



RECOMMENDED 2026-2027 BUDGET

August 25, 2025

SLIDE 1

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

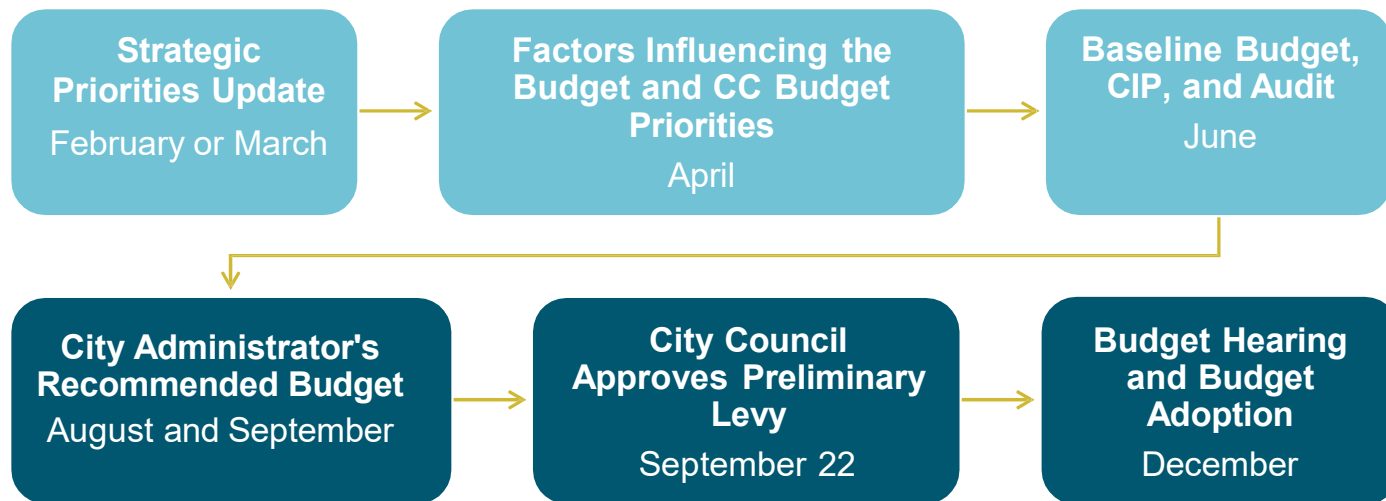
Foundational Principles

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



2026-2027 BUDGET: KEY CITY COUNCIL ENGAGEMENT POINTS



Budget Documents:

<https://www.rochestermn.gov/departments/finance/reports/current-budget-summary-cip/2026-2027-budget-summary>



POLICY CONSIDERATIONS

1. Are there any questions or feedback on the 2026-2027 recommended Operating Budget?
2. Does the Recommended Budget effectively balance the City's Foundational Principles and Strategic Priorities?
3. Are there any specific decision packages or services you want us to dive into at your next study sessions?
4. Is the recommended 2026 preliminary tax levy for consideration September 22, 2025, acceptable?



**City Administrator
Recommended
2026-2027
Operating Budget**



How we Build the Budget Recommendation


As we present the two-year budget forecast, we are focused on aligning investments with City priorities, delivering meaningful value to residents, and ensuring long-term financial sustainability. All recommendations are guided by a set of core evaluation principles.



Strategic Value & ROI



Financial Sustainability



Efficiency & Adaptability



Collaboration



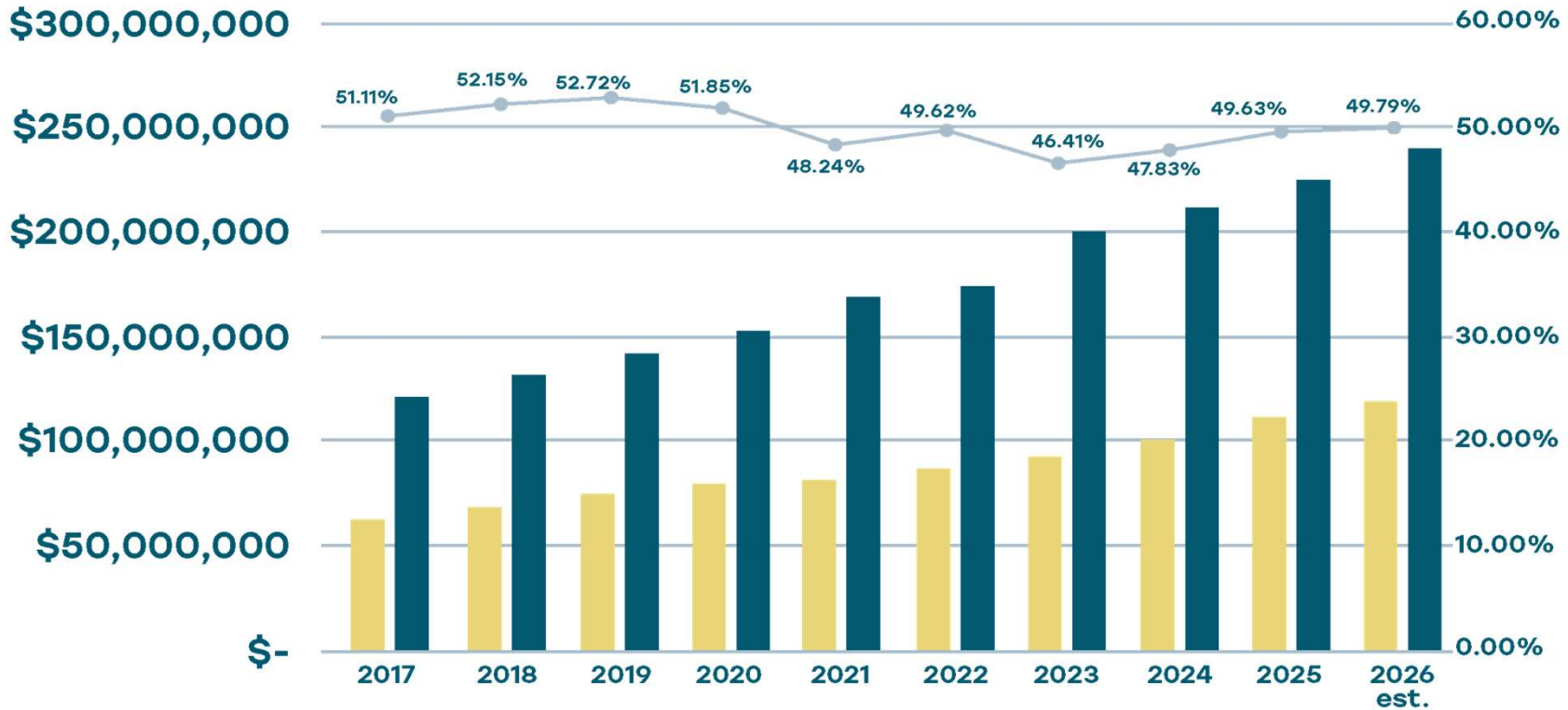
**Community &
Organizational Impact**



**Accountability &
Performance**

These principles apply to both baseline operations (maintaining service levels) and decision packages (adding capacity or new resources to meet community needs).

Property Tax Rates Since 2017



■ Property Taxes ■ Net Tax Capacity ● Tax Rate

$$\text{Local Tax Rate} = \frac{\text{Property Tax Revenue Needed (Levy)}}{\text{Total Tax Capacity (For All Properties)}}$$



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Preliminary Estimated Market Valuation

2025 Property Valuation Growth:

Preliminary estimates payable 2026

New Construction 1.77%

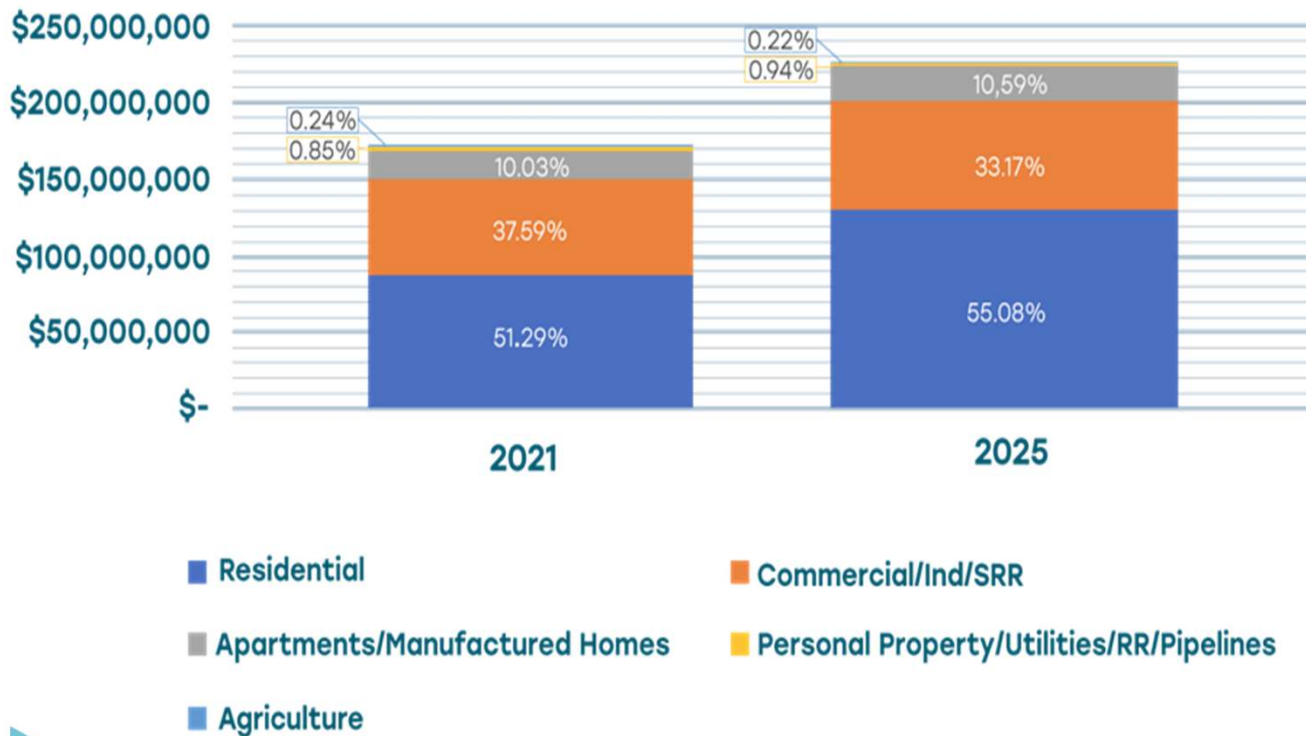
Valuation Adjustment 4.81%

Total Growth in EMV 6.58%

- 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



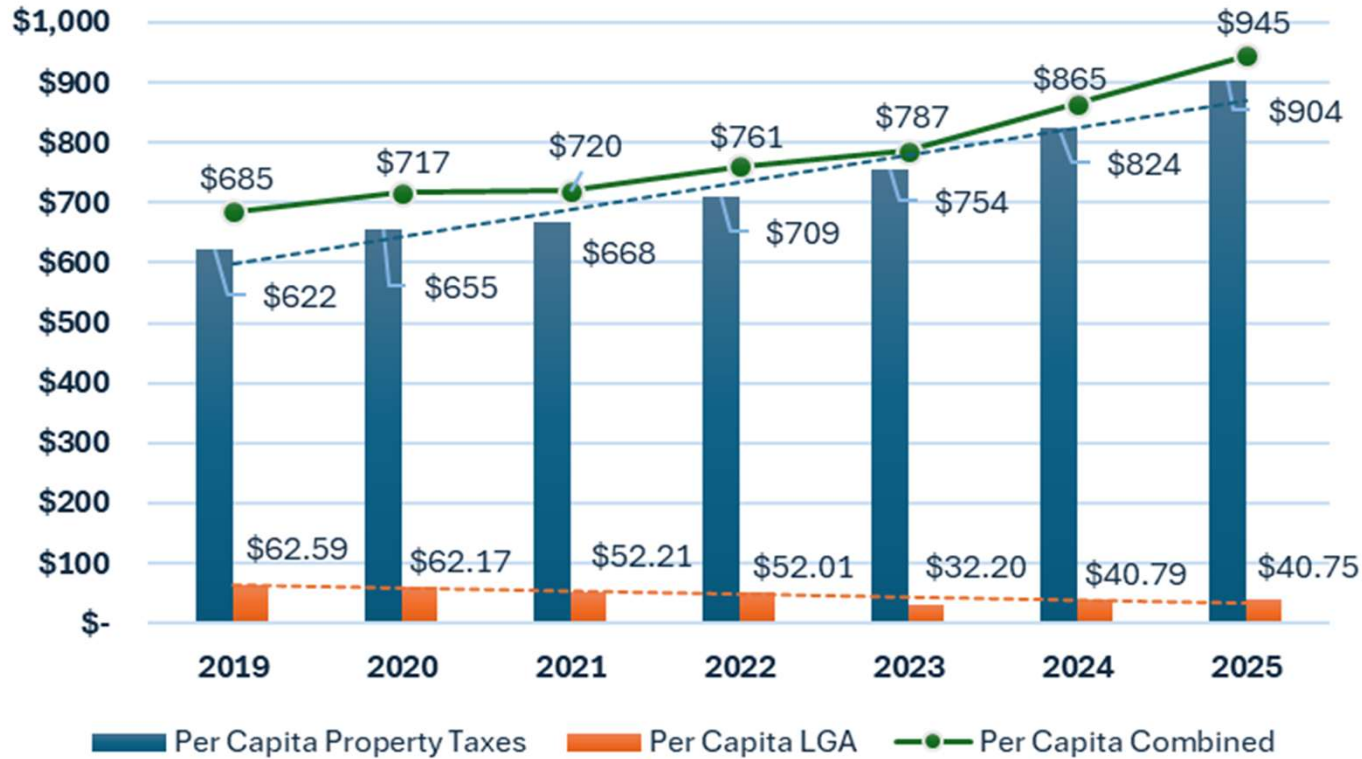
Net Tax Capacity Comparison for Rochester Property Classifications



- Residential made up a total of **51.29%** of net tax capacity in 2021 and has increased to **55.08%** in 2025
- Commercial/Industrial has decreased from **37.59%** up to **33.17%**
- Apartments and Mobile Homes has increased from **10%** to **10.59%**
- 2026 data will be provided during the December Budget Hearing



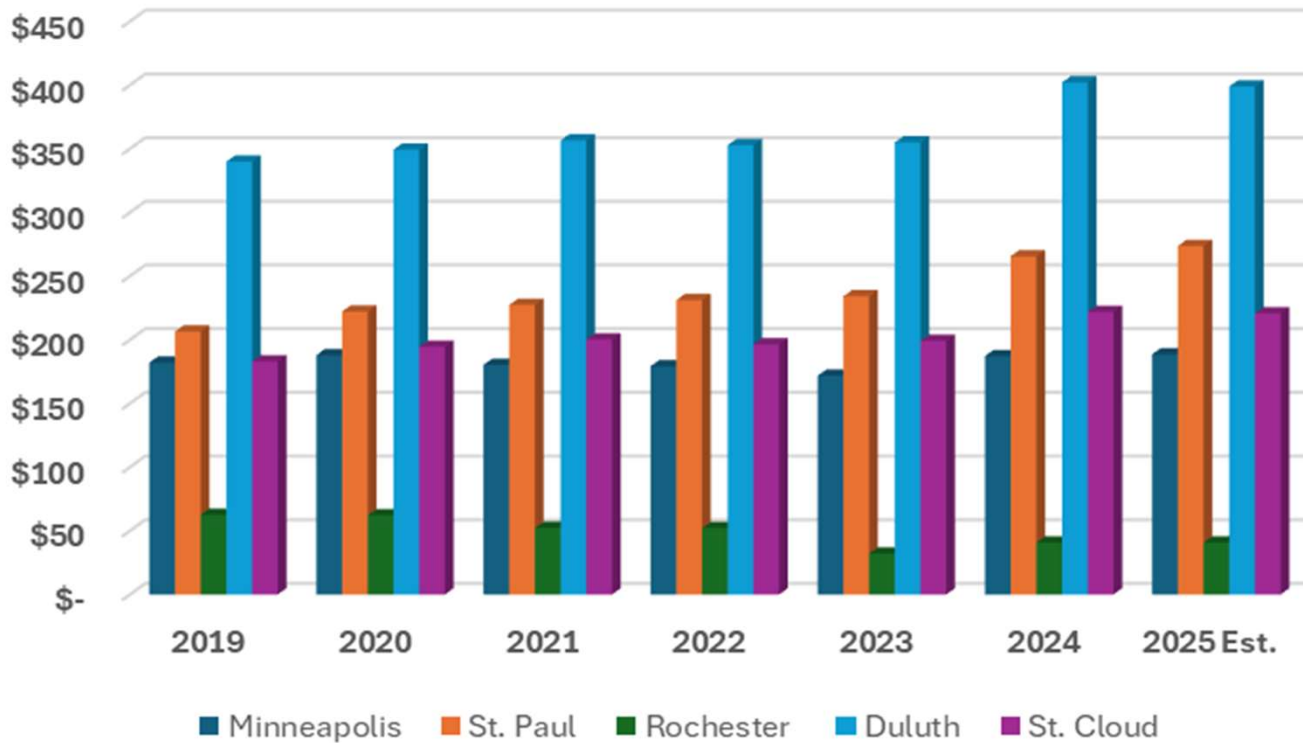
PROPERTY TAXES & LOCAL GOVERNMENT AID (LGA) PER CAPITA



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.



LOCAL GOVERNMENT AID PER CAPITA COMPARED



In 2019, Rochester received approximately \$119 - \$277 less per resident of comparative cities.

In 2025, that difference rose where Rochester received an estimated \$148 - \$358 less per resident of comparative cities.





SIGNIFICANT 2026-2027 BUDGET IMPACTS

- **State funding – Local Government Aid likely continues**
- **Transformational community and capital projects**
- **Inflation and labor cost adjustments**
- **Vehicle and Equipment Revolving Fund**
- **Paid Family Medical Leave implementation**
- **Central Service Allocations**
- **In Lieu Parking, Storm Water and Sewer**
- **Budget Optimization including increases in revenue and decreases in expenses**

2026 RECOMMENDED TAX LEVY AND BUDGET

- Recommended Tax Levy \$118.2 million
- Recommended Total Budget \$663.85 million





2026: \$663.85 MILLION BUDGET (INCLUSIVE OF RPU)

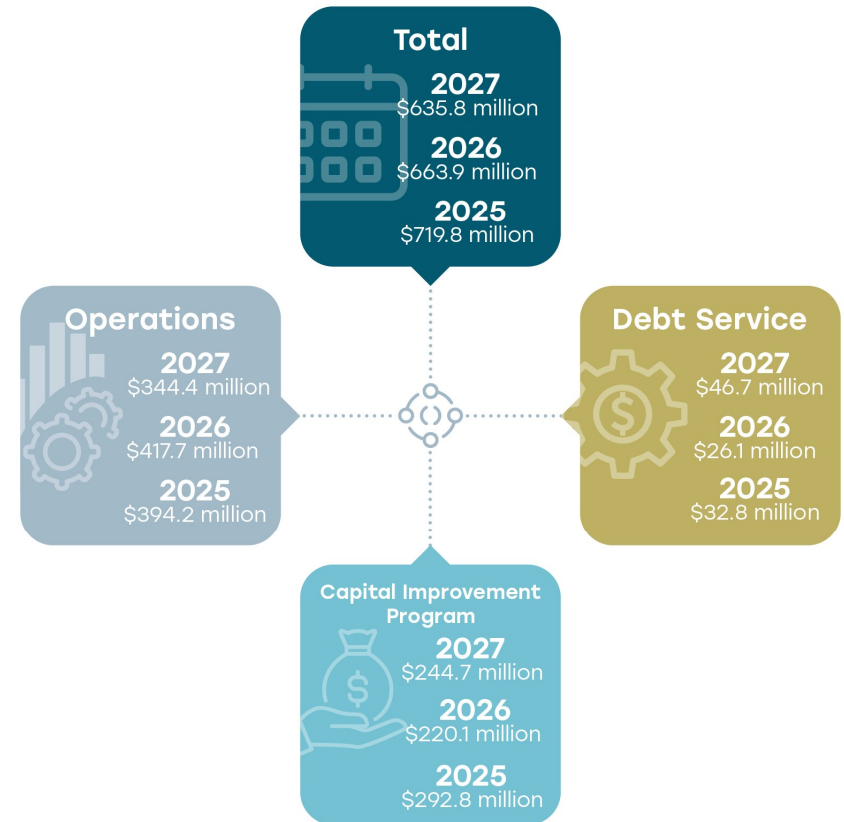
All Funds Combined

- **5.9% or \$6.589 M** Total Levy Increase (not a tax rate)
- **Sewer:** 2026 and 2027 – approximately 1%
 - Rate increases are informed by the 2022-2027 rate study adopted in 2021
 - Wastewater connection fees increase at approximately 2.7% annually and are related to project inflation and the increased cost of wastewater treatment plant infrastructure due to new construction
- **Electric: 6.0%** 2026 - \$5.78/Mo 2027 - \$6.12/Mo
Alternative: 4.0% 2026 - \$3.85/Mo 2027 - \$4.01/Mo
- **Water: 9.0%** 2026 - \$2.01/Mo 2027 - \$2.19/Mo

RPU Cost of Service Studies (COS)

- RPU Board will review Water COS study August 26, 2025
- RPU Board accepted Electric COS September 26, 2023
- Study results inform individual rates for each rate class
- Any adjustments from the recommended RPU budget will be included as final recommendations by the RPU Board for consideration by Council on December 1, 2025

City of Rochester Budget 2025, 2026, 2027
Inclusive of RPU

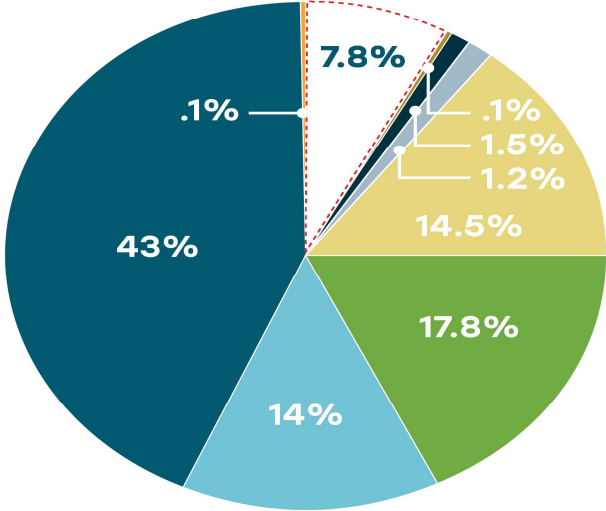




WHERE DOES THE MONEY COME FROM?

- Charges for Service
- Miscellaneous Revenue
- Taxes and Valorem
- Intergovernmental Revenue
- Other Taxes
- Licenses and Permits
- Special Assessments
- Prior Year Revenues and Fund Balance

2026 Total Operating Revenue, Inclusive of RPU



- Charges for Service
- Miscellaneous Revenue
- Taxes and Valorem
- Intergovernmental Revenue
- Fines, Forfeits and Penalties
- Other Taxes
- Licenses and Permits
- Special Assessments
- Prior Year Revenues and Fund Balance

2026 BUDGET OVERVIEW AND CONTEXT

Baseline Budget

- 5.9% levy increase to support current services
- Addressing Equipment Revolving
- Employee services is a significant portion of this
- Paid Family Medical Leave
- Holistic budget stability funding reduction

Decision Packages

- 1.54% increase to address deferred maintenance, service enhancements, Inclusion and Accessibility, organizational sustainability, health, and response to legislative requirements
- Process improvement to move toward long term budget stability

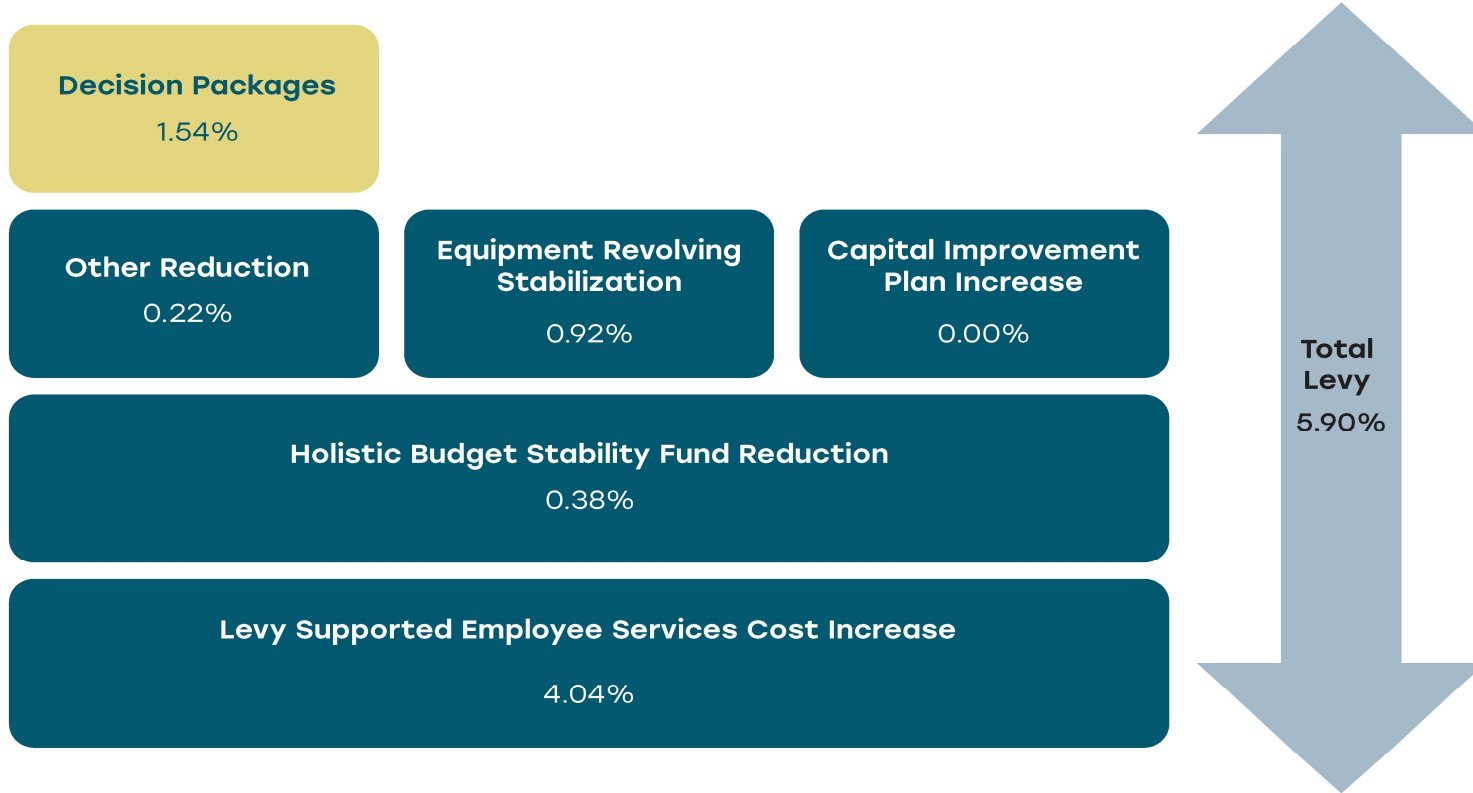
Other Considerations

- Outside Agency Requests are 21% higher on the high end

BUILDING THE BUDGET – INVESTING IN PRIORITIES



BREAKING DOWN THE LEVY INCREASE





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 reestablishes essential expenditures that were part of \$3.5 million in unsustainable expenditure reductions.



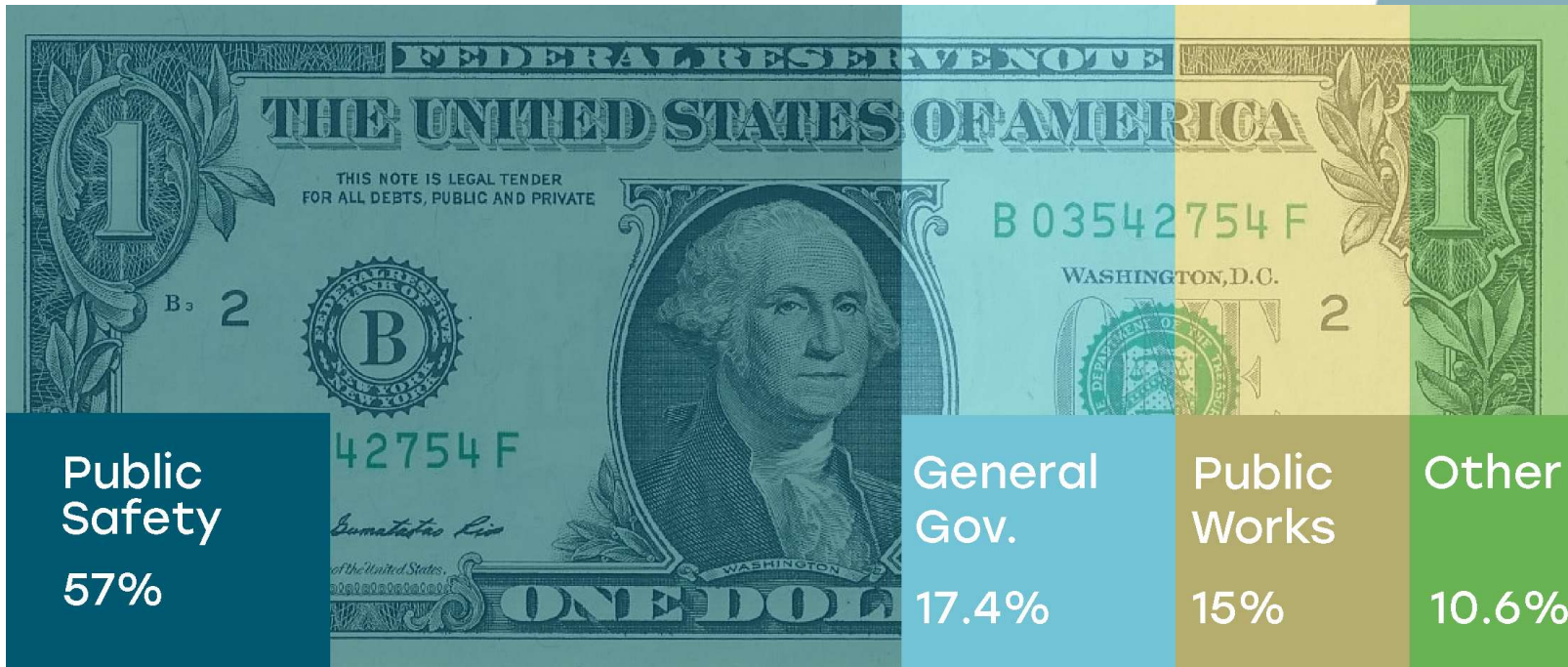
Budget Stability Funding (\$6.2M)

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



WHERE DOES THE MONEY GO?

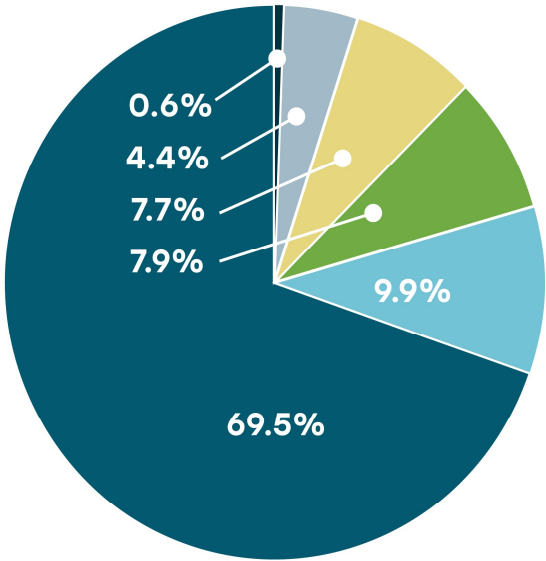
2026 General Fund expenses are \$10.9 million more than 2025.



2026 PROPERTY TAX DISTRIBUTION

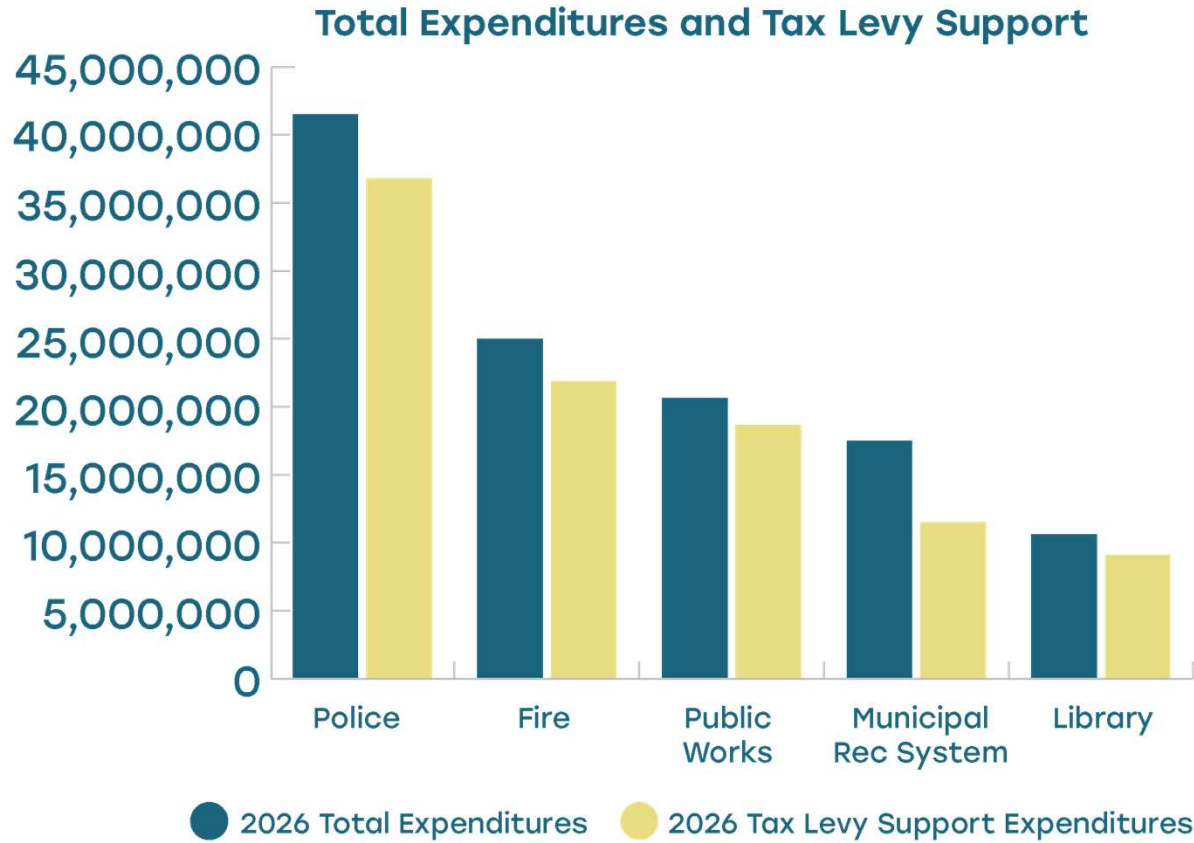
2026 Property Tax Distribution

- General Fund
- Library
- Parks and Rec
- Debt/Internal Service
- CIP
- Airport



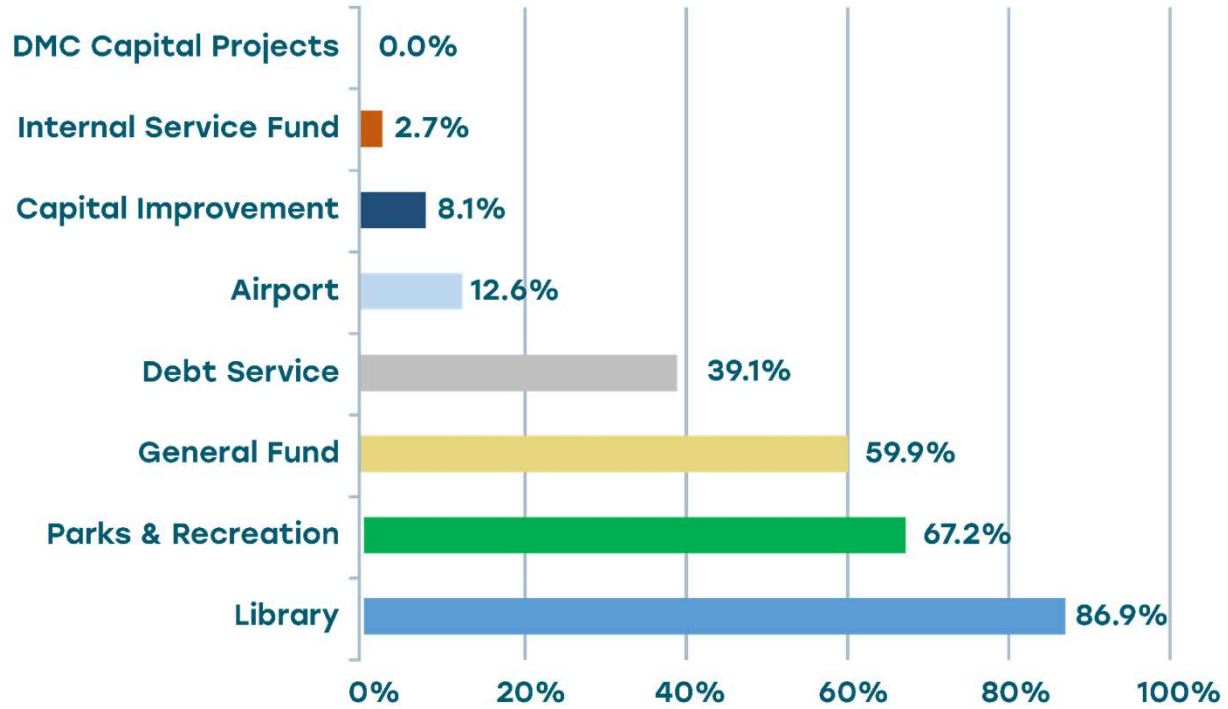


2026 TOTAL EXPENDITURES AND TAX LEVY SUPPORT





FUND RELIANCE ON TAX LEVY



LONG RANGE FINANCIAL MANAGEMENT PLAN-RECOMMENDED BUDGET

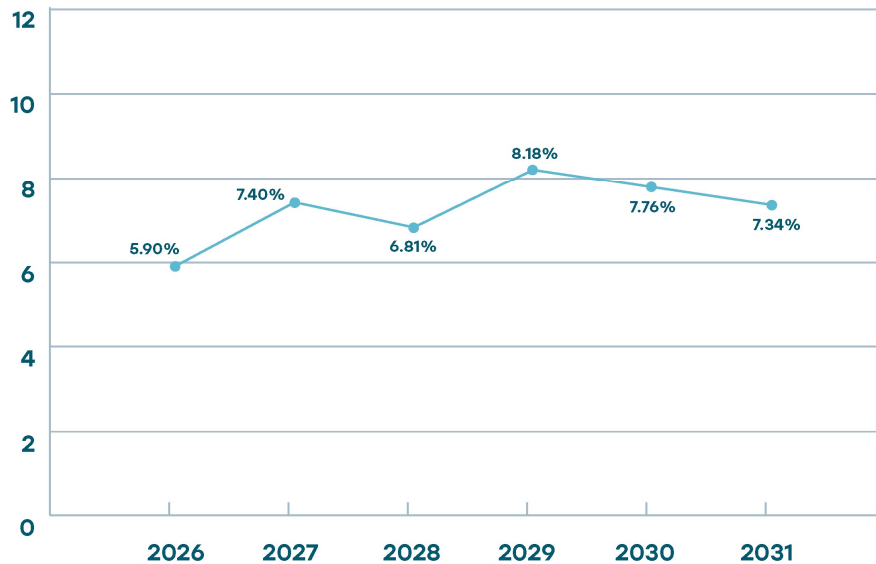
Taxes Levied on Tax Capacity	2026	2027	2028	2029	2030	2031
Projected Levy for General Fund	(82,189,827)	(89,050,125)	(96,890,284)	(106,105,260)	(115,760,264)	(125,927,078)
Projected Levy for Library Fund	(9,095,025)	(9,468,609)	(10,091,630)	(10,687,287)	(11,317,706)	(11,986,060)
Projected Levy for Muni 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%





LONG-RANGE FINANCIAL MANAGEMENT PLAN

Tax Levy Percent Increase



- 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 do reflect annual contingency for items that are difficult to anticipate in the forecast.
- Assumes Regular Personnel Costs (total compensation) require approximately 5.50% levy adjustment from 2026-2029
- The reduction in 2028 partially reflects a reduction in debt service costs.
- 2026 also reflects the addition of debt service for the Parks Maintenance Facility.
- Last's years long range plan contemplated a 2026 increase of 10.68% levy increase.



2026 AND 2027 MAJOR REVENUES

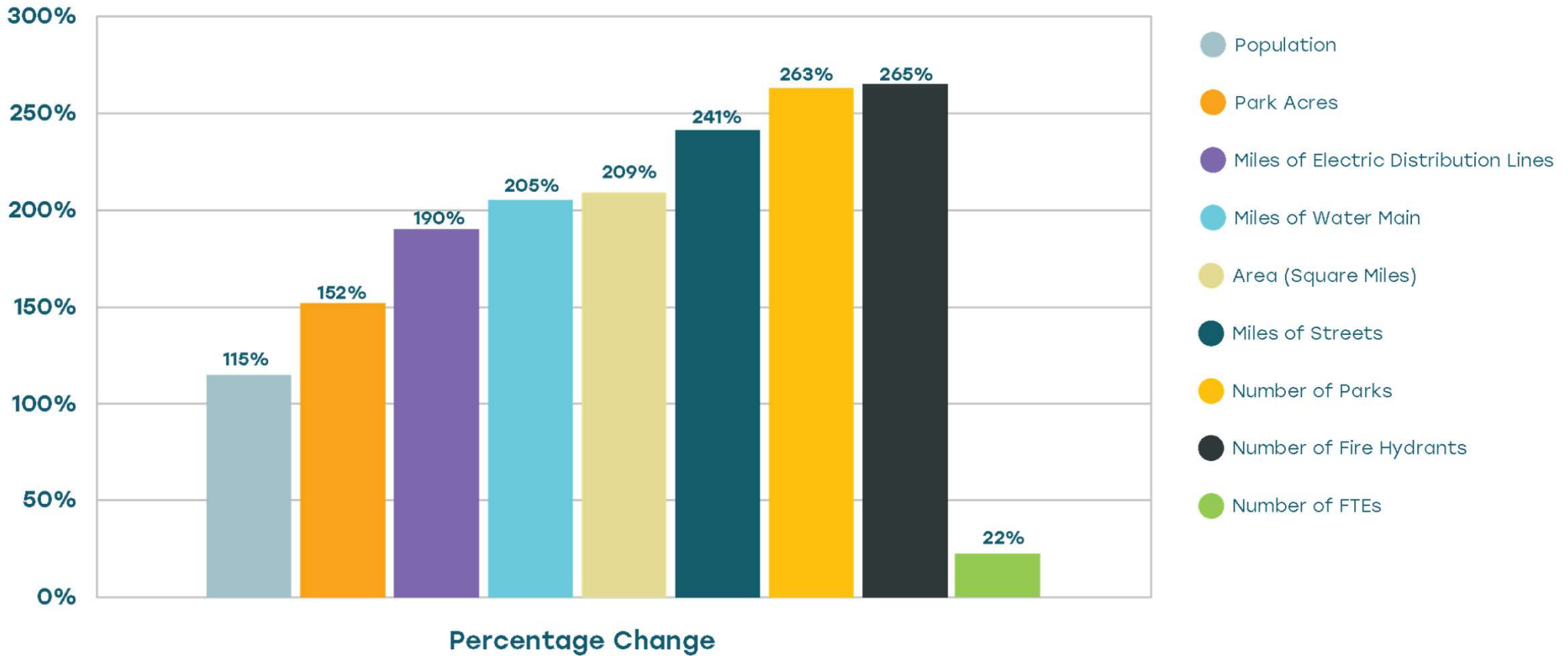
Table 1
2026 & 2027 Major Revenues Versus 2025 Inclusive of RPU

	2025 Adopted Budget	2026 Recommended Budget	2027 Recommended Budget	2025-2026 Increase/(Decrease)	2025-2026 Percent of Change	2026-2027 Increase/(Decrease)	2026-2027 Percent of Change
Tax Levy & Tax Abatements	111,645,142	118,234,633	126,985,711	6,589,491	5.90%	8,751,078	7.40%
Local Government Aid	3,958,994	3,958,994	3,958,994	0	0.00%	0	0.00%
Local Government Aid (CIP)	1,067,000	1,076,049	1,076,049	9,049	0.00%	0	0.00%
Hotel/Motel Tax	6,491,160	6,750,806	7,020,839	259,646	4.00%	270,033	4.00%
Cable TV Franchise Fee	1,165,296	974,505	929,370	(190,791)	-16.37%	(45,135)	-4.63%
Inspection Permits	3,943,146	5,726,727	5,726,727	1,783,581	45.23%	0	0.00%
Service Fees	1,297,432	1,301,926	1,301,926	4,494	0.35%	0	0.00%
Bold Forward Unbound	2,587,777	5,142,955	2,091,453	2,555,178	98.74%	(3,051,502)	-59.33%
In Lieu of Tax	15,372,858	15,765,732	16,191,467	392,874	2.56%	425,735	2.70%
Sewer Utility Charge	28,500,000	28,800,000	28,800,000	300,000	1.05%	0	0.00%
Storm Water Utility Fee	8,934,050	9,166,623	9,166,623	232,573	2.60%	0	0.00%
Library Fund							
City Share-Levy	8,644,679	9,095,025	9,468,609	450,346	5.21%	373,584	4.11%
County Share	1,183,842	1,259,191	1,259,191	75,349	6.36%	0	0.00%
Municipal Recreation Fund							
Fee Revenues	4,637,118	5,685,109	5,685,109	1,047,991	22.60%	0	0.00%
Non-Fee Revenues	11,506,055	11,906,575	12,710,895	400,520	3.48%	804,320	6.76%
Parking Fund							
Parking Fines	471,343	500,000	500,000	28,657	6.08%	0	0.00%
Parking Ramps	5,897,234	5,700,000	5,700,000	(197,234)	-3.34%	0	0.00%
Street Meters	1,338,250	1,338,250	1,338,250	0	0.00%	0	0.00%
Parking Lots	417,701	461,600	461,600	43,899	10.51%	0	0.00%
RPU							
Charges for Services	216,086,000	222,858,000	236,419,000	6,772,000	3.13%	13,561,000	6.09%
Private Funds	4,495,000	2,529,000	2,993,000	(1,966,000)	-43.74%	464,000	18.35%



PERCENT CHANGE OF OPERATING INDICATORS: 1980 - 2024

Operating Indicators





2026 Central Service Total Allocations

- **Cost allocation is the process of assigning indirect costs, commonly referred to as “overhead costs”, to the programs or functions**
- **Indirect costs are for support services that are shared by multiple departments, programs and/or funds**
- **A cost allocation plan is an important management information tool because it goes beyond budget and year-end accounting documents to delineate the actual cost of providing services to the public**
- **While common for most cities, this is a new for the 2026-2027 Operating Budget**

2026 Total Allocation: \$1,091,350

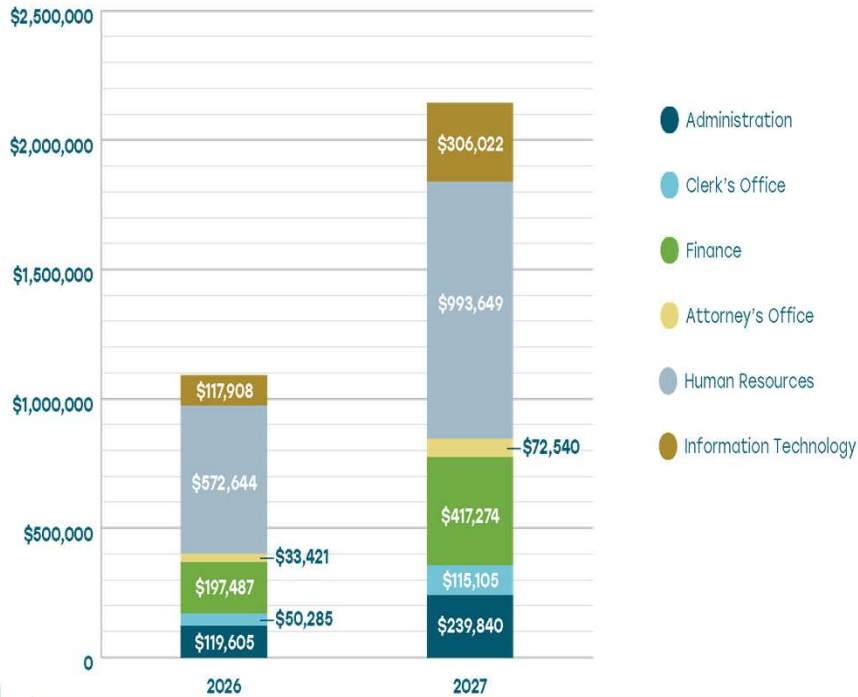
2027 Total Allocation: \$2,144,430



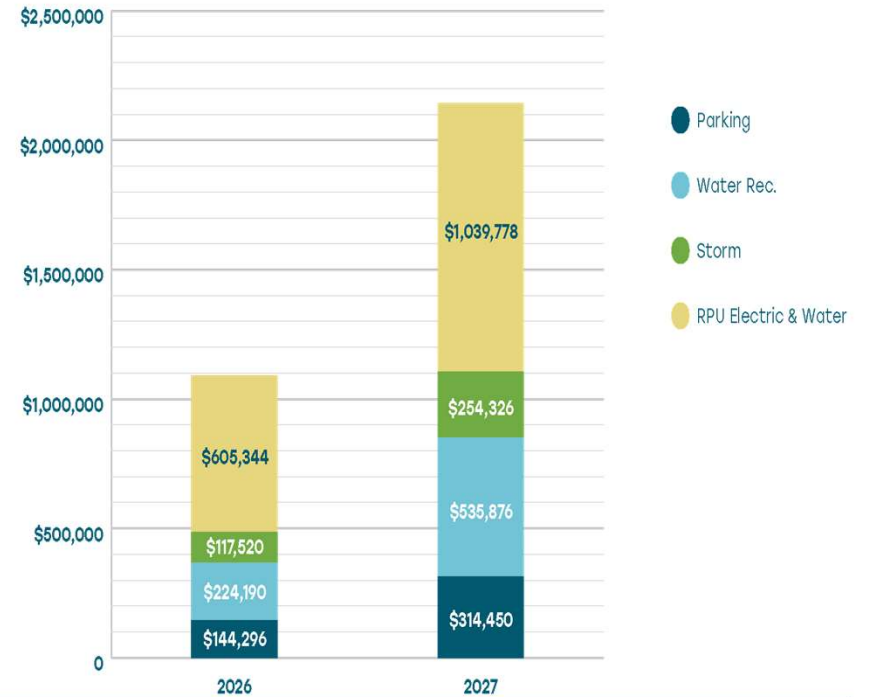
2026 Central Service Total Allocations

- 2026 Total Allocation: \$1,091,350
- 2027 Total Allocation: \$2,144,430

Central Service Allocations From:



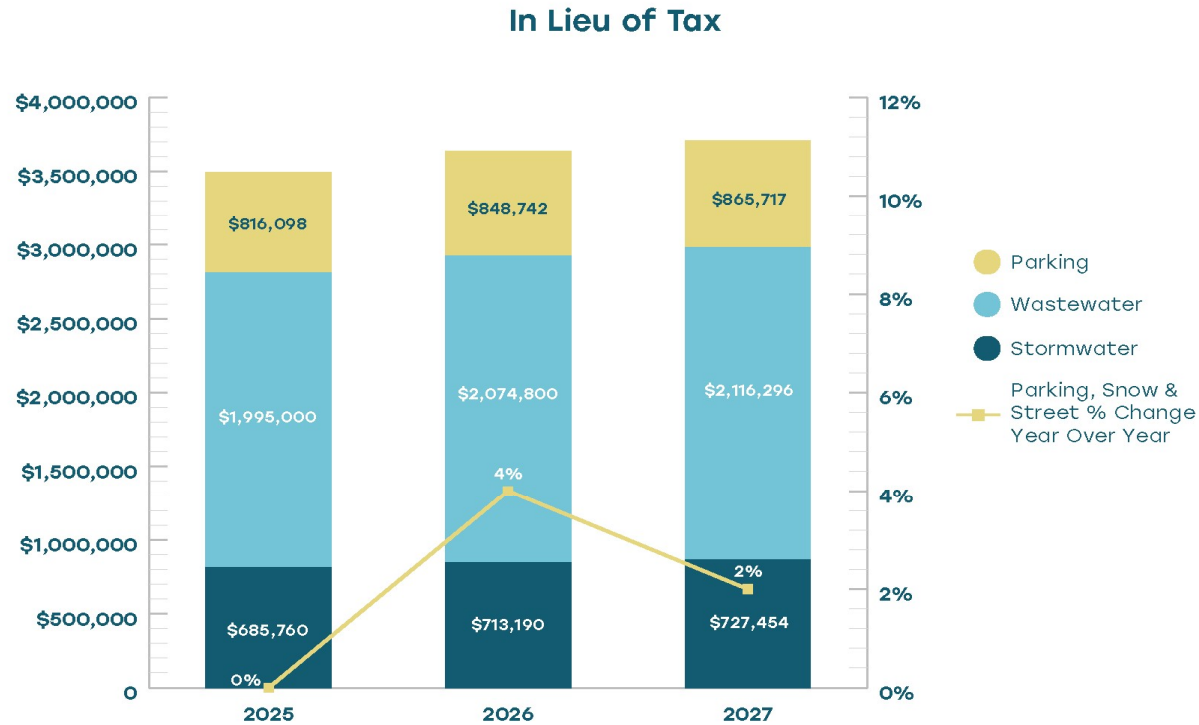
Central Service Allocations To:





In-Lieu 2026 and 2027 Parking, Wastewater and Stormwater

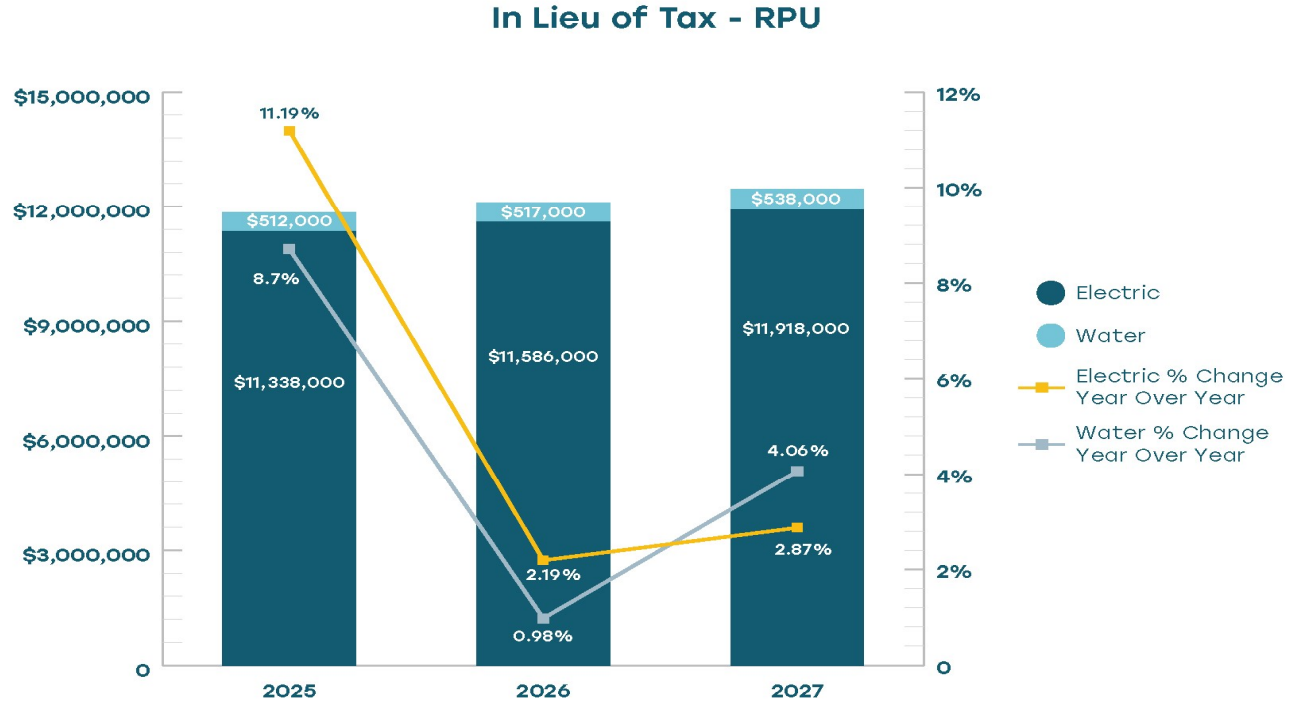
Payment In Lieu of Taxes (PILOT) transfers from enterprise funds to the General Fund will continue under existing formulas.





In-Lieu 2026 and 2027 RPU

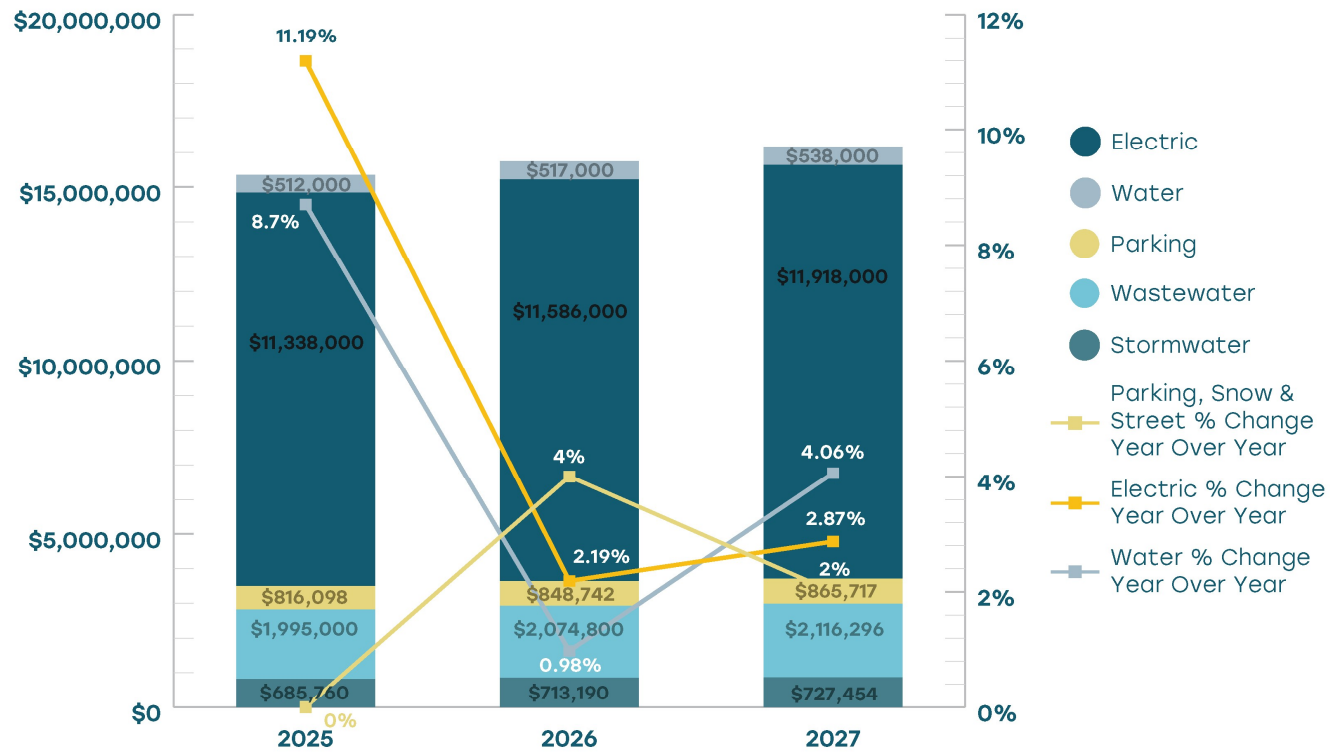
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In-Lieu 2026 and 2027 RPU

Payment In Lieu of Taxes (PILOT) transfers from enterprise funds to the General Fund will continue under existing formulas.





Key Operational Investments Recommended

2026 Recommended Decision Packages

Strategic Priorities

Economic Resilience	Housing Access	Inclusive Growth-Management	Responsible Environmental Stewardship	Transformational Capital Projects	Foundational Principles
<ul style="list-style-type: none"> • Digital Content Assistant (Part-Time) • 4 Library Customer Support Assistants 	<ul style="list-style-type: none"> • Personal Protective Equipment mandatory cleaning/inspections • Street Maintenance Snowplow and sweeping management software • Maintenance Service Center Operational Budget • DSIC contracted services 	<ul style="list-style-type: none"> • Shelter, Restrooms, Playground and Parks Activation • Maintenance FTE for Parks and Forestry Facility and BRT Infrastructure • Management Analyst – ADA Accessibility Coordinator 	<ul style="list-style-type: none"> • Arborist Position • Park CSO's – Seasonal • 2 Community Service Officers • Reclass Transit Project Manager to Transit Operations Manager 	<ul style="list-style-type: none"> • Reprioritize Existing FTE to Create and AI Implementation Strategist Position • Facilities Vehicle • Building Inspector • Unbound Vehicle Request • Reclass DMC Project Manager for Construction to Assistant Director of Construction 	<ul style="list-style-type: none"> • Technology Forensic Detective – Public Safety • 311 Customer Service Specialist – Inclusive Decision Making • 2 Community Connectors – Social Equity • IT System Administrator – Public Safety



2026 Decision Packages- Tax Levy vs Non Tax-Levy

2026 Recommended Decision Packages		
Title	Levy	Non-Levy
Reprioritize Existing FTE to Create and AI Implementation Strategist Position	11,438	
Management Analyst - ADA Accessibility Coordinator	153,235	
2 Community Connectors - Social Equity	64,915	
311 Customer Service Specialist - Inclusive Decision Making	121,115	
Digital Content Assistant (Part-Time)	31,209	
IT System Administrator - Public Safety	154,644	
Technology Forensic Detective - Public Safety	184,145	
Park CSOs - Seasonal	73,238	
2 Community Service Officers	224,055	
Personal Protective Equipment Mandatory Required Inspections/Cleaning	120,000	
Street Maintenance Snowplow and Sweeping Management Software	32,000	
DSIC Contracted Services	20,000	
Maintenance FTE for Parks and Forestry Facility and BRT Infrastructure	134,575	
Maintenance Service Center Operational Budget	155,612	
4 Library Customer Support Assistants	193,654	
Shelter, Restrooms, Playground and Parks Activation	50,301	
Arborist Position	124,380	
Building Inspector	(71,665)	
Facilities Vehicle	2,658	59,800
Unbound Vehicle Request		59,788
Reclass DMC Project Manager for Construction to Assistant Director of Construction		8,674
Reclass Transit Project Manager to Transit Operations Manager		4,732
Total:	\$1,779,509	\$132,994
Combined Total = \$1,912,503		

2027 Recommended Decision Packages

Strategic Priorities

Economic Resilience	Housing Access	Inclusive Growth-Management	Responsible Environmental Stewardship	Transformational Capital Projects	Foundational Principles
	<ul style="list-style-type: none"> • 2 Community Service Police Officers – Homeless Outreach • GIS Technician – Fire, Police, EM and Parks 	<ul style="list-style-type: none"> • Custodial Position for Parks and Forestry Facility • 2 Transit Attendants 	<ul style="list-style-type: none"> • Arborist Position • Reclass Manager of Facilities & Properties to Director of Facilities & Properties • 2 Equipment Operators – Sewer Utility • Pick-up Truck for Sewer Utility 	<ul style="list-style-type: none"> • Facilities Vehicle Request • 2027 ERP Project Contingency 	<ul style="list-style-type: none"> • 2 IT System Support Specialists – Quality Services and Public Safety • SmartSheet Digital Asset Management Tool – Quality Services • Police Squad Car and Equipment – Public Safety



Budget Documents: <https://www.rochestermn.gov/departments/finance/reports/current-budget-summary-cip/2026-2027-budget-summary>

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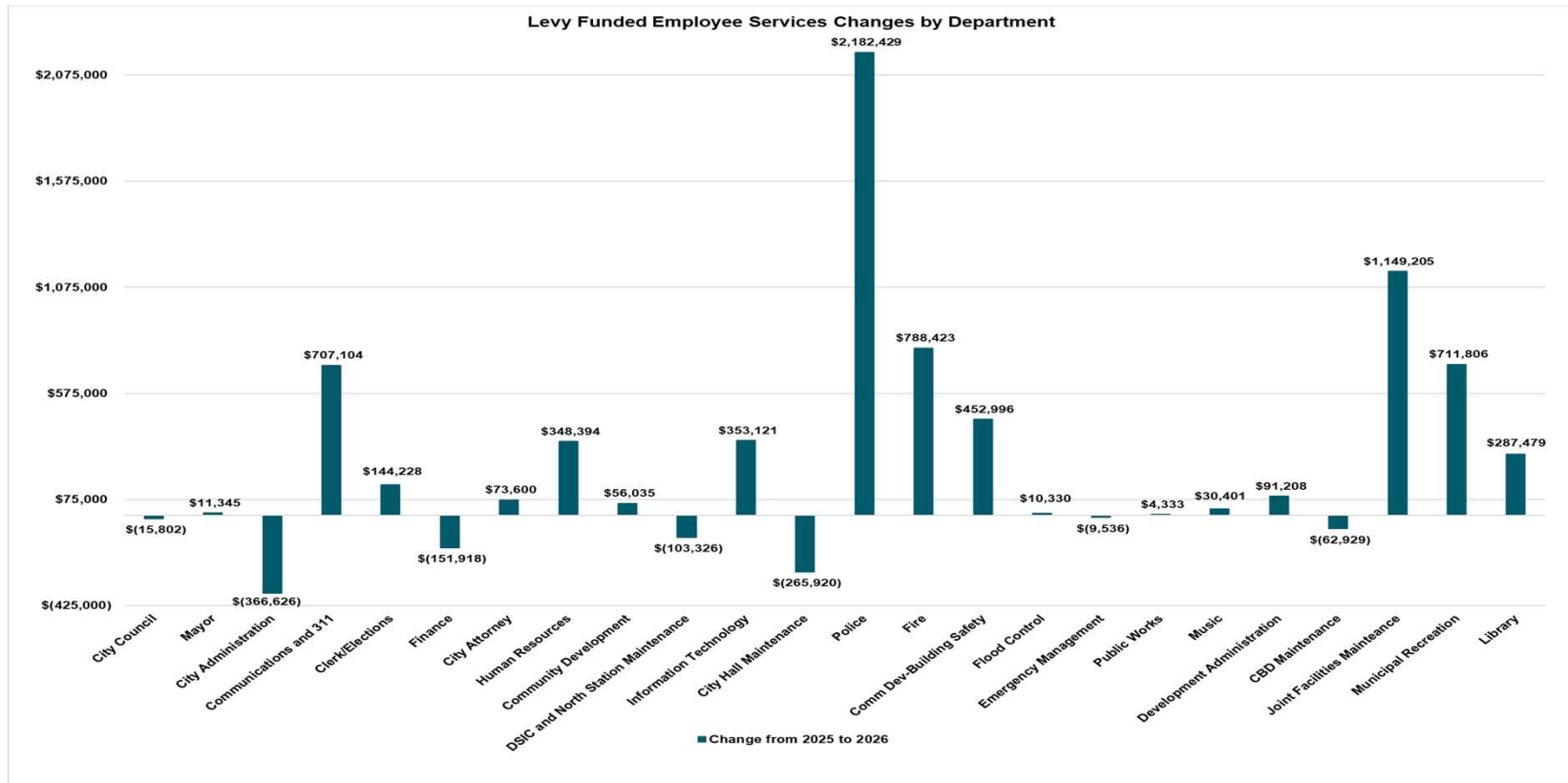
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2027 Decision Packages- Tax Levy vs Non Tax-Levy

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		



EMPLOYEE SERVICES COSTS



- Increase in Joint Facilities is due to centralizing from other departments, such as at Library, City Hall Maint, and PWTOC
- Increase in Communications and 311 is due to centralizing from Administration

TEAMMATE EXPENSES

- \$11.2 million increase for all funds (includes RPU)
 - General Fund: \$5.4 million
 - Police: \$2.2 million
 - Fire: \$.8 million
 - Library: \$0.3 million
 - Municipal Recreation: \$0.7 million
 - RPU \$3.6 million
 - Other funds: \$1.2 million
- Salaries net increase: 7.1%
 - 19 bargaining units
 - Eight labor contracts to renegotiate for 2026
- Health & dental: 8% and 1.5% for 2026



2026 & 2027 COMMUNITY REINVESTMENT FUNDING AND ECONOMIC DEVELOPMENT RECOMMENDATIONS

Agency name	2026-2027 Funding Requested	2025 Funding	Increase from 2025 Funding to 2026 Rec	2026 Rec (5%)	Increase from 2026 Rec to 2027 Rec	2027 Rec (3%)	High End (2026 or 2027)	Notes for "high end"
125 Live	\$114,610	\$110,160	+\$4,450	\$114,610	+\$2,292	\$116,902	\$114,610	Funding is set by the operating agreement, with an additional \$10,500 allocated Annually for event parking
Community Building Fund	\$50,000	\$50,000		\$50,000		\$50,000	\$100,000	Could increase funding to enhance the small grant program
History Center	\$47,500	\$37,500	+\$10,000	\$47,500		\$47,500	\$47,500	
Human Rights Commission	\$12,500	\$5,400		\$5,400		\$5,400	\$6,000	Could fund at 2019 level
RAEDI	\$97,000	\$75,000		\$75,000		\$75,000	\$97,000	Would provide more operating dollars
RNeighbors	\$120,000	\$92,015	+\$17,985	\$110,000	+\$10,000	\$120,000	\$120,000	2027 funding increase requires stability In budget and budget planning
Rochester Art Center	\$192,780	\$178,500	+\$6,500	\$185,000	+\$2,000	\$187,000	\$192,780	Would provide more operating dollars
Rochester Civic Theatre	\$125,000	\$100,000	+\$15,000	\$115,000	+\$10,000	\$125,000	\$125,000	Increase would support their programming and work in hosting 25+ nonprofits & community organizations
Rochester Downtown Alliance	\$250,000	\$125,000		\$125,000		\$125,000	\$155,000	Could fund a pilot marketing program For an additional \$30,000
RochesterFest	\$35,000	\$24,905	+5,095	\$30,000	+1,500	\$31,500	\$35,000	Could fund entire requested increase
SBDC	\$50,000	\$15,000		\$15,000		\$15,000	\$15,000	
SMIF	\$15,000	\$15,000	-\$15,000	\$0		\$0	\$0	
Youth Council	\$10,000	\$10,000		\$10,000		\$10,000	\$10,000	
Total:	\$1,119,390	\$838,480	+\$44,030	\$882,510	+\$25,792	\$908,302	\$1,017,890	High End Adds \$179,410 (21% increase)

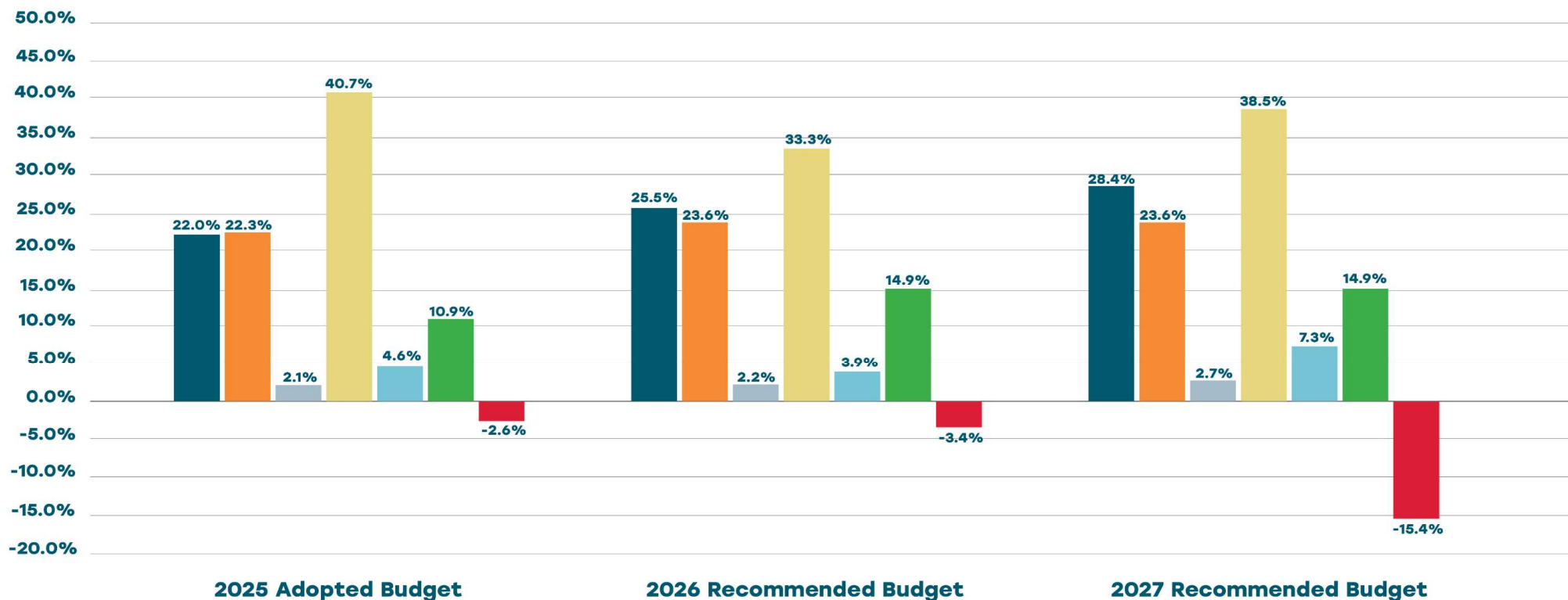


Outside Agencies: Summary of Services Provided SLIDE 40

- **125 Live** offers health, social, educational, & recreational programs to enrich lives of older adults. Our investment supports active and social programming for seniors.
 - **History Center of Olmsted County** preserves and shares local history through exhibits, educational programs, and archival resources. Our investment focuses on archival services and community programming.
 - **Human Rights Commission** provides a phone line through Olmsted County to address human rights concerns.
 - **Rochester Area Economic Development, Inc. (RAEDI)** supports business growth with planning, financing, and site selection assistance. RAEDI also administers a revolving loan program on behalf of the City.
 - **RNeighbors** empowers neighborhoods through community engagement, environmental initiatives, and collaborative projects. Our service agreement supports neighborhood association capacity building, neighborhood tree planting, and related initiatives.
 - **Rochester Art Center** fosters appreciation of contemporary art through exhibitions, education, and community events. Our investment supports operations and programming for the community and visitors.
 - **Rochester Civic Theatre** produces live performances, educational programs, and outreach initiatives to enrich the arts. Our investment supports operations and programming for the community and visitors.
 - **Rochester Downtown Alliance** enhances downtown vitality with events, promotions, and business support. Our investments support clean, green, and safe; downtown activation, and Peace Plaza stewardship.
 - **Small Business Development Center (SBDC)** provides confidential consulting for small businesses, including business plans and financial projections. Our investment supports small business consultation.
 - **Southeastern Minnesota Initiative Foundation (SMIF)** supports regional economic growth through grants, loans, and programming for early childhood and entrepreneurship.
 - **Youth Council** engages young people in local governance, advising city and county leaders on community issues. Our investment supports programming focused on youth leadership development.
-



Expenditure Categories (Inclusive of RPU)



■ Employee Services
 ■ Contractual Services
 ■ Internal Service Funds
 ■ Capital Improvement Plan
 ■ Debt Service
 ■ Other
 ■ Miscellaneous





General Fund

General Fund

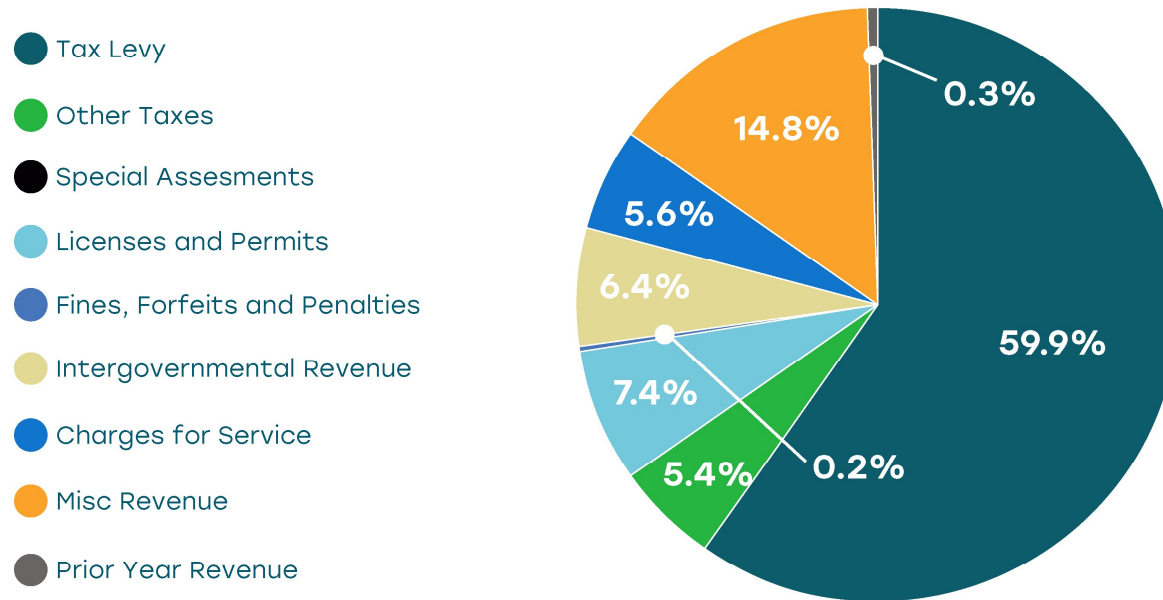
	2025 Adopted	2026 Recommended	Difference
Revenue	\$126,331,898	\$137,207,994	\$10,876,096

- Covers core government services primarily funded with property taxes and fees for service. Core services include snow removal, street maintenance, fire suppression, medical assists, police patrol, police investigations, 911, elections, planning, building inspection, and many other forward facing community services.
- Key operational and financial factors for the General Fund were covered in previous slides.
- Departments engaged in significant budget optimization efforts early in 2025 to deliver you a budget that meets community service and financial expectations.
- Toward the end of 2025 or early 2026 the Council will be provided updated financial and accounting policies to ensure accountability and progressive financial management. We continue to maintain a AAA Bond Rating



WHERE DOES THE MONEY COME FROM?

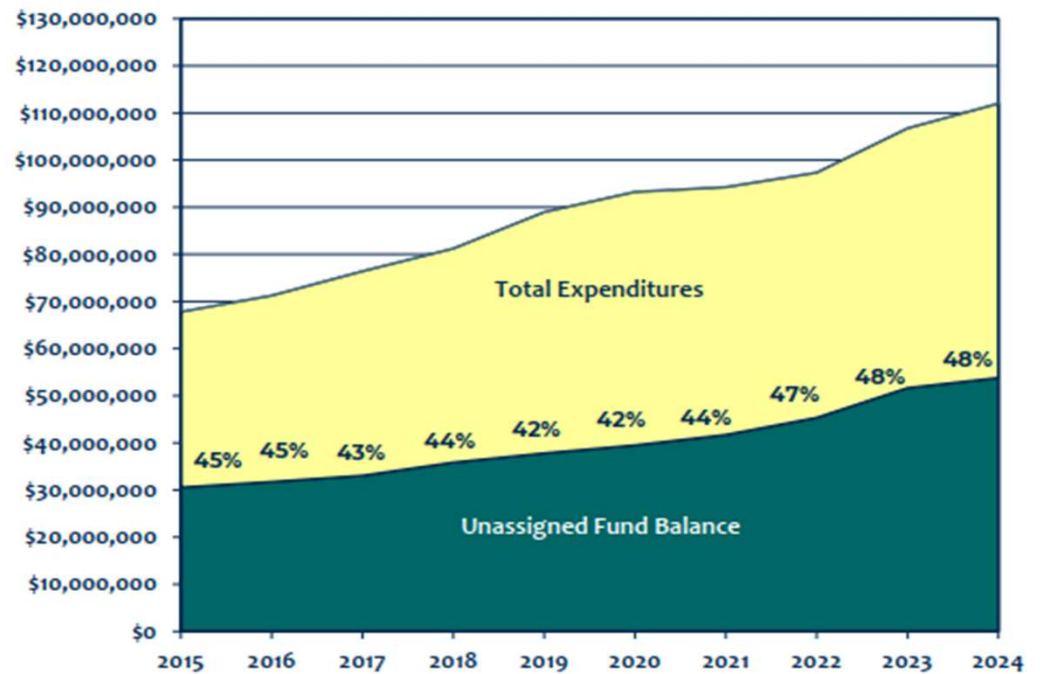
- 2026 General Fund Revenue: \$137.2 million



GENERAL FUND BALANCE

General fund unassigned fund balance was \$53,787,788 at 12/31/2024

State Auditor recommendation and adopted city policy is no less than 5 months of expenditures (42%)



Special Revenue Funds

A government account that collects money to be used for a specific purpose. It's a type of governmental fund used in accounting to record revenue sources that are restricted or committed for a specific purpose.

Demonstrate accountability - Show transparency when tracking cash inflows and outflows for special purposes.

Ensure taxpayer accountability - Give taxpayers confidence that their tax dollars are being used for their intended purpose.

SPECIAL REVENUE FUND-MUNICIPAL RECREATION

	2025 Adopted	2026 Recommended	Difference
Revenue	\$16,172,581	\$17,338,051	\$1,165,470

- Implementation of the Park Levy supported Accelerated Investment and Annual Funding continues. This includes capital investments and operational adjustments
- Additional Arborist position will support Parks and Forestry efforts to manage urban canopy
- In cooperation with RPD, there will be increased monitoring and maintenance of picnic shelters and restroom facilities
- Minor staffing adjustments will be needed to operate the Silver Lake Pool and splash pad.
- Increased seasonal staff hours to support requests for city-supported events and activities



SPECIAL REVENUE FUND-LIBRARY

	2025 Adopted	2026 Recommended	Difference
Revenue	\$9,916,430	\$10,462,553	\$546,123

- Includes DP for 4 FT entry level positions; funded through a combination of increase in the fund line and decrease in temporary salaries
- One-time charge of \$42K for new library vehicle
- Doubled operating transfer for building improvements to align with rising costs
- Contractual costs for technology and software continue to rise



SPECIAL REVENUE FUND – AIRPORT

	2025 Adopted	2026 Recommended	Difference
Revenue	\$5,457,153	\$6,062,707	\$605,554

- Modest baseline increases due to operational service capacity needs (utilities, contractual services, etc.)
- Anticipated increase in airport parking revenue through fee schedule change
- Capital Projects: Parking Lot Reconstruction/Upgrades (Design), Apron Improvements, Next Phase Runway 3/21 Reconstruction, Exit Lane Technology



SPECIAL REVENUE FUND – TRANSIT

	2025 Adopted	2026 Recommended	Difference
Revenue	\$14,972,845	\$15,090,317	\$117,472

- LINK Rapid Transit implementation continues with the first phase of staffing beginning within the 2024-2025 Budget and office remodel in 2026
- Evaluation of our paratransit program is ongoing
- Capital Projects: Procure Buses, Ongoing Bus Stop Improvements, North Broadway Park and Ride



Enterprise Funds

A self-supporting government fund that sells goods and services to the public for a fee. These funds are a good way to assure the long-term sustainability of a variety of government-owned infrastructure systems, since they do not require allocations of tax proceeds from the general fund.

ENTERPRISE FUND - PARKING

	2025 Adopted	2026 Recommended	Difference
Revenue	\$6,649,982	\$7,437,500	\$787,518

- Regularly scheduled ramp restoration projects (two in 2026)
- Continue implementation of Rate Study recommendations
- Surface Lot Maintenance
- Continued marketing & advertising efforts
- Ramp Six Debt Service



ENTERPRISE FUND - WASTEWATER

	2025 Adopted	2026 Recommended	Difference
Revenue	\$21,850,829	\$25,278,803	\$3,427,974

- The Liquid and Solids Treatment Upgrade project at the Water Reclamation Plant commenced in August 2024 and is expected to be completed by early 2027
- Current debt is scheduled to be paid off in 2026, aligning with the start of new payments that year
- The new debt payment will be approximately half of the current payment
- There is a significant ongoing investment in the extension and upsizing of the sanitary sewer system to support transformative redevelopment in the downtown area and new greenfield development



ENTERPRISE FUND - STORMWATER

	2025 Adopted	2026 Recommended	Difference
Revenue	\$8,821,499	\$8,577,129	\$(244,370)

- Completion of Phase 2 of the Comprehensive Surface Water Management Plan (CSWMP) in 2025 with implementation in 2026
- Planned investments for stormwater treatment retrofits to help support redevelopment downtown and large street reconstruction projects
- Stormwater Utility Rate Study planned for 2026 to help establish rates for 2027-2032



ENTERPRISE FUND– RPU (WATER & ELECTRIC)

	2025 Adopted	2026 Recommended	Difference
Revenue (excludes Fund Transfer)	\$ 223,581,000	\$ 233,347,000	\$ 9,766,000

RPU Financial Strategy

Rates

- Based on cost of providing service per Board policy (Home Rule Charter)
- Reasonable, Compensatory and Uniform within same Class (Home Rule Charter)
- Reduce cross subsidies with rate classes (Match fixed charge with fixed costs and commodity charge with variable costs)
- No cross subsidies between rate classes (Home Rule Charter)
- Regionally and nationally competitive without compromising safety or reliability
- Maintain service levels, reliability, resilience, responsibility, relationships and reputation

Bond Rating

- Target Change in Net Assets (Net Income)
- Debt Coverage Ratio
- Minimum Cash Reserves & Capital Replacement Funds
- Equity Percentage



ENTERPRISE FUND – RPU WATER UTILITY

	2025 Adopted	2026 Recommended	Difference
Revenue	\$ 19,475,000	\$ 26,857,000	\$ 7,382,000
Water Supply Cost	\$ 2,465,000	\$ 2,347,000	(\$ 118,000)
Gross Margin	\$ 17,010,000	\$ 24,510,000	\$ 7,500,000

- 9.0% general rate increase
 - Cost impact to the average residential customer is \$2.01 per month
- 0.9% Customer growth
- 0.9% Consumption increase
- 2026 Revenue includes \$7.96M lead service line replacement funds
- 2025 Revenue included \$3.0M water availability funds
- 2026 Increase in payment in lieu of taxes \$16,000



ENTERPRISE FUND – RPU WATER UTILITY

	2025 Adopted	2026 Recommended	Difference
Change in Net Position	\$ 5,863,000	(\$ 573,000)	(\$ 6,436,000)
Depr & Amortization	\$ 3,571,000	\$ 4,346,000	\$ 775,000
Capital Additions	(\$ 9,980,000)	(\$ 13,194,000)	(\$ 3,214,000)
Debt Proceeds	\$ -	\$ 4,206,000	\$ 4,206,000
Non-Cash Accruals	(\$ 410,000)	\$ 460,000	\$ 869,000
Net Change in Cash	(\$ 956,000)	(\$ 4,755,000)	(\$ 3,798,000)
Fund Balance, Beginning	\$ 15,519,000	\$ 13,360,000	(\$ 2,158,000)
Fund Balance, Ending	\$ 14,563,000	\$ 8,606,000	(\$ 5,957,000)

- Change in Net Position decrease is due to the lead service line replacement project
- Requires short-term debt issuance in 2026
- Capital Additions – Advanced metering project (2023-2029 \$17,732K)



ENTERPRISE FUND – RPU ELECTRIC UTILITY

	2025 Adopted	2026 Recommended	Difference
Revenue	\$ 204,106,000	\$ 206,490,000	\$ 2,384,000
Cost of Power	(\$ 106,041,000)	(\$ 99,366,000)	(\$ 6,674,000)
Gross Margin	\$ 98,065,000	\$ 107,124,000	\$ 9,059,000

- 6.0% General rate increase

Cost impact to the average residential customer is \$5.78 per month

- 1.9% Customer growth
- 1.0% Consumption growth
- Private funds - 2025 and 2026 revenue includes \$3.4M and \$1.4M, respectively
- Power cost reduction due to retirement of wholesale supplier debt. Will be retained for increased RPU debt service in 2027



ENTERPRISE FUND – RPU ELECTRIC UTILITY

	2025 Adopted	2026 Recommended	Difference
Baseline Expenses	\$ 72,592,000	\$ 79,960,000	\$ 7,367,000

- Two Incremental FTE's: Data Performance Manager, Sr. Financial Analyst
- Limited-term FTE's: 8 enterprise resource planning software project, 1 benchmarking, 1 project engineer
- 2026 Shared service/payment in lieu of tax changes \$ 1.3 million
- Decrease capitalized labor (increases expense) \$ 1.8 million
- Increased labor and benefits \$ 3.2 million
- Operating and major maintenance \$ 2.0 million



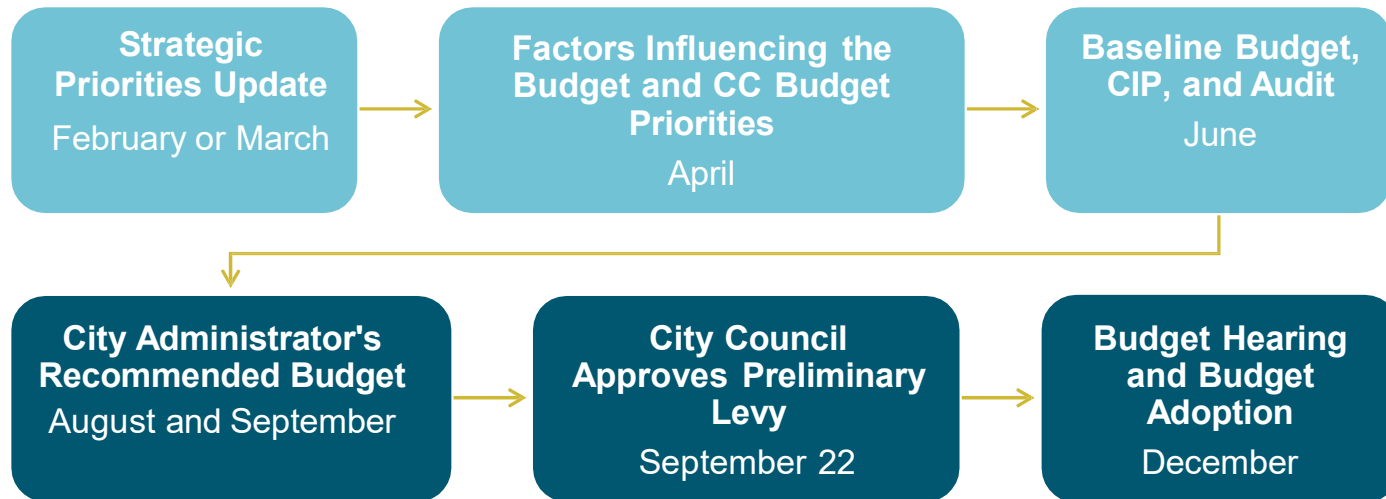
ENTERPRISE FUND – RPU ELECTRIC UTILITY

	2025 Adopted	2026 Recommended	Difference
Change in Net Position	\$ 25,473,000	\$ 27,164,000	\$ 1,691,000
Depr & Amortization	\$ 18,403,000	\$ 18,251,000	(\$ 152,000)
Capital Additions	(\$ 40,620,000)	(\$ 67,537,000)	(\$ 26,917,000)
Debt Principal Payments	(\$ 8,005,000)	(\$ 8,305,000)	(\$ 300,000)
Non-Cash Accruals	(\$ 381,000)	\$ 1,439,000	\$ 1,820,000
Net Changes in Cash	(\$ 5,129,000)	(\$ 28,987,000)	(\$ 23,858,000)
Fund Balance, Beginning	\$ 130,383,000	\$ 122,379,000	(\$ 8,005,000)
Fund Balance, Ending	\$ 125,254,000	\$ 93,391,000	(\$ 31,863,000)

- 2026 Capital - power supply resource plan implementation \$26.4 million (2026-2029 \$226.5M)
- 2026 Capital - enterprise resource planning software \$4.8 million (2026-2027 \$7.0M)
- 2026 Capital – advanced metering project \$7.5 million (2025-2027 \$16.8M)



2026-2027 BUDGET: KEY CITY COUNCIL ENGAGEMENT POINTS



Budget Documents:

<https://www.rochestermn.gov/departments/finance/reports/current-budget-summary-cip/2026-2027-budget-summary>



POLICY CONSIDERATIONS

1. Are there any questions or feedback on the 2026-2027 recommended Operating Budget?
2. Does the Recommended Budget effectively balance the City's Foundational Principles and Strategic Priorities?
3. Are there any specific decision packages or services you want us to dive into at your next study sessions?
4. Is the recommended 2026 preliminary tax levy for consideration September 22, 2025, acceptable?

THANK YOU