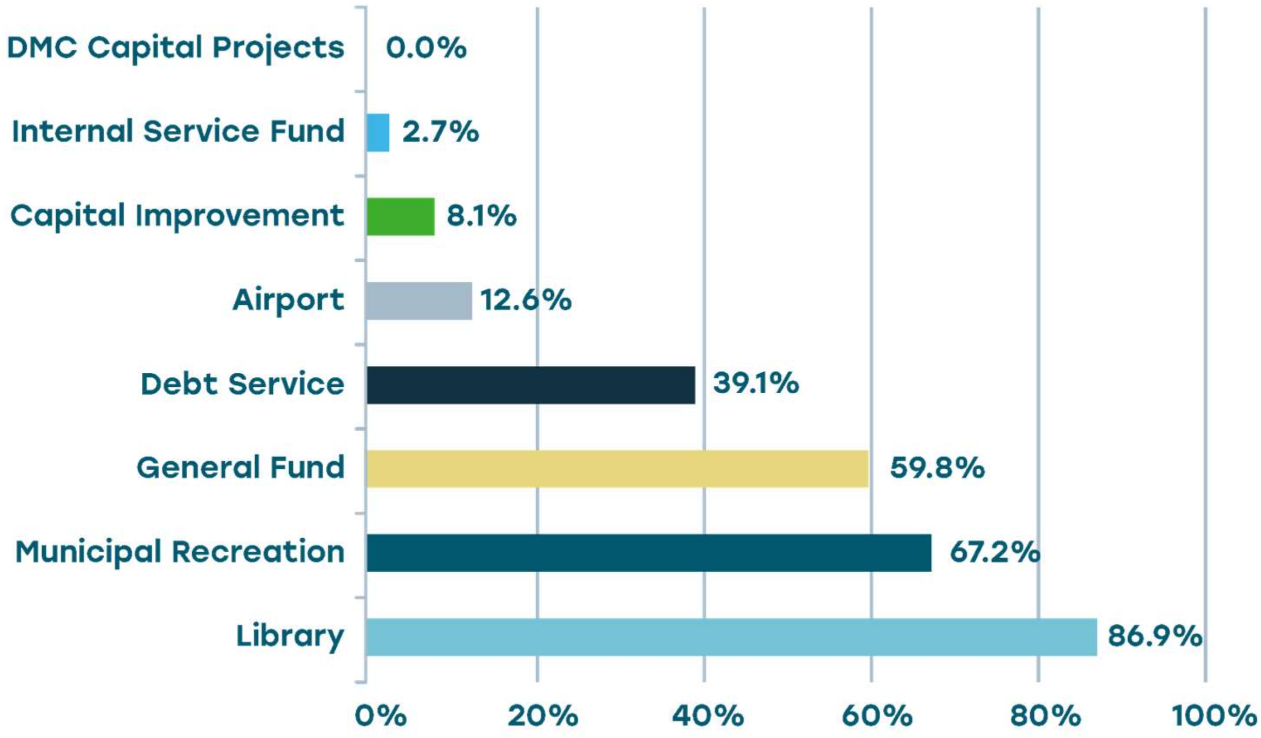
The Action Plan was reviewed at the February 23rd Study Session. The next Action Plan update is scheduled for an August Study Session

2025 Audit and Annual Comprehensive Financial Report will be presented to City Council at a July Study Session

City of Rochester 2027 Projected Supplemental Budget, Inclusive of RPU

- **Total Budget: $742.4M**
- **Operations: $411.7M**
- **Capital Improvement: $284M**
- **Debt Service: $46.7M**

2027 Estimated Fund Reliance on Tax-levy



Economic Indicator-Employment

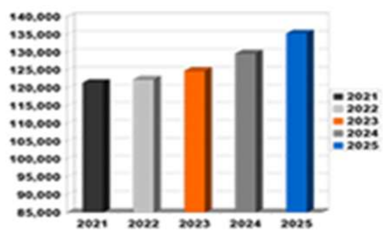
CITY OF ROCHESTER

Total Employment

Nonagricultural wage and salary employment for the Rochester MSA was up for the year by 4.3% from 2024. The gain of 5,637 jobs brought the total employment figure to 135,306 from last year's December level of 129,669.

Service providing gained 5,628 while goods producing reported a gain of 9 jobs.

Total Employment Fourth Quarter



Rochester MSA Employment Past 5 Years

	2021	2022	2023	2024	2025
Total Employment					
Nonfarm	121,458	122,368	124,806	129,669	135,306
Goods Producing					
Construction,Mining, Logging	4,849	4,804	5,017	5,285	5,355
Manufacturing	9,554	9,459	9,113	9,032	8,971
Service Providing					
Wholesale Trade	2,536	2,593	2,544	2,689	2,588
Retail Trade	12,077	12,190	12,330	12,450	12,467
Transportation/Warehousing	2,616	2,584	2,525	2,678	2,687
Information	1,119	1,103	1,082	980	941
Financial Activities	2,823	2,774	2,739	2,792	2,744
Professional/Business Services	6,326	6,657	6,671	6,898	7,173
Educational/Health	53,044	53,096	54,532	58,660	64,024
Leisure/Hospitality	10,142	10,416	11,105	10,708	10,477
Other Services	3,648	3,742	3,828	3,903	3,958
Government	12,724	12,950	13,320	13,594	13,921

Source: Minnesota Department of Employment & Economic Development

Unemployment Rates Past 5 Years Fourth Quarter- Rochester MSA

Rochester		Minnesota		United States	
2025	3.3%	2025	4.3%	2025	4.1%
2024	2.2%	2024	2.6%	2024	3.8%
2023	2.1%	2023	2.6%	2023	3.5%
2022	2.4%	2022	2.8%	2022	3.3%
2021	2.3%	2021	2.7%	2021	3.7%

Source: Minnesota Department of Employment & Economic Development

Economic Indicator-Building Permit Valuations

- 2025 permit valuation totals were **up 50.1%** from 2024
- 2025 total permits were up **56.3%** from 2024

Commercial and Residential Annual Building Permits Past 5 Years

	Valuation	Total Permits
2025	$1,042,026,425	3,829
2024	$694,120,213	2,449
2023	$528,634,529	2,380
2022	$562,379,893	2,205
2021	$521,917,840	3,593

Source: Building Safety - City of Rochester

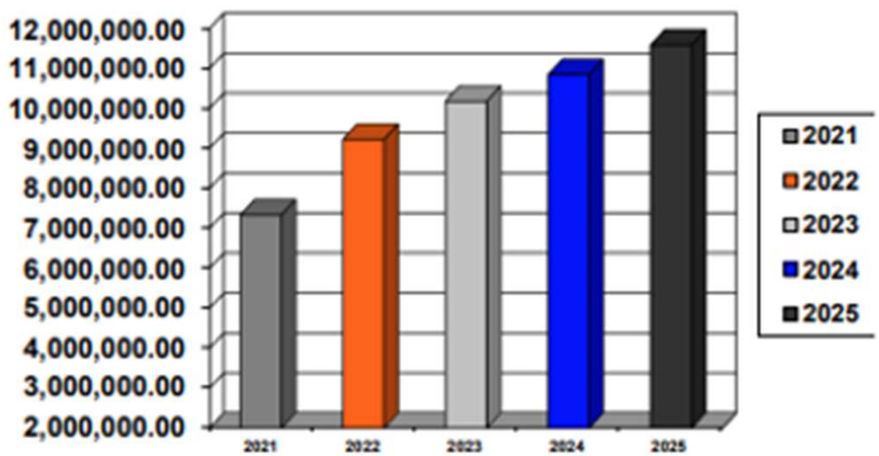
Economic Indicator-Net Lodging Tax

Hotel/Motel Sales Tax
City of Rochester
12 months (November-October)

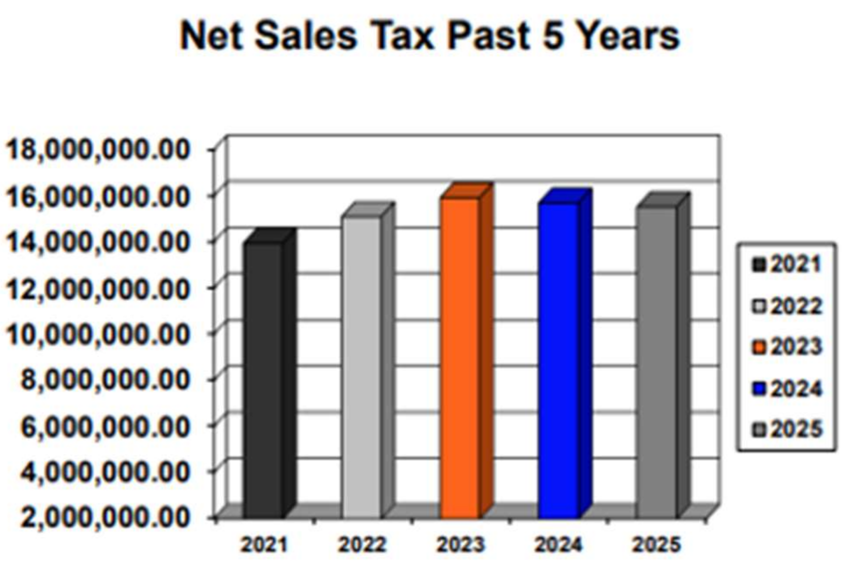
2021	$ 7,336,996.26
2022	$ 9,226,031.21
2023	$10,179,872.20
2024	$10,845,065.10
2025	$11,587.815.47

Source: City of Rochester Finance Department

Hotel/Motel Sales Tax Past 5 Years



Economic Indicator-Net Sales Tax

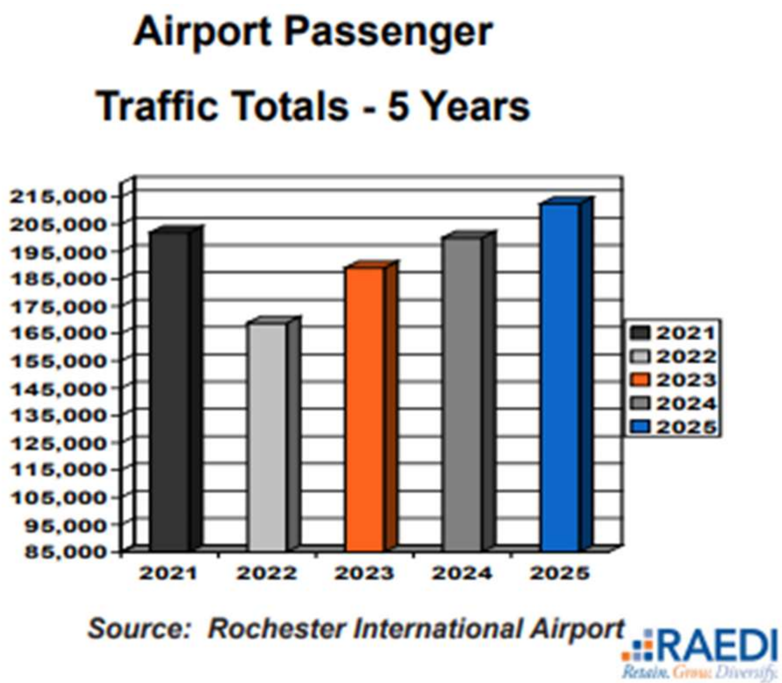


Net Sales Tax - City of Rochester
12 months (November-October)

2021	$13,946,869.90
2022	$15,107,866.40
2023	$15,932,962.10
2024	$15,705,699.90
2025	$15,571,709.49

Source: City of Rochester Finance Department

Economic Indicator- Airport Passengers



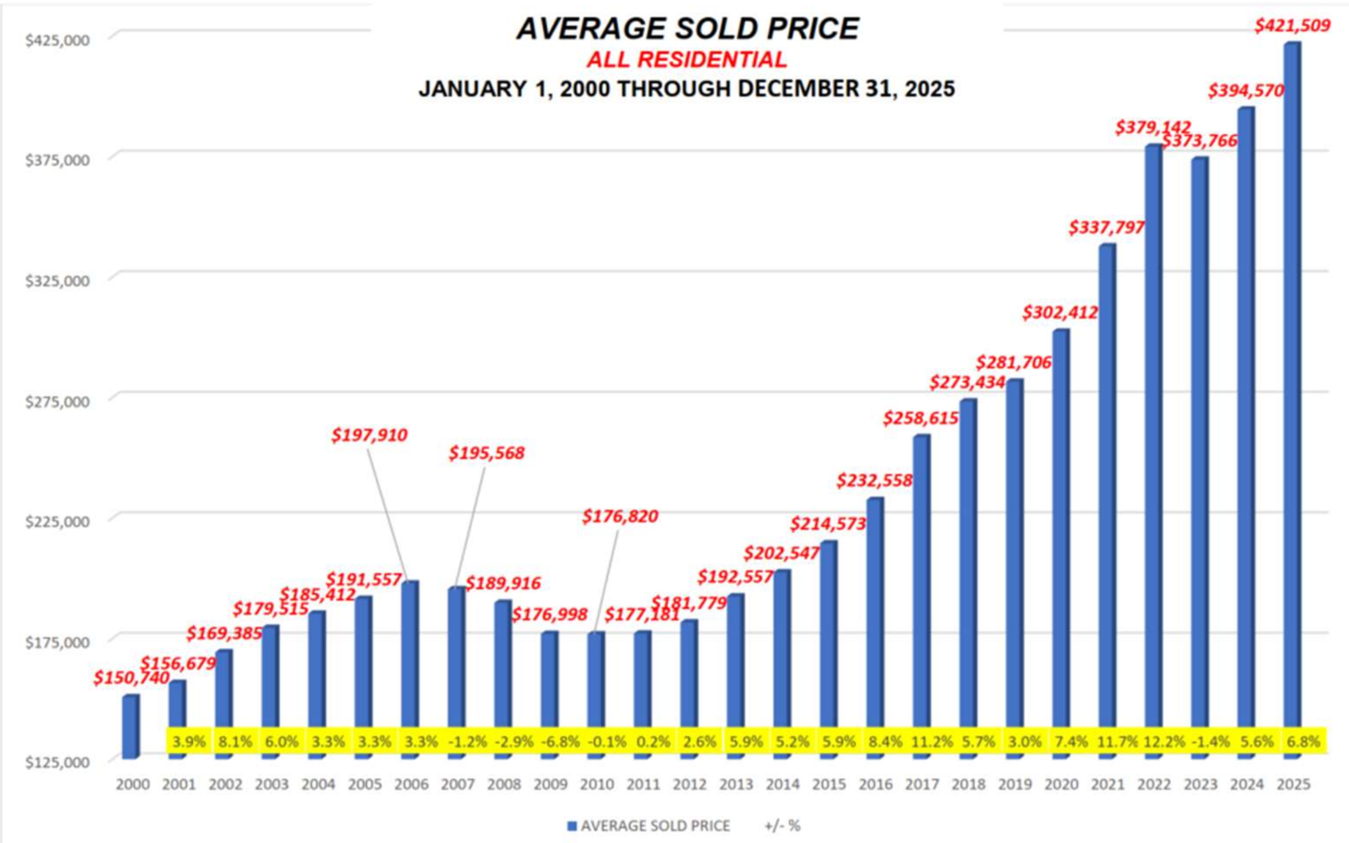
Preliminary Estimated Market Valuation

2026 Property Valuation Growth:
Preliminary Assessment Payable 2027

New Construction 1.04%
Valuation Adjustment 3.27%
Total Growth in EMV 4.31%

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

Homes Average Sold Price - 2025



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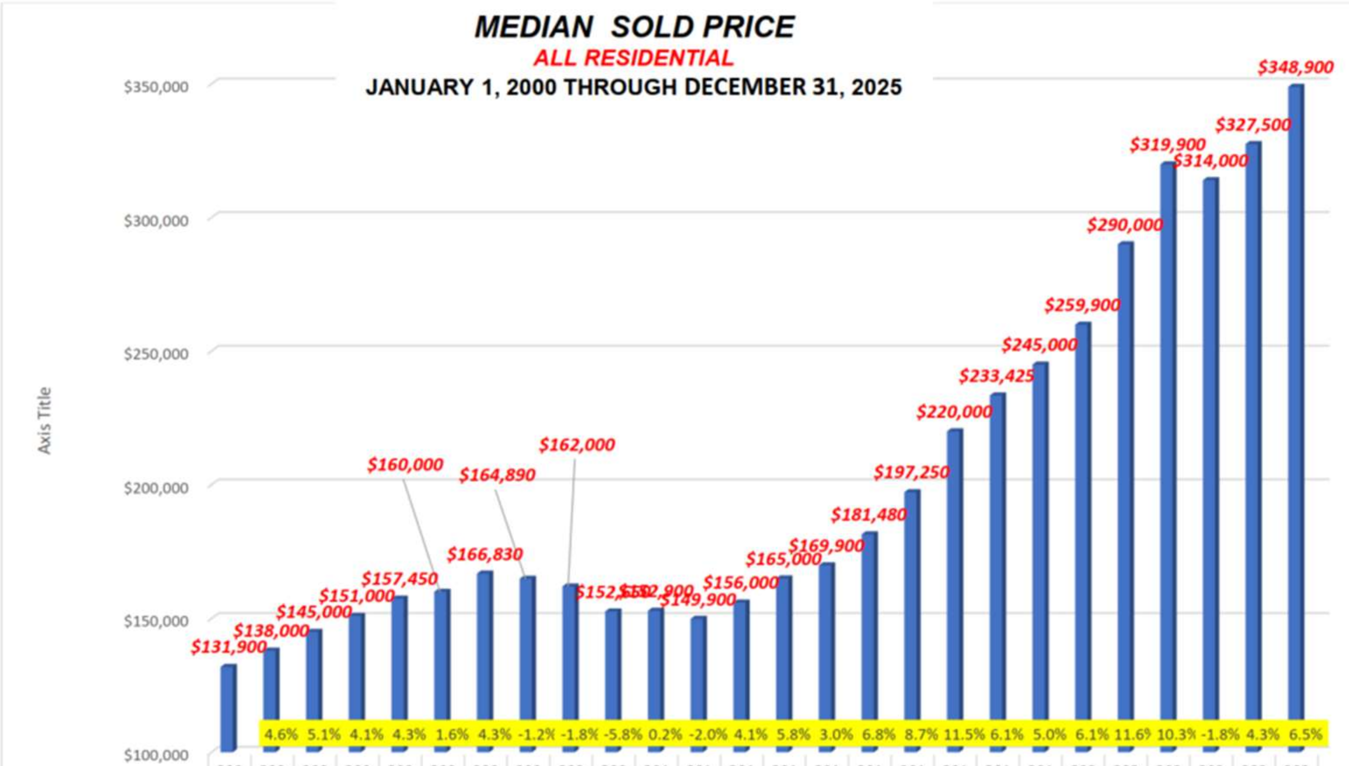

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
■ MEDIAN SOLD PRICE	$131	$138	$145	$151	$157	$160	$166	$164	$162	$152	$152	$149	$156	$165	$169	$181	$197	$220	$233	$245	$259	$290	$319	$314	$327	$348
"+/-%		4.6%	5.1%	4.1%	4.3%	1.6%	4.3%	-1.2%	-1.8%	-5.8%	0.2%	-2.0%	4.1%	5.8%	3.0%	6.8%	8.7%	11.5%	6.1%	5.0%	6.1%	11.6%	10.3%	-1.8%	4.3%	6.5%

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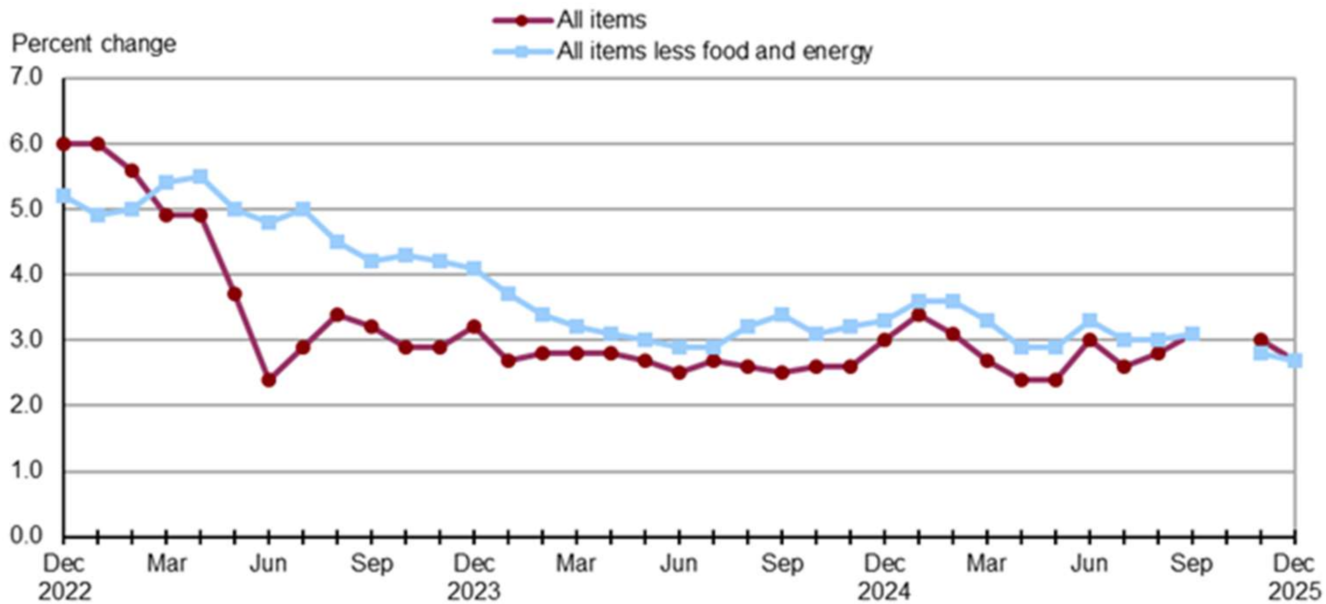
CITY OF ROCHESTER

Homes Median Sold Price - 2025

Inflation

Chart 1. Over-the-year percent change in CPI-U, Midwest region, December 2022–December 2025



Note: The October 2025 data values are not available due to the 2025 lapse in appropriations.
Source: U.S. Bureau of Labor Statistics.

CITY OF ROCHESTER

Holistic Budget Stability Fund Support

This is one-time funding that moderates levy increases allowing us to catch up from a:

- 0% levy in 2021
- $721,000 in 2021 reserve utilization

This reestablished essential expenditures that were part of $3.5 million in unsustainable expenditure reductions while easing the levy impact.

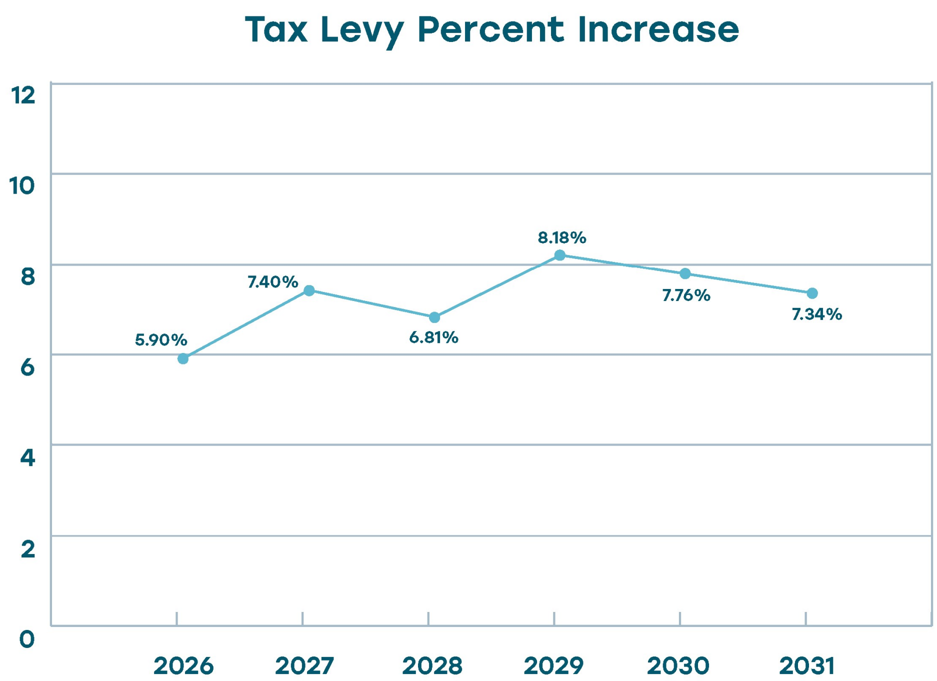
2026 was the final year of stabilization.

.

Budget Stability Funding ($6.2M)

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

Long-Range Financial Management Plan



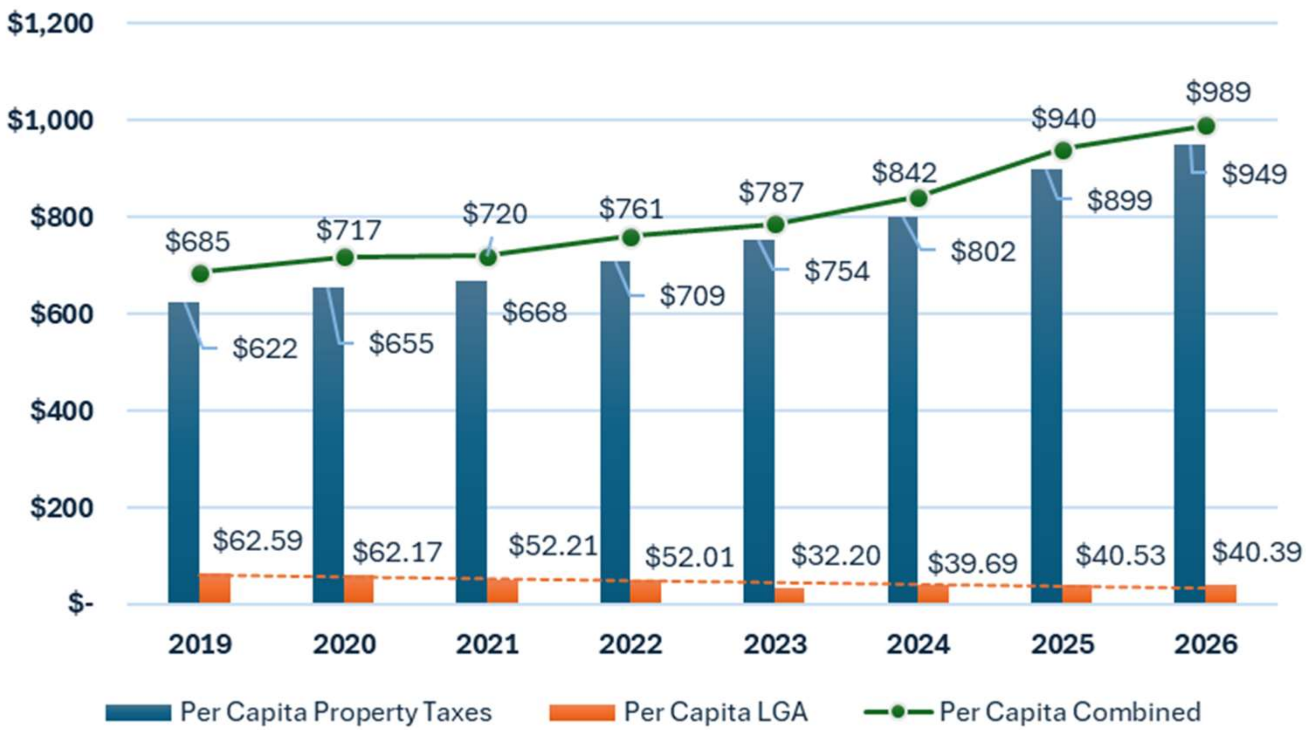
- Percent increases through 2026 include the use of holistic budget stability funds and **would be higher if not for those funds**.
- The projected levy amounts reflect annual contingency for items difficult to anticipate in the forecast.
- Assumes Regular Personnel Costs (total compensation) require +/- 5.50% levy adjustment from 2026-2029
- The reduction in 2028 partially reflects a reduction in debt service costs.
- 2026 reflects the addition of debt service for the Parks Maintenance Facility.
- Last's years long range plan contemplated 2026 increase of 10.68% levy increase – reducing to 5.9% used most capacity across levy funded departments to not impact service levels.

LONG RANGE FINANCIAL MANAGEMENT PLAN BUDGET

CITY OF ROCHESTER

Taxes Levied on Tax Capacity	2026	2027	2028	2029	2030	2031
Projected Levy for General Fund	(82,189,827)	(89,050,125)	(96,890,284)	(106,105,260)	(115,760,264)	(125,927,078)
Projected Levy for Library Fund	(9,095,025)	(9,468,609)	(10,091,630)	(10,687,287)	(11,317,706)	(11,986,060)
Projected Levy for Muni Rec System Fund	(11,646,339)	(12,416,143)	(13,239,625)	(14,157,376)	(15,105,244)	(16,098,111)
Projected Levy for Mayo Civic Center Fund	-	-	-	-	-	-
Projected Levy for F.E. Williams	-	-	-	-	-	-
Projected Levy for Airport Operations Fund	(765,122)	(788,992)	(812,662)	(837,042)	(862,153)	(888,017)
Projected Levy for Transit Fund	-	-	-	-	-	-
Projected Levy for EDA Administration	-	-	-	-	-	-
Projected Levy for Equipment Revolving Fund	-	-	-	-	-	-
Projected Levy for Info Technology Fund	-	-	-	-	-	-
Projected Levy for City Facilities Internal Service Fund	-	-	-	-	-	-
Projected Levy for Self Insurance Fund	-	-	-	-	-	-
Projected Levy for Construction Improvement Fund	(9,313,100)	(10,025,138)	(9,702,454)	(10,021,397)	(10,167,324)	(9,921,841)
Projected Levy for Debt Service*	(5,225,210)	(5,236,704)	(4,899,998)	(4,917,848)	(4,906,718)	(4,912,007)
Projected Levy - Other	-	-	-	-	-	-
Total Projected Taxes Levied on Tax Capacity	**(118,234,623)**	**(126,985,711)**	**(135,636,653)**	**(146,726,210)**	**(158,119,409)**	**(169,733,114)**
% Change from Prior year	5.90%	7.40%	6.81%	8.18%	7.76%	7.34%

Property Taxes & Local Government Aid (LGA) Per Capita Levy and LGA



Local Government Aid has not kept up with growth in the City of Rochester causing property taxes to make up the difference for providing essential services for Rochester residents and businesses.

Additional Impacts to be Considered – Credit Cards

- 2025 actuals of $640,751 with 2027 budget at $222,381

Areas Impacted by Credit Card Fees

Department	2025 Actuals	2027 Budget	Over/(Under) Budget	% of 2025 Actuals	2025 CC Transactions
Parking	$ 279,245	$ 104,832	$ (174,413)	43.5%	409,245
Bldg Inspection Services	$ 133,161	$ 20,158	$ (113,003)	20.8%	12,686
Municipal Recreation	$ 127,395	$ 46,660	$ (80,735)	19.9%	79,578
City Clerk	$ 37,612	$ 24,304	$ (13,308)	5.9%	2,382
Parking Ticket Collections	$ 28,155	$ 4,981	$ (23,174)	4.4%	18,998
Misc. (Fire, Public Works, Library etc.)	$ 35,182	$ 21,446	$ (13,736)	5.5%	1,393
Grand Total	**$ 640,751**	**$ 222,381**	**$ (418,370)**	**100.0%**	**524,282**

Additional Impacts to be Considered – Credit Cards

City Policy Considerations:

- Consider implementing a convenience fee on Credit Card – similar to RPU's?
- State law constraints: cap on fees, types of fees, & required disclosures.
- Policy considerations: to accept credit cards and how fees are passed along.
  - Credit card caps
  - Restrict multipal transactions
- Contractual limitations: review current merchant agreements with City.
- Fee structure decisions: percent-based, flat fee, hybrid.
- No-fee alternatives: ACH/bank transfer, cash, check, etc.
- Administrative and operational impacts: team training, system configuration, service impacts, cost-recovery, and how issues are addressed.
- Consistency across departments to prevent confusing user experience.

RPU - Card & Digital Wallet Payment Convenience Fees (approved 10-28-2025)

Proposed Convenience Fees	2025	2026	2027
Residential (per transaction)	$ -	$ 3.00	$ 3.00
Commercial (per transaction)	$ -	$16.00	$16.00

- RPU collects revenue for the electric, water, sanitary sewer, and stormwater utilities.
- Card-based payments make up 25% of all utility payment revenue.
- Some digital wallet payment types also incur similar high transaction processing costs.
- Card processing costs were approximately $650K in 2024 and average 6.5 times more per transaction than cash, check, money order, and bank draft (ACH) payments.
- Currently these processing costs are being spread across the entire customer base and are being subsidized by customers who pay by low-cost methods.
- Intent is to align higher payment processing costs directly with the customers who generate them, while preserving low-cost, no-fee alternatives.
- The fee would be collected by RPU's secure payment processing vendor. RPU would not retain any portion of the fee. The fees would be used to offset payment processing costs currently paid by all RPU customers.

Card Payment Convenience Fee

A convenience fee of $3 is proposed to be added to all card and digital-wallet payment types to cover processing costs. This fee does not apply to lower-processing-cost methods like check, money order, cash, PayPal, Walmart Pay, or bank-draft (ACH) payments.

Additional Impacts to be Considered - Golf

Council Direction – January 9, 2023

$500K annual net revenue target

$400K CIP | $100K Operations

Funded 50% tax levy / 50% user fees

Municipal Golf Performance

- User fee revenue increased from **$1.35M (2020)** to **$2.27M (2025)**
- **Expenses exceeded projections** due to inflation and increased staffing to meet demand (maintenance and customer service)
- Weather impact: ~$8,000 revenue loss per rain day. Some courses require additional recovery days

Budget Year	CIP	Tax Levy
2022	$ 75,000	$ 158,129
2023	$ 80,000	$ 266,583
2024	$ 200,000	$ 82,913
2025	$ 200,000	$ 275,007
2026	$ 200,000	$ 191,975
2027	$ 200,000	$ 150,000
Total	$ 955,000	$ 1,124,607

2027 Anticipated - $200,000 contributed to CIP, $150,000 tax levy towards operations

Additional Impacts to be Considered - Golf

Operational Adjustments in Response to Market Pressures

- Service levels adjusted to prioritize playability, with reduced standards in non-essential areas
- Seasonal staffing streamlined to focus on safety and essential services
- 2027 seasonal staff adjustments offset by projected revenue

Additional Impacts to be Considered

- **Labor Costs and Health Insurance**- We have a majority of Labor Contracts finalized in 2027 with a General Wage Adjustment of 3%. The General Wage Adjustment is applied to Mayor and Council salaries beginning in 2027. We are in the process of bidding out our health insurance and evaluating plan design. This includes cost saving options.

- **Debt Issuance-** We have no tax levy supported debt issuance planned for 2027. However, we continue to evaluate options for funding Fire Station 6. Site finalization, capital costs, and operational expenses still require further evaluation.

Additional Impacts to be Considered

- **Fuel**- We are seeing increased gas and diesel prices and are currently budgeted at a 3% increase for both.

- **Natural Gas-** Due to international conflicts, significant disruption is occurring in the natural gas market. This has the potential to create upward pressure on wholesale electricity and power generation costs. By extension, this could have implications for the power cost adjustment on utility bills and utility expenses for city operations.

- **Water Infrastructure-** Water trunk oversizing costs and new pressure zone in NW

Additional Impacts to be Considered

- **Air Service Needs**- We continue to evaluate options to enhance commercial passenger service and to create a positive user experience at the Airport.
- **Outside Agencies-** We are not anticipating a request process this year and the approved 2027 Budget has existing allocations at levels projected in the two-year budget.
- **2027 Decision Packages**- A number of 2027 Decision Packages were built into the 2027 Budget. Several requests were not funded.

2027 DECISION PACKAGES- TAX LEVY VS NON TAX-LEVY

CITY OF ROCHESTER

2027 Recommended Decision Packages		
Title	**Levy**	**Non-Levy**
SmartSheet Digital Asset Management Tool - Quality Services	7,500	
2 IT System Support Specialists - Quality Services and Public Safety	311,522	
2027 ERP Project Contingency	702,130	
Police Squad Car and Equipment - Public Safety	192,667	
2 Community Services Police Officers - Homeless Outreach	320,149	
GIS Technician - Fire, Police, EM, and Parks	149,375	
Custodial Position for Parks and Forestry Facility	121,690	
Reclass Manager of Facilities & Property to Director of Facilities & Property	34,778	
Facilities Vehicle Request	65,800	
Arborist Position	128,398	
2 Transit Attendants		223,960
2 Equipment Operators - Sewer Utility		258,900
Pick-up Truck for Sewer Utility		82,877
Total:	**$2,034,009**	**$565,737**
Combined Total = $2,599,746		

CITY OF ROCHESTER

2027 Recommended Decision Packages	Strategic Value & ROI – Does it advance City goals?	Financial Sustainability – Is funding stable and long-term?	Efficiency & Adaptability – Does it optimize resources or create capacity?	Collaboration – Can we maximize impact through cross-department work?	Community & Organizational Impact – Does it strengthen services for residents and staff?	Accountability & Performance – Can we measure and demonstrate results?	DP Summary
SmartSheet Digital Asset Management Tool - Quality Services	✓	✓	✓	✓	✓	✓	A cloud based storage tool for City images and documents which then can easily be tagged and searched.
2 IT System Support Specialists - Quality Services and Public Safety	✓	✓	✓	✓	✓	✓	Offers additional support to Public safety to meet their technological needs outside of standard working hours.
2027 ERP Project Contingency	✓		✓		✓	✓	To cover funding in the event that supplemental staff or additional JDE support is needed in the new ERP implemantation.
Police Squad Car and Equipment - Public Safety	✓	✓	✓	✓	✓	✓	To support the Community Services police officer and Homeless Outreach Specialist with a squad car and needed equipment.
1 Community Services Police Officer and Homeless Outreach Specialist	✓	✓	✓	✓	✓	✓	Funds 1 full-time police officer and a dedicated homeless specialist. This will increase resources for the Community Action Team and decrease the need for patrol response.
GIS Technician - Fire, Police, EM, and Parks	✓	✓	✓	✓	✓	✓	This dedicated GIS position will help maximize the City's current GIS investment while increasing efficiencies within the department.
Custodial Position for Parks and Forestry Facility	✓	✓		✓	✓	✓	To cover the new 115,000-square-foot Parks and Forestry facility. This position will cover all of the custodial and groundskeeping duties.
Reclass Manager of Facilities & Property to Director of Facilities & Property	✓	✓		✓	✓	✓	This will better develop the entire City facilities function and support by offering leadership and long term ownership of new construction.
Facilities Vehicle Request	✓	✓	✓	✓	✓	✓	For 1 cargo van for the City's maintenance team to replace aging vehicles. This will provide a secure, mobile platform to safely transport all necessary tools and supplies.
Arborist Position	✓	✓	✓	✓	✓	✓	This additional position, 2027, in addition to the position provided in 2026, will continue to utilize these special technical abilities to reduce risk of tree loss for the City and community while providing additional staff capacity to advance urban tree health goals through proper structural pruning and tree care.
2 Transit Attendants	✓	✓	✓	✓	✓	✓	The Link BRT stations will need daily maintenance and cleaning. These two new Transit attendants will provide this service. There is currenlty only one attendant for all other fixed route stations.
2 Equipment Operators - Sewer Utility	✓	✓	✓	✓	✓	✓	For 2 Sewer equipment operators to perform operation and maintenance functions to support the continually growing sanitary sewer and stormwater infrastructure.
Pick-up Truck for Sewer Utility	✓	✓	✓	✓	✓	✓	A new pickup truck to support the 2 new sewer equipment operators.

NOTABLE SUPPLEMENTAL BUDGET REQUEST SUMMARY

CITY OF ROCHESTER

- Reallocating the 2027 Decision Package for two police officers supporting community services to one officer and one social worker. This is a net savings.
- Funding to relocate Public Music to create a meeting space for Boards, Commissions, and City Council as well as council office space closer to the Council Chambers. This is estimated at $688,040.
- Funding to support the public safety training facilities.
- Revised Golf revenue to align with 2023-2025 actuals generating additional $193k in revenue.
- Consider implementing a convenience fee on Credit Card usage like RPU’s plan? Alternatively, increase levy to offset actual.
- Proposal from Attorney’s office to reclass current limited term Attorney II into a full FTE position.
- BFU permit revenue funded activity reconciliation

2027 FEE SCHEDULE

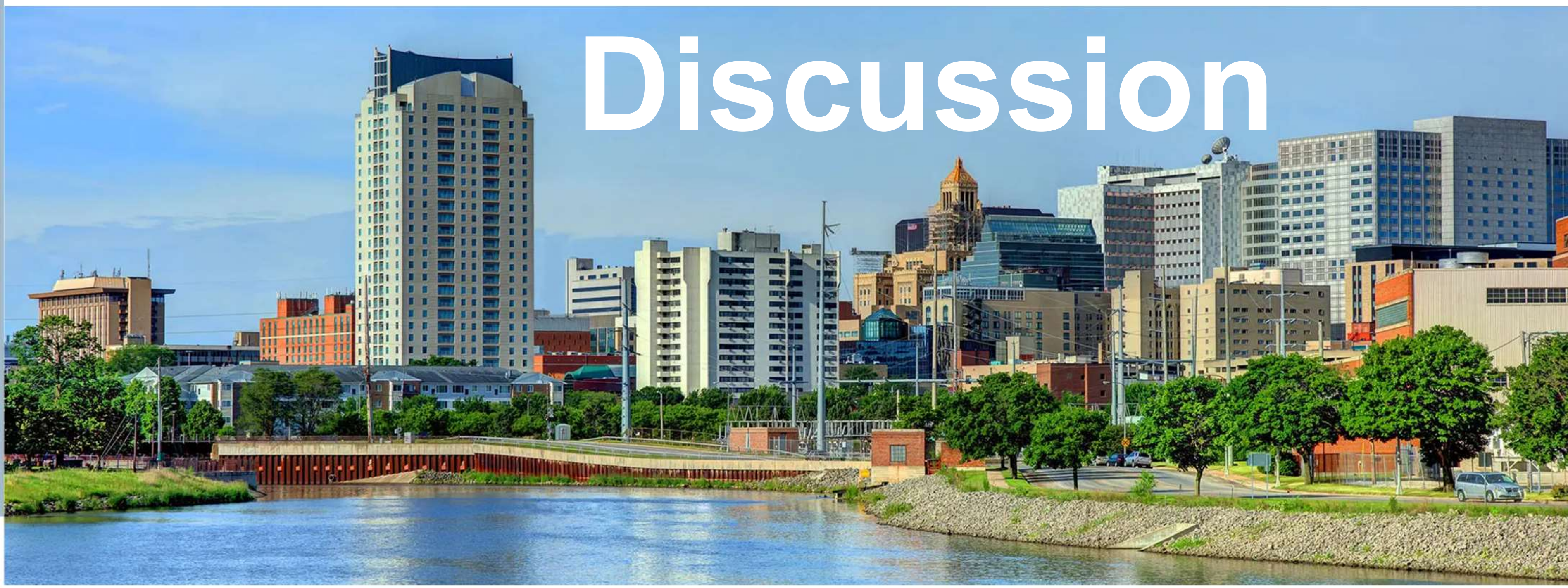
- 32 fees removed, mostly on Circus licenses, Parks bleacher rental and Music equipment rental.
- 7 added in Community Development building division, some of which were transferred from their Housing Code Update.
- Public Works fees continue to be based on the 5-year rolling average of ENR construction cost index.
- Wastewater fees continue to be based on the approved 2022-2027 resolution’s fee table.
- Grading Plan related fees moved from Community Development to Public Works.
- Fire Implemented a fee structure for non-emergent, non-mission critical services based on most current FEMA equipment rates plus salary and benefits for personnel.

CITY OF ROCHESTER

Policy Considerations

- Is the 2027 Supplemental Budget and levy request in alignment with the City Council's priorities?

- Are there any specific issues the Council would like evaluated as part of the supplemental budget process?



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