



ROCHESTER

Minnesota



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December 20, 2006

The Honorable Mayor
and Common Council

The adopted budget for 2007 contains appropriations of \$151,192,721. A property tax of \$37,438,500 was adopted to assist in the financing of the 2007 budget expenditures. \$4,929,749 of the 2007 property tax is allocated to the Capital Improvements Program (CIP) to assist in funding 2007 capital projects. \$1,180,000 of the CIP property tax is a property tax abatement levy intended to assist in redevelopment of the downtown area.

My appreciation is expressed to all of the departments and individuals who participated in the preparation of the 2007 budget. I also wish to acknowledge the valuable assistance provided to me by the Finance Department in the preparation of the 2007 budget.

Respectfully submitted,

Stevan E. Kvenvold
City Administrator



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November 28, 2006

STEVAN E. KVENVOLD
City Administrator
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The Honorable Mayor and City Council:

Submitted herein for your consideration is the recommended budget for 2007. The total expenditures contained in the recommended budget are \$153,139,221 and a property tax of \$37,500,000 is recommended.

\$4,938,749 of the recommended property tax is proposed for usage in funding 2007 Capital Improvement projects (CIP). \$1,180,000 of the recommended CIP property tax is designated for the Downtown Tax Abatement District.

ANALYSIS OF PROPOSED EXPENDITURES

Employee Services

This category, which includes regular salaries, new positions, temporary salaries, overtime, pension costs and group health expenses, increases by \$2,944,838 over the 2006 budgeted amount.

The recommended budget assumes an increase of 2% in the base compensation for the organization's employees.

The recommended 2007 budget contains the following new positions or reclassifications:

- five additional Police Officer positions;
- one additional Animal Control Officer position;
- an additional Equipment Operator I position in the Public Works Department beginning October 1, 2007;
- converting a provisional Human Resources Aide in the Human Resources Department to a permanent position effective November 1, 2007;
- the reclassification of an IT Analyst position to a Systems Administrator position in the Information Technology Division; and,

- the reclassification of an Auxiliary Operator position to an Operator position, an additional Operator I position to be added July 1, 2007, if needed, and an additional Electronics/Electrical Technician position, all in the Water Reclamation Plant.

Pensions

Pursuant to State law, the employers and employees pension contributions to the Public Employees Retirement Association (PERA) are required to increase in 2007 through 2010. For 2007, the employer's contribution increases from 6.25% to 6.50% while the employee's rate increases from 5.50% to 5.75%.

For the Police/Fire PERA plan, the employer's contribution rate increases from 10.50% to 11.70% while the employee's rate increases from 7.0% to 7.8%.

The pension costs increase by \$452,306 over the 2006 budget amount.

Group Health Insurance

The City organization is self insured for its health insurance. The ever increasing cost of health care causes the City to increase the premiums charged to the operating departments by 9%, causing an increase of \$749,148 over the budgeted 2006 amount. The increase in the group health expense from 2005 to 2006 was \$827,798.

Other significant changes in the recommended budget from 2006 to 2007 are:

Utilities – the City organization consumes a large amount of electricity and the electrical rates are proposed to be increased by 8% for 2007. The water rates are proposed to be increased by 5%. The utilities expense increase is \$496,367 over the 2006 budgeted amount.

Contractual Services – the cost of these services increase by \$393,822 over the 2006 budgeted amount. The largest increases are in Airport, Parking, Police and Street functions.

Vehicle and Machinery Operating Supplies – the increased expenses for gasoline and diesel fuel result in a recommended increase of \$267,175 over the 2006 budgeted amount.

Construction Materials – the increased costs of construction materials causes the largest impacts on the Streets and Parks functions.

Depreciation and Interest – this category increases by \$5,747,993 over the 2006 budgeted amount and is attributed to the depreciation associated

mainly with the additional facilities and equipment added with the expansion of the Water Reclamation Plant.

Operating Transfers – these transfers are mostly monies transferred from reserves to the Capital Improvement budget to assist in funding CIP projects. The significant increase from 2006 to 2007 is attributed to the large transfer of revenues in 2006 to assist in funding the Water Reclamation Plant expansion project.

Capital Improvements

The total value of the proposed capital improvements for 2007 decline significantly from 2006 due to the expansion of the Water Reclamation Plant which occurred mainly in 2006.

Debt Service

The debt service payments increase from the 2006 amount due to the debt service requirements for the energy saving improvements being installed under the Johnson Controls contract.

ANALYSIS OF MAJOR REVENUES

	2006 Budget	2007 Budget	Increase/ (Decrease)
Tax Levy	\$35,159,505	\$37,500,000	\$2,340,495
Local Government Aid	5,719,725	6,343,929	624,204
Hotel/Motel Tax	2,800,000	2,900,000	100,000
Cable TV Franchise Fee	1,100,000	1,200,000	100,000
Inspection Permits	2,975,000	3,061,100	86,100
In Lieu of Tax	9,381,600	9,818,916	437,316
Sewer Utility Charge	10,200,000	12,040,000	1,840,000
Storm Water Utility Fee	2,993,808	3,200,000	206,192
Library Fund			
- City Share	4,393,738	4,706,990	313,252
- County Share	856,262	823,010	(33,252)
Municipal Recreation Fund			
- Fee Revenues	5,490,855	5,720,692	229,837
- Non-Fee Revenues	4,959,080	5,606,774	647,694
Parking Fund			
- Parking Fines	631,000	562,000	(69,000)
- Parking Ramps	2,486,780	2,317,156	(169,624)
- Street Meters	607,000	660,000	53,000
- Parking Lots	264,171	304,461	40,290

Local government aid (LGA), after several years of decline from \$11,139,855 in 2003 to \$5,719,725 in 2006, has an increase of \$624,204 in 2007. The increase in LGA has the effect of lowering the increase in property tax revenues needed to assist in the funding of providing City services.


The sewer utility revenues increase due to a rate increase previously approved by the Mayor/Council. These sewer rate revenues do not reflect the proposed sewer rates currently under consideration.

The County's share of the Library's expenses, based on circulation figures, declines from 16.8% in 2006 to 15.3% in 2007.

In the Municipal Recreation Fund, the additional fee revenues do not keep up to the increase in expenses. The decline in golf revenues continues to present some problems.

I wish to express my appreciation to all of the individuals who have participated in the preparation of this document.

Respectfully submitted,

A handwritten signature in cursive script that reads "Stevan E. Kvenvold".

Stevan E. Kvenvold
City Administrator