



CITY OF
ROCHESTER
MINNESOTA

SLIDE 1

RECOMMENDED 2026-2027 BUDGET

Study Session Follow-Up

September 3rd, 2025

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

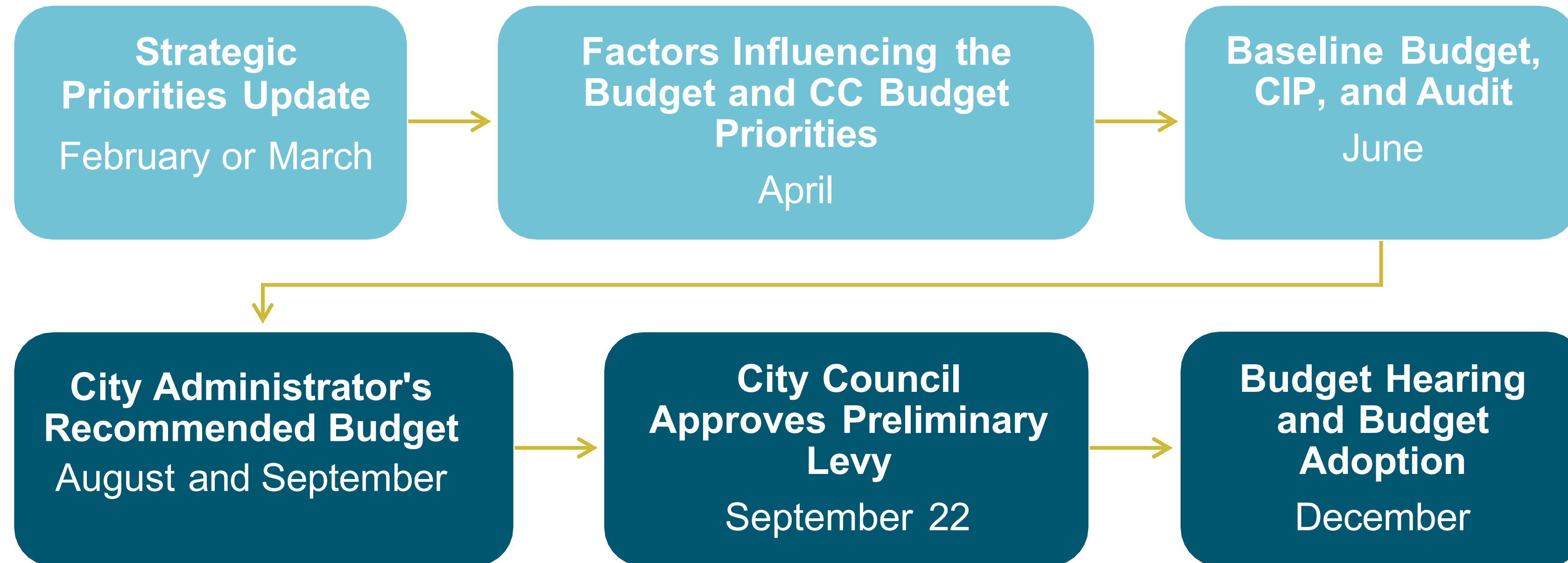
Foundational Principles

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>



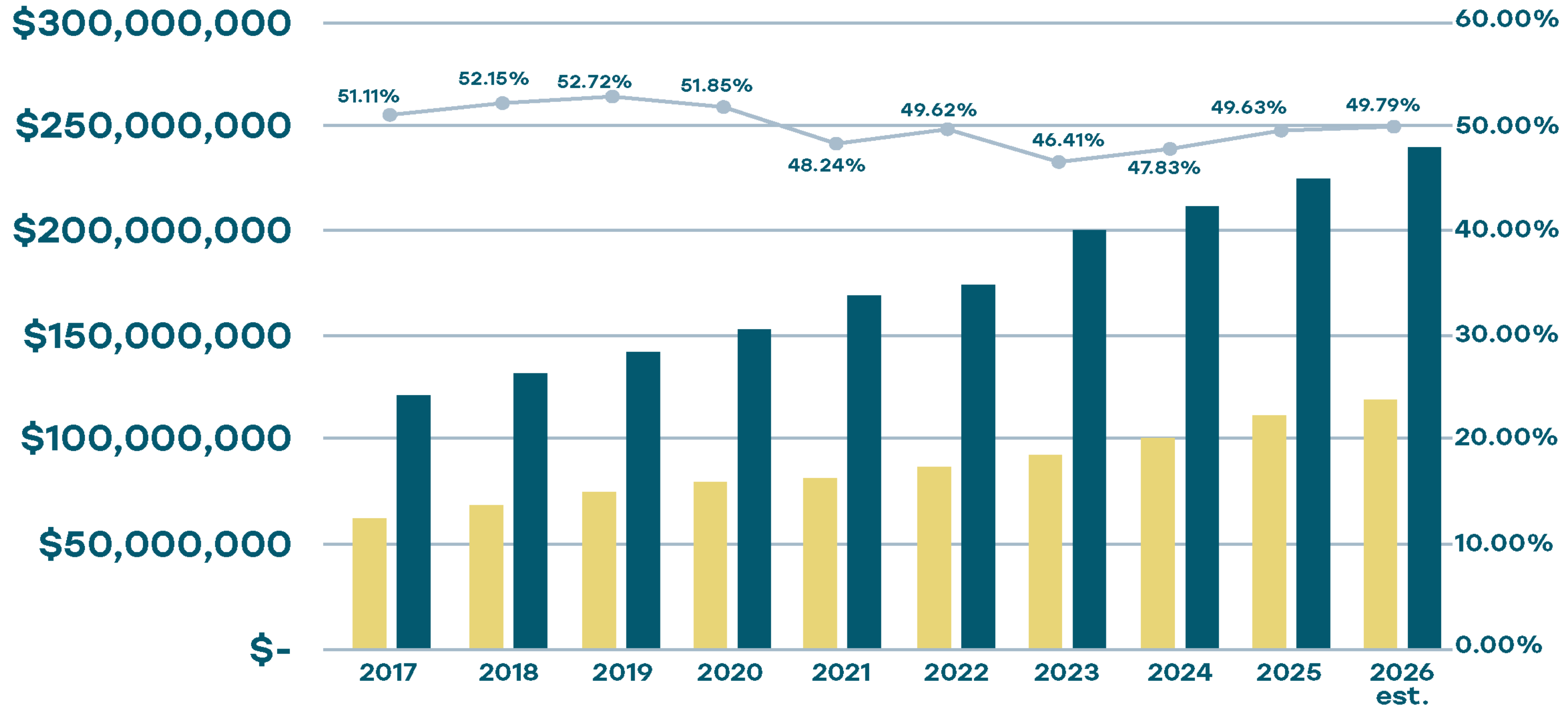
POLICY CONSIDERATIONS

1. Does the Recommended Budget effectively balance the City's Foundational Principles and Strategic Priorities?
2. Is the recommended 2026 preliminary tax levy for consideration September 22, 2025, acceptable?



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

Property Tax Rates Since 2017



■ Property Taxes
 ■ Net Tax Capacity
 ● Tax Rate

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



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





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

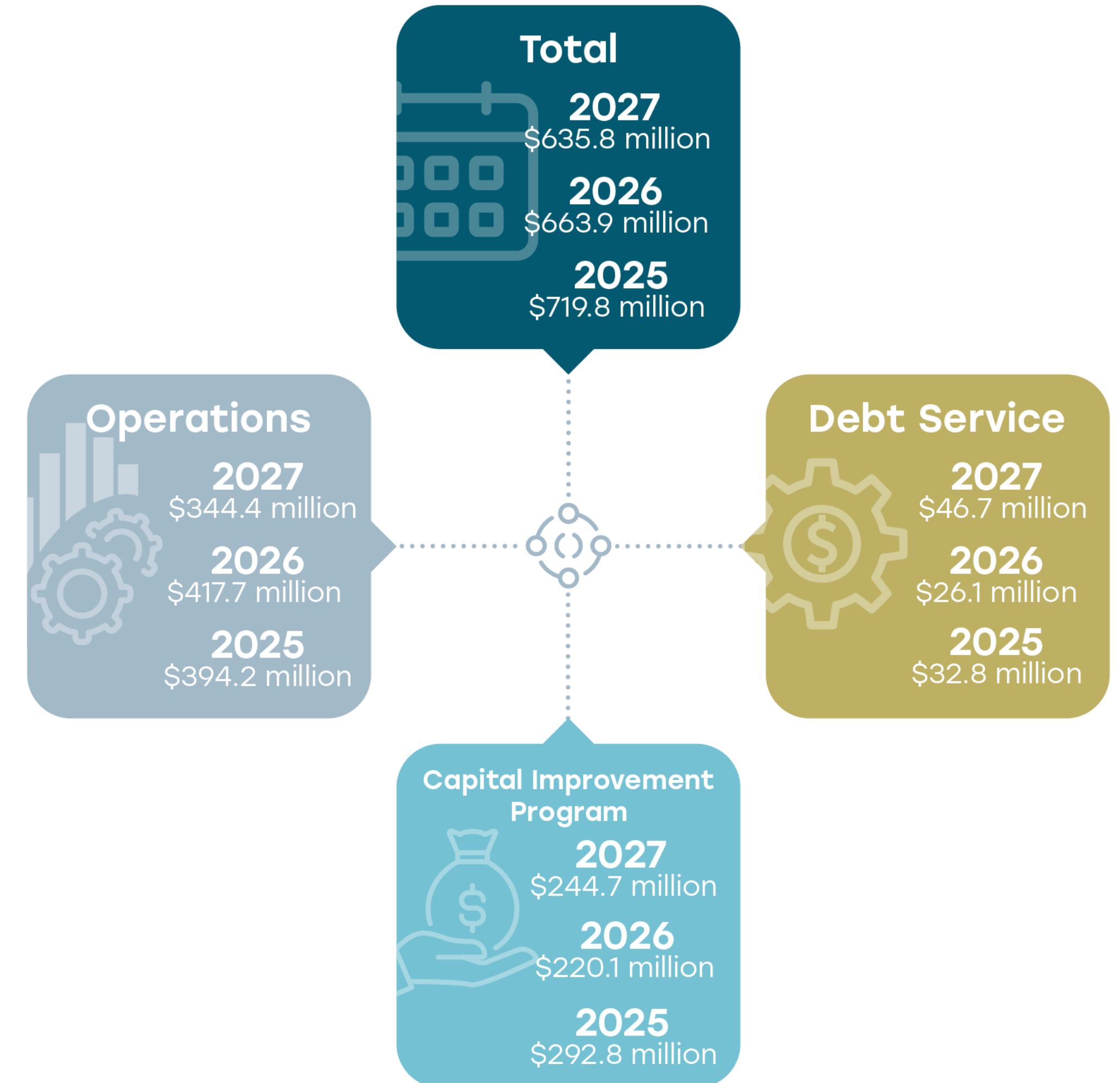
All Funds Combined

- **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

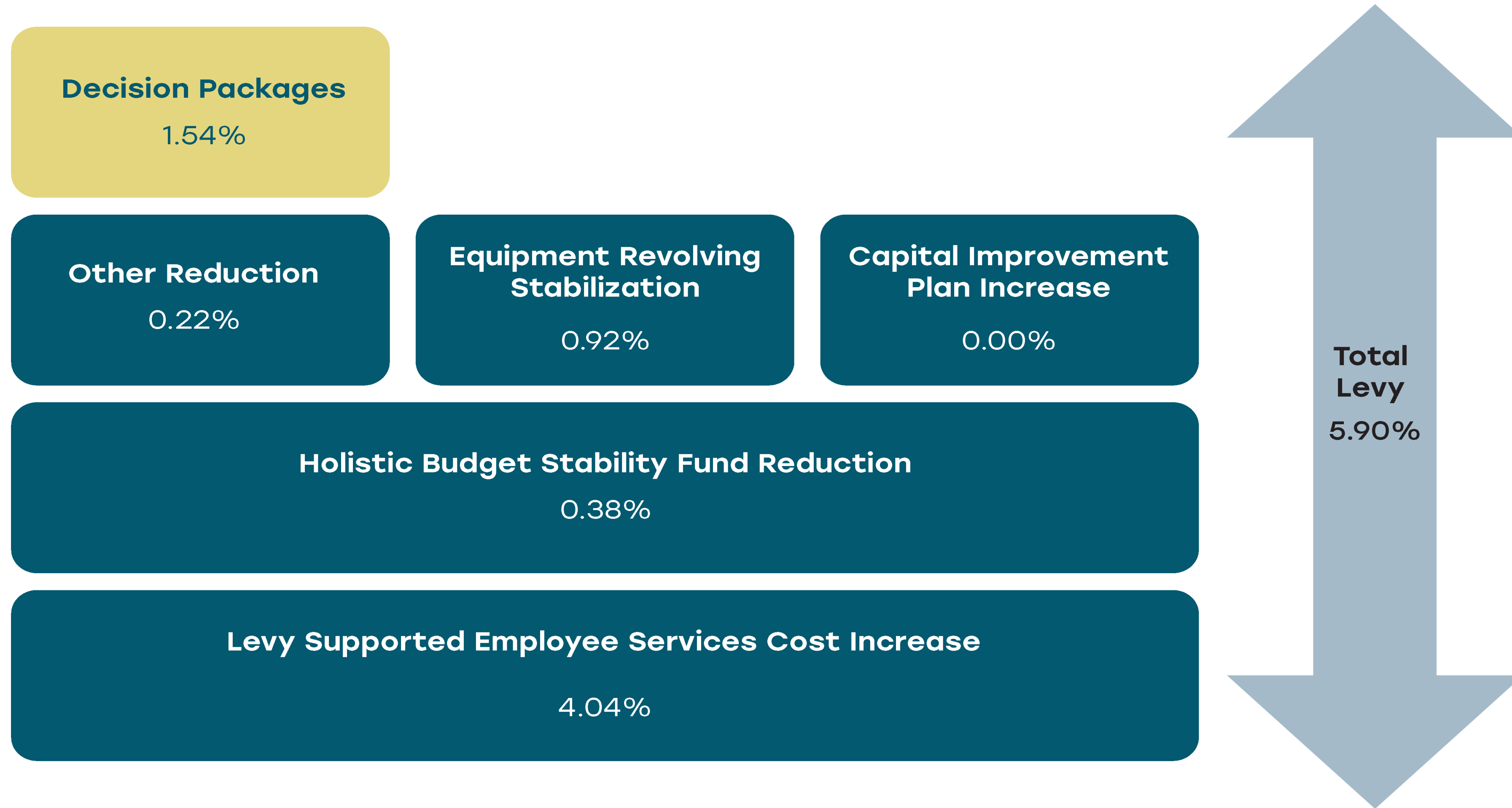
RPU Cost of Service Studies (COS)

- 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



BREAKING DOWN THE LEVY INCREASE

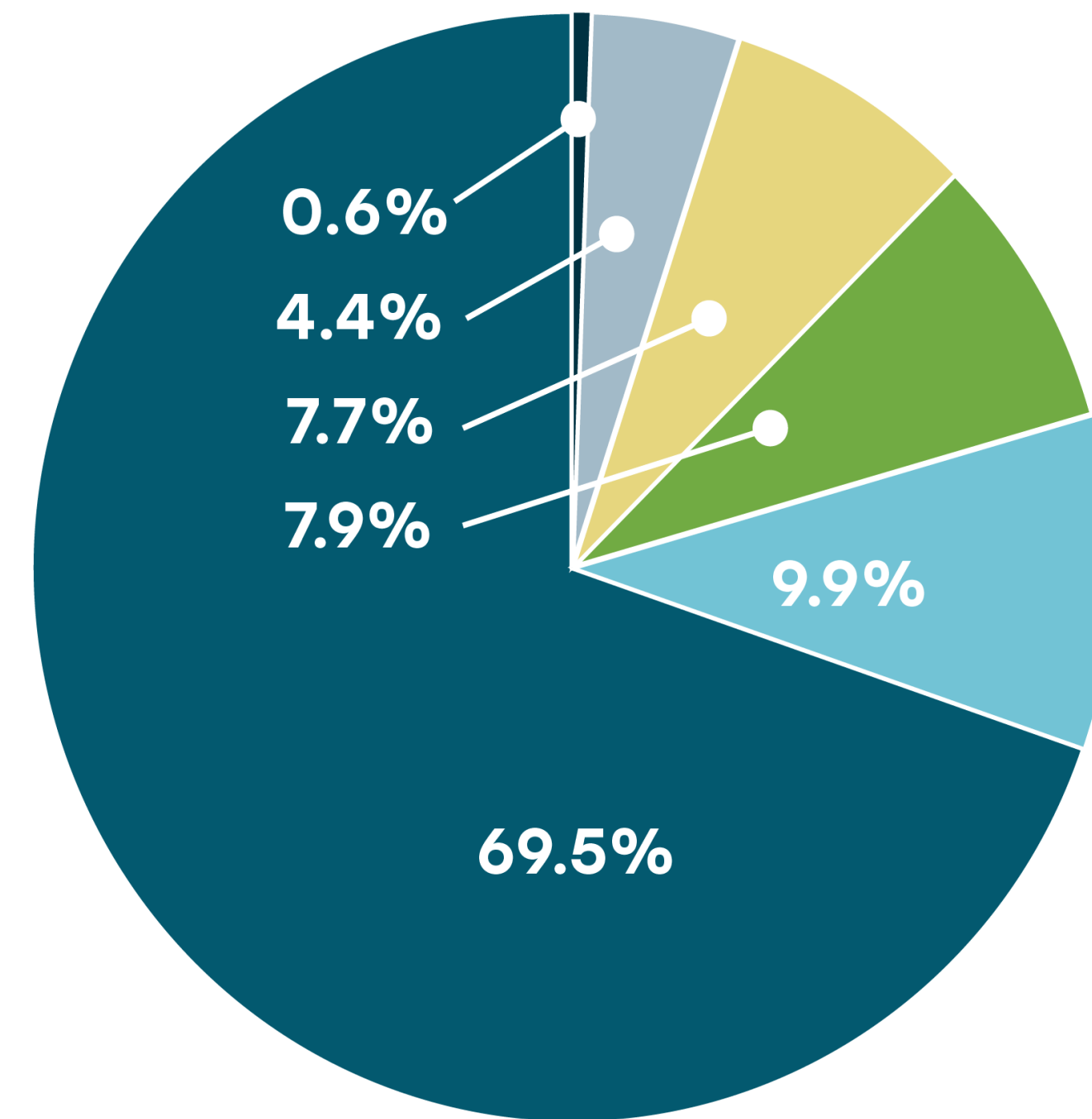




2026 PROPERTY TAX DISTRIBUTION

2026 Property Tax Distribution

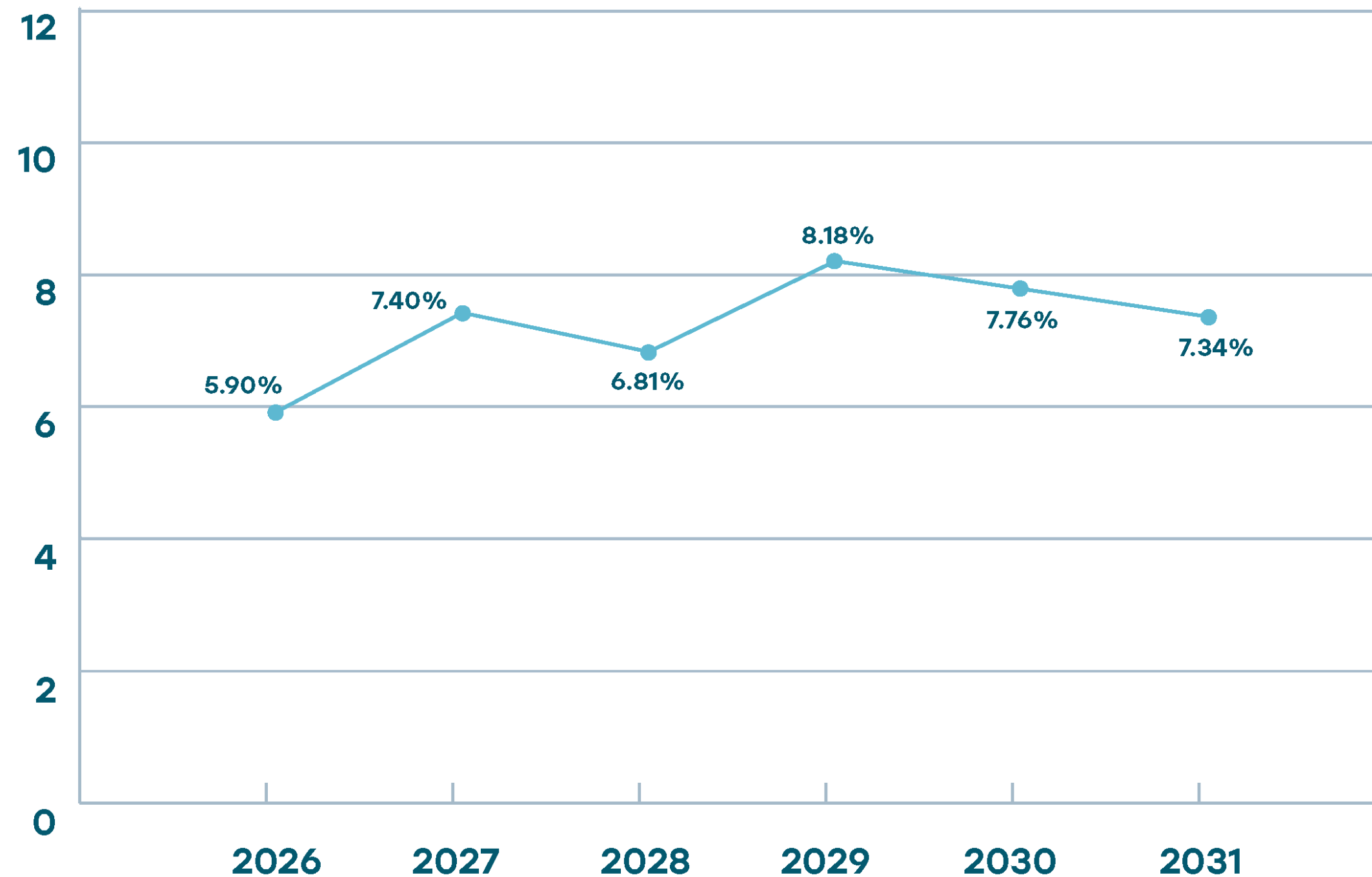
- General Fund
- Library
- Parks and Rec
- Debt/Internal Service
- CIP
- Airport





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.



Budget Follow Up: Debt Service

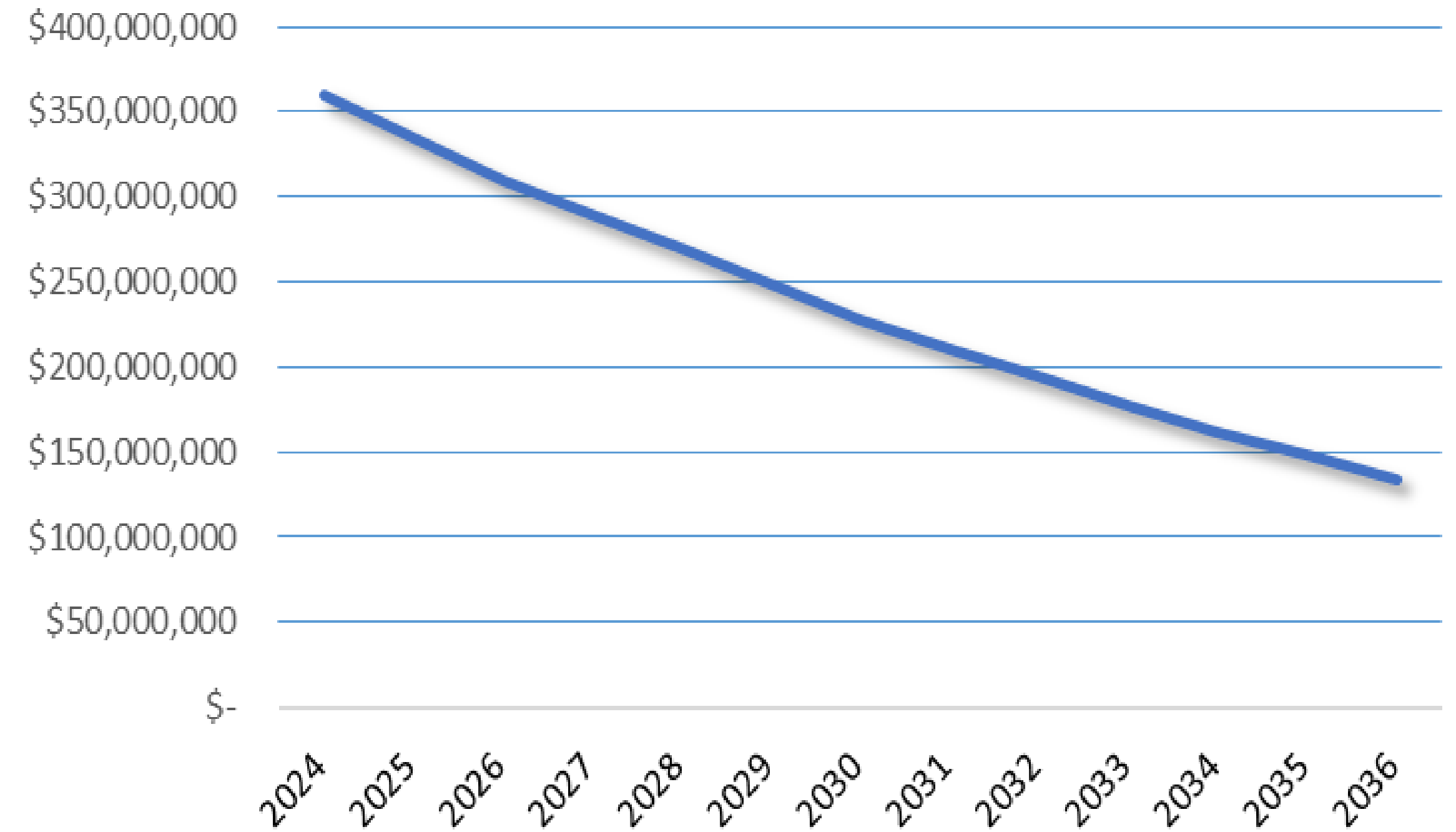
Summary of City of Rochester Existing



City Debt Issuance Principal Outlined by Maturity YE'24

Issuance Description	Maturity	Balance
2009A - Bio Science Bldg - EDA - TIF	2025	\$ 385,000
2015C - Sales Tax Authorization Various Projects	2025	\$ 10,135,000
2015B - 2007 Trunk Sewer Mains Cross-over Refunding	2026	\$ 4,755,000
2020B - 2004 WWTP Expansion Cross-over Refunding	2026	\$ 11,315,000
2018A - Fire Truck - Certificates	2028	\$ 1,165,000
2015E - RPU Refunding Series 2015E	2030	\$ 20,410,000
2021 - McQuillan Ball Fields Lighting Lease w/PNC	2031	\$ 1,047,350
2007 - Bio Business Lease - EDA	2033	\$ 4,016,000
2008 - Bio Business Lease - EDA	2033	\$ 2,720,000
2015A - MCC Expansion, partial \$5m paydown in 2025	2035	\$ 29,805,000
2020C - 2010 PWTOC Building Refunding	2036	\$ 14,110,000
2017B - Parking Ramp 6 - TIF	2038	\$ 16,640,000
2020A - DSIC North Station Lease - EDA	2040	\$ 17,345,000
2025A - GO Tax Abatement - New Park Maint. Building	2041	\$ 10,985,000
2021A - RPU Refunding Series 2013B	2043	\$ 32,030,000
2023A - Park - Tax Abatement Bonds	2044	\$ 12,375,000
2024B - Water Reclamation Facility Upgrades	2044	\$ 72,000,000
2024A - Downtown Dist. Energy Project.	2045	\$ 11,400,000
2017A - RPU Refunding Series 2007C	2047	\$ 87,175,000
Total Balance		\$ 359,813,350

City Overall Debt Issuance Balance



- Chart and graph do not include any unapproved debt such as for the RSRC or estimated RPU debt issuance.

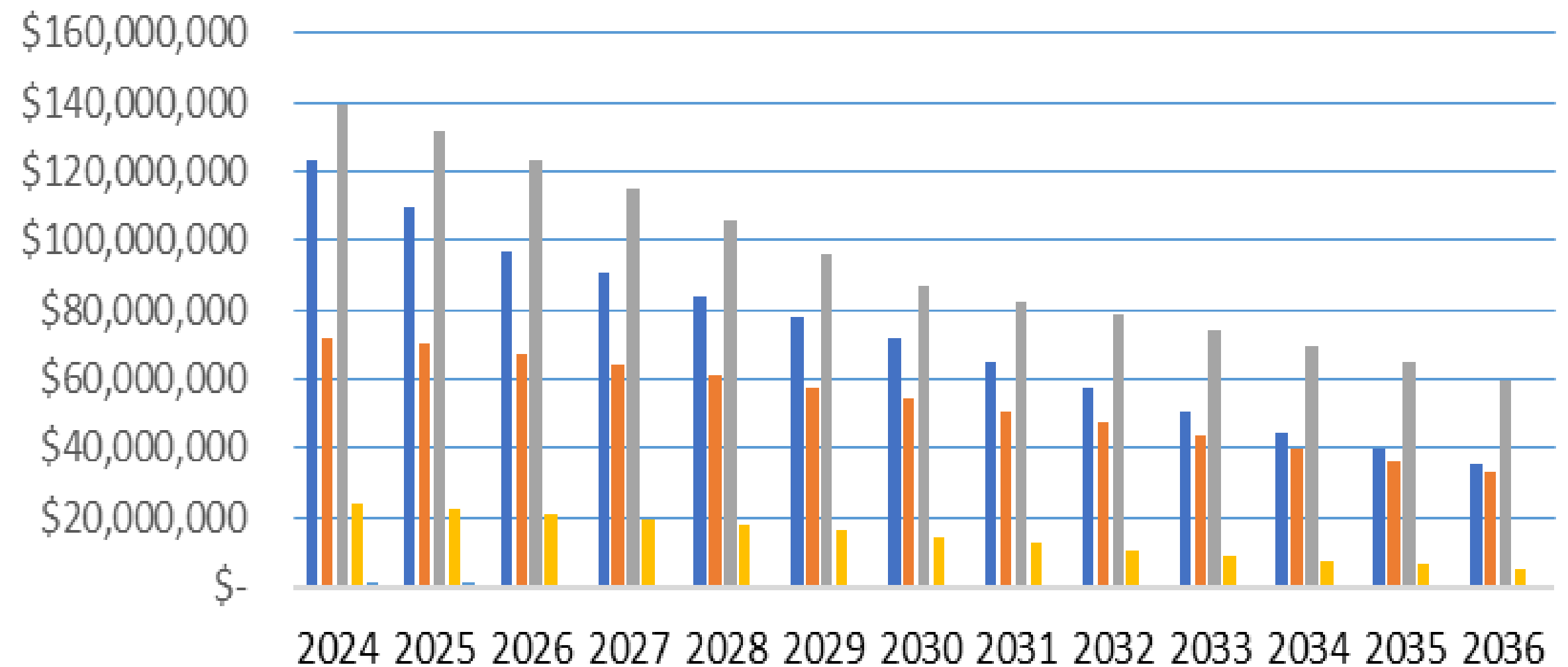


Summary of City of Rochester Existing

City Debt Issuance Principal Outlined by Category YE'24

Issuance by Category	Maturity	Balance
General Obligation Bonds		
2009A - Bio Science Bldg TIF - EDA	2025	\$ 385,000
2017B - Parking Ramp 6 - TIF	2038	\$ 16,640,000
2015A - MCC Expansion, partial paydown \$5m in 202	2035	\$ 29,805,000
2015B - 2007 Trunk Sewer Mains Cross-over Refundir	2026	\$ 4,755,000
2020B - 2004 WWTP Expansion Cross-over Refunding	2026	\$ 11,315,000
2015C - Sales Tax Authorization for Various Projects	2025	\$ 10,135,000
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2024B - Downtown Dist. Energy Project	2045	\$ 11,400,000
2025A - New Park Maint Building Tax Abatement	2041	\$ 10,985,000
General Obligation Sewer Revenue Note Tax-exempt - MN Public Facilities Authority		
2024B - Water Reclamation Facility Upgrades	2044	\$ 72,000,000
Revenue Bonds: Electric Utility Revenue		
2015E - RPU Refunding Series 2015E	2030	\$ 20,410,000
2017A - RPU Refunding Series 2007C	2047	\$ 87,175,000
2021A - RPU Refunding Series f 2013B	2043	\$ 32,030,000
Lease Bonds - Rochester Economic Development Authority		
2007 - Bio Business Lease - EDA	2033	\$ 4,016,000
2008 - Bio Business Lease - EDA	2033	\$ 2,720,000
2020A - DSIC North Station Lease - EDA	2040	\$ 17,345,000
Financed Purchase Leases Payable		
2021 - McQuillan Ball Fields Lighting Lease w/PNC	2031	\$ 1,047,350
Grand Total		\$ 359,813,350

City Debt Issuance by Category



- General Obligation Bonds
- GO Bonds - Mn Public Facility Authority
- Revenue Bonds - RPU
- Lease Bonds - EDA
- Finance Purchase Leases Payable

• Chart and graph do not include any unapproved debt such as for the RSRC or estimated RPU debt issuance.



**Budget Follow Up:
Decision Package Report
(attached to packet)**

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 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		



**Budget Follow Up:
Library Services and
Decision Package**

Budget Follow Up: Library Services and Decision Package

- Library has PT, unbenefited (13.5-hours/week) and PT, partial-benefitted (18.5 hours/week) employees
- To align better with other city departments, library has stopped filling 18.5 roles when people leave and is shifting to more unbenefited PT roles
- 2023, we piloted the creation of one full time position by not filling positions when people left- both 18.5 and 13.5 teammates (overall a total budget increase, but reduction in the temporary salaries budget)
 - City council approved this pilot
 - Pilot was successful, with teammate still working at RPL in a FT role, able to provide support in multiple areas, reduction in oversight for the division manager

Budget Follow Up: Library Services and Decision Package

LONG-TERM STRATEGY

	2023	2024	2025	2026
# of benefitted part-time	40	32	21	Continue reducing, through attrition
Temporary Salaries Budget	\$ 710,592	\$ 692,672	\$684,208	\$456,159 *Recommended based on assumption of approved DPs

**Budget Follow Up:
Savings if Library Hours are Adjusted
Not Included in the Budget Recommendation**

ORIGINAL PROPOSAL

Close ½ day on Sundays

Reduce Bookmobile hours
Reduce specialized services

Savings: \$133,000

OPTION 2

Close all day on Sundays

Reduce Bookmobile hours
Reduce specialized services

Savings: \$155,000

OPTION 3

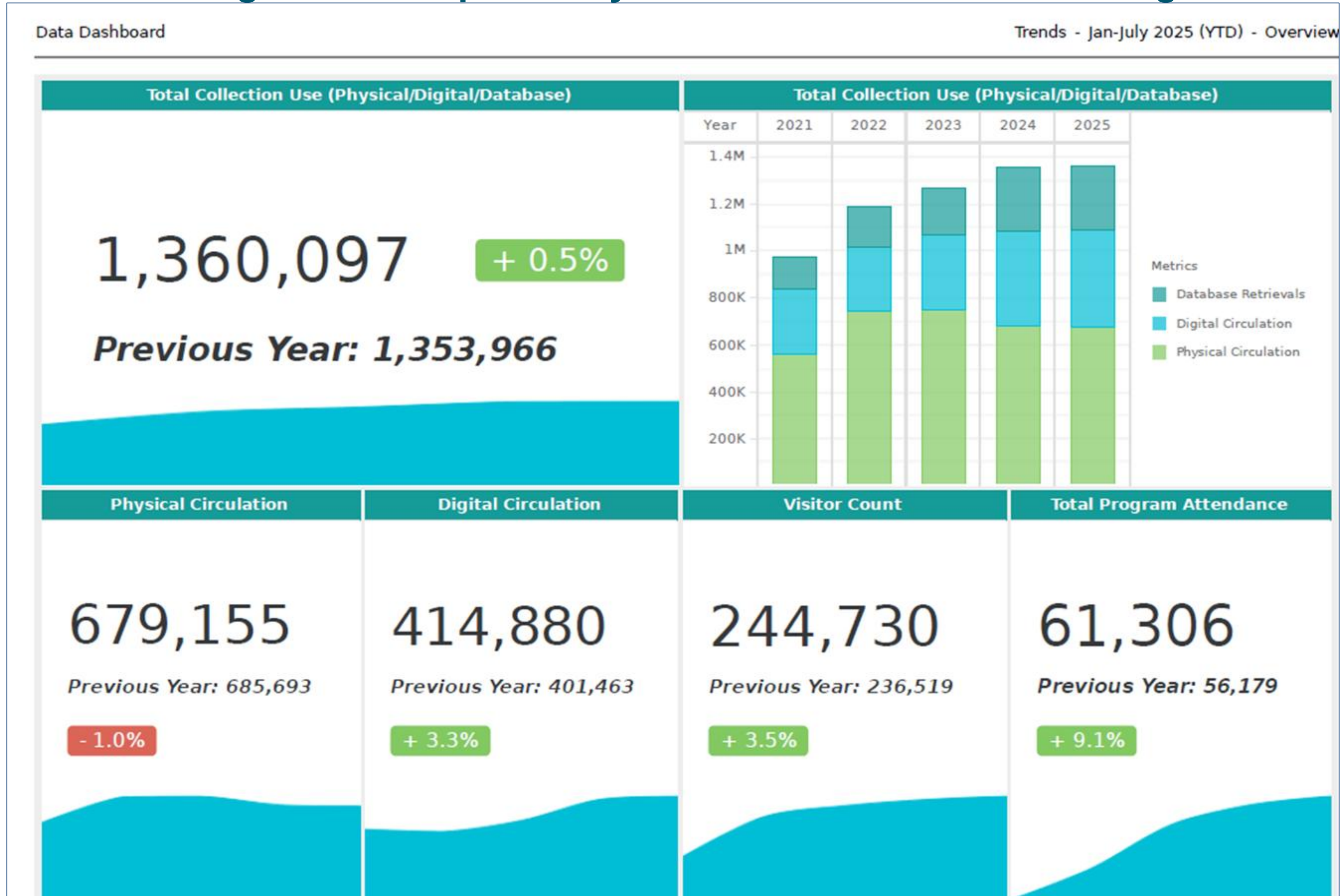
Close all day on Mondays

Reduce Bookmobile hours
Reduce specialized services

Savings: \$111,000

*All savings come from a total reduction in the library's part-time budget (reduction in # of staff hours worked). Savings are higher on Sunday due to premium pay for teammates.

Budget Follow Up: Library Services and Decision Package



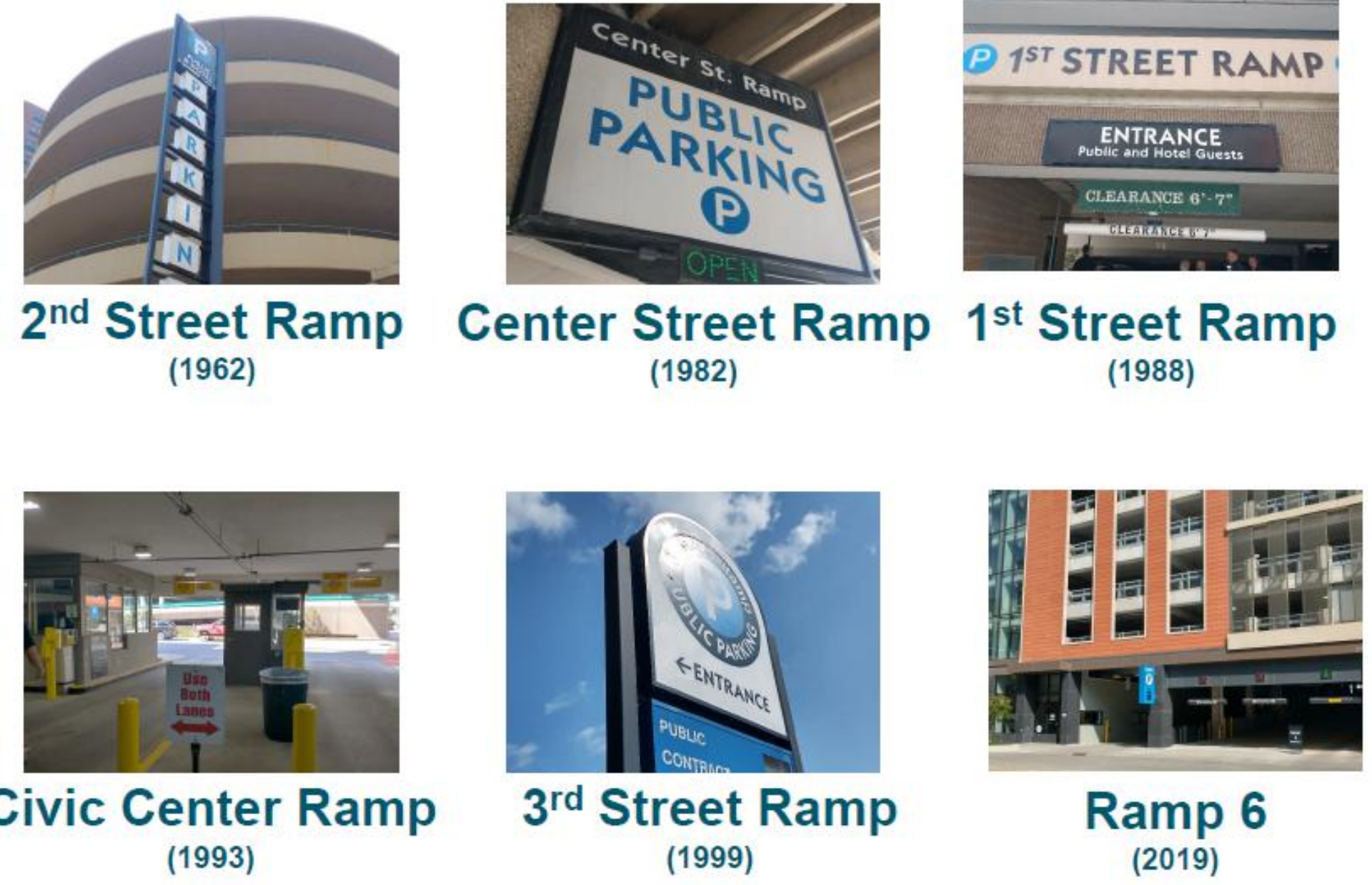
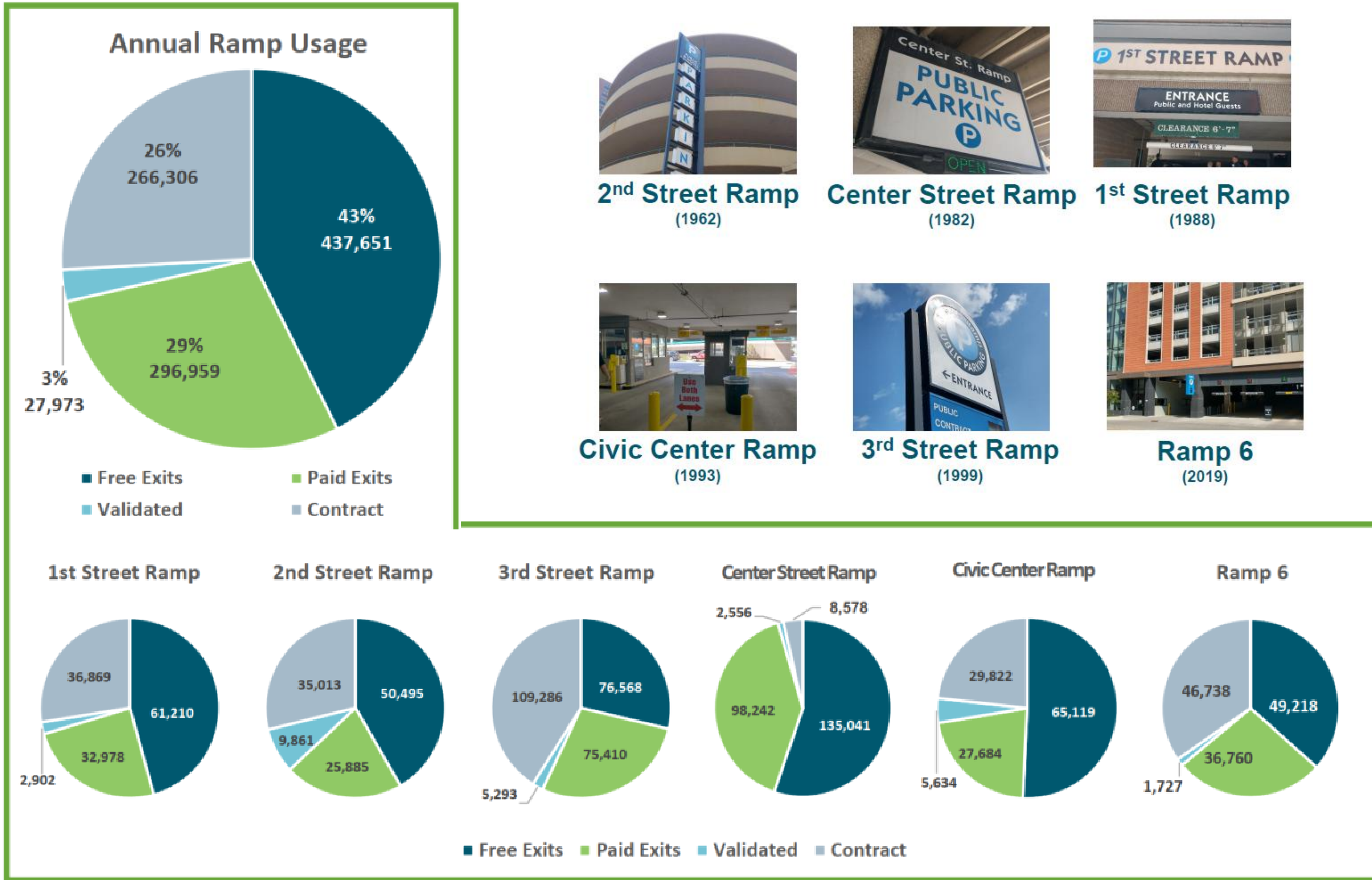
Budget Follow Up: Library Services and Decision Package

- 4 FTE allows for sustainability, greater reliability in staffing (very little turnover in FT teammates)
- Entry-level roles will be primarily focused on assisting customers at our service points (desks and bookmobile) and materials handling (shelving, pulling holds, etc.)
- Allows for better “growing our own leaves” strategy by having FT, entry-level roles added
- Helps position the library to move forward on library study recommendations



Budget Follow Up: Evening and Weekend Parking

Budget Follow Up: Evening and Weekend Parking





2024 Free Parking - Estimated Revenue Loss

Total 2024 Uses	437,651			
Free Categories	Average Duration	Rate of AVG Duration	Total Uses	Yearly Revenue Lost
1 Hour Free Weekdays	1 Hour	\$2	105,600	\$211,200
Free Weekends	2.5 Hours	\$4	160,804	\$643,216
Free Weeknights	3.5 Hours	\$6	171,247	\$1,027,482
				\$1,881,898

IMPORTANT NOTES:

- 1) The above information is based on the team’s best assumptions as the parking data is not granularly segregated by days, nights, weekends, etc.
- 2) The above 1 Hour Free Weekdays is not an approved rate in the adopted fee schedule. For purposes of this estimation, the rate is assumed to be \$2.





**Budget Follow Up:
Increasing Community
Building Fund
Investment and
Scholarship Request**

Budget Follow Up: Increasing Funding for Community Collaborations

Scholarship Request



- Sports and recreation programs throughout the park system are delivered almost entirely **through community partnerships.**
- Most if not all, of the organizations have or continue to financially invest in or provide maintenance support in the Park System to support their mission
- Model enables the department to operate with a **lean staff.**
- Volunteer-led organizations develop, manage, and deliver youth sports and recreation programs.
- Many programs are offered free or with reduced fees to ensure accessibility.
- In recent months, Parks and Recreation has reviewed collaborative programming efforts with the Park Board. **Staff is evaluating program participation, outreach, and organizational strategies to ensure equitable access across community programs.** Results will be reported to the park board this fall.

Recommendation: If significant program gaps are identified, the Park Board will request the City Council to consider a scholarship fund or similar program to extend equitable access to partnership-based activities. This could be done as a contingency request and if successful, requested as a 2027 Supplemental Budget Request.



Budget Follow Up: Increasing Funding for Community Collaborations



COMMUNITY BUILDING FUND GRANT

Program Overview

Origin: Established in 2024 using funds from the dissolution of the Diversity Council

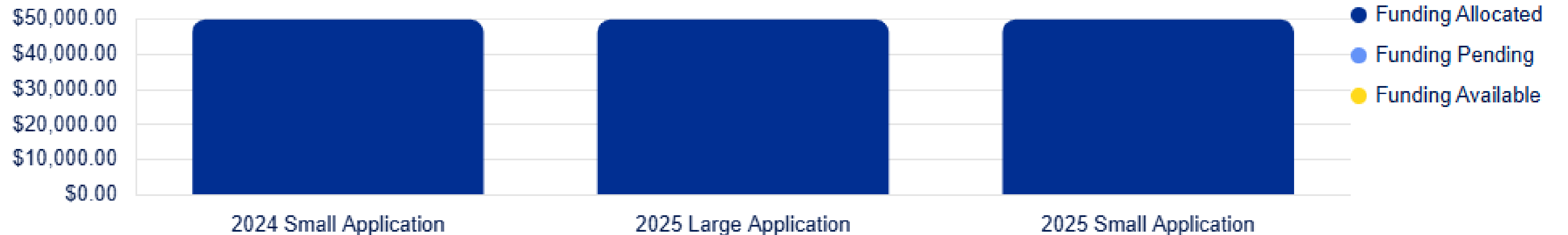
Purpose: Supports projects that promote Social Equity and align with Council Strategic Priorities

Goal: Foster a more inclusive and equitable Rochester, and encourage civic engagement through participatory budgeting

Initiatives Supported Include; Food Access, Entrepreneurship Support, Community Events, Arts and Culture, Sports and Recreation and Community Integration Programs.

Learn more at [Community Building Fund | Rochester, MN](#)

Funding Allocation



\$150,000.00

Total Funding Distributed



Budget Follow Up: 311 Allocations

Budget Follow Up: 311 Allocations

- Cost allocation is the process of distributing indirect (overhead) costs from central service agencies, including Administrative, Clerks' Office, Attorney's Office, Finance, IT and Human Resources services.
- Those benefiting departments receiving the services include the enterprise funds such as RPU – Electric and Water, Water Reclamation, Storm Water, and Parking.
- This ensures a more accurate understanding of the true cost of delivering public services and supports fiscal transparency and equity.
- The Government Finance Officers Association (GFOA) recommends cost allocation as a best practice, though methods vary depending on organizational structure and needs. Because of the varied functions for which indirect cost allocations are performed, a one-size-fits-all approach typically is not possible.
- Allocations do not include 311 at this time as the service was relatively new at the time this analysis was completed for Implementation the budget. However, the team will analyze the types of calls once more data is collected for future consideration in 2027.



Budget Follow Up: City Council Budget



Budget Follow Up: City Council Budget

City of Rochester, MN Expenditure Recommended Budget

Account Number
00101 41310

General Government Description	General Fund		City Council			
	2024 Actuals	2025 Budget	2025 June Actuals	2026 Budget Requested	2026 Budget Recommended	2027 Budget Recommended
41310 City Council						
Expenditures						
Employee Services						
Regular Salaries	399,256	399,256	200,265	399,256	399,256	399,256
Other Pay	14,184	14,184	7,229	14,184	14,184	14,184
Employee Benefits - Pensions	25,558	25,958	12,845	25,958	25,958	25,958
Employee Benefits - Insuranc	129,089	135,102	61,112	119,300	119,300	123,769
Employee Services	568,087	574,500	281,451	558,698	558,698	563,167
Contractual Services						
Rents and Leases						
Adv, Publishing, & Printing	721	19,176	1,558	19,176	19,176	19,176
Contractual Mtce & Repair	92,865	59,670	46,518	59,670	59,670	59,670
Expert & Professional Servic	76,249	80,632	15,343	80,632	80,632	81,124
Communications	6,562	6,986	3,588	6,986	6,986	6,986
Travel/Training/Business Mea	12,591	18,655	7,998	18,655	33,689	33,689
Subscriptions/Bks/Membership	72,586	61,355	59,587	61,355	61,355	61,355
Insurance and Bonds	2,770	2,768		2,619	2,619	2,750
Contractual Services	264,344	249,242	134,592	249,093	264,127	264,750
Materials and Supplies						
Office Supplies	930	3,250	27	3,250	3,250	3,250
Supplies	723	1,200	2,015	1,200	1,200	1,200
Materials and Supplies	1,653	4,450	2,042	4,450	4,450	4,450
Other Charges						
Contributions	8,127	6,200	8,127	6,200	6,200	6,200
Other Charges	7,188	8,197	7,586	7,718	7,718	8,073
Other Charges	15,315	14,397	15,713	13,918	13,918	14,273
Capital Outlay						
Bonds-Principal & Interest						
Allocated to Other Activities						
Operating Transfers						
Expenditures	849,399	842,589	433,798	826,159	841,193	846,640
Tax Funding	849,399	842,589	433,798	826,159	841,193	846,640

Expert & Prof. Services: Smith Schafer & Associates Audit Expense

Examples of Expenses Here Include: Various Education and Training Including NLC and LMC

Subscriptions: Various Membership Dues League of MN Cities, Natl League of Cities & MN Transport Alliance

Salaries Changed Only By Council Action

Contract. MTCE & Repair: Granicus & Zoom Expense

Communications: Cell Phone Expense



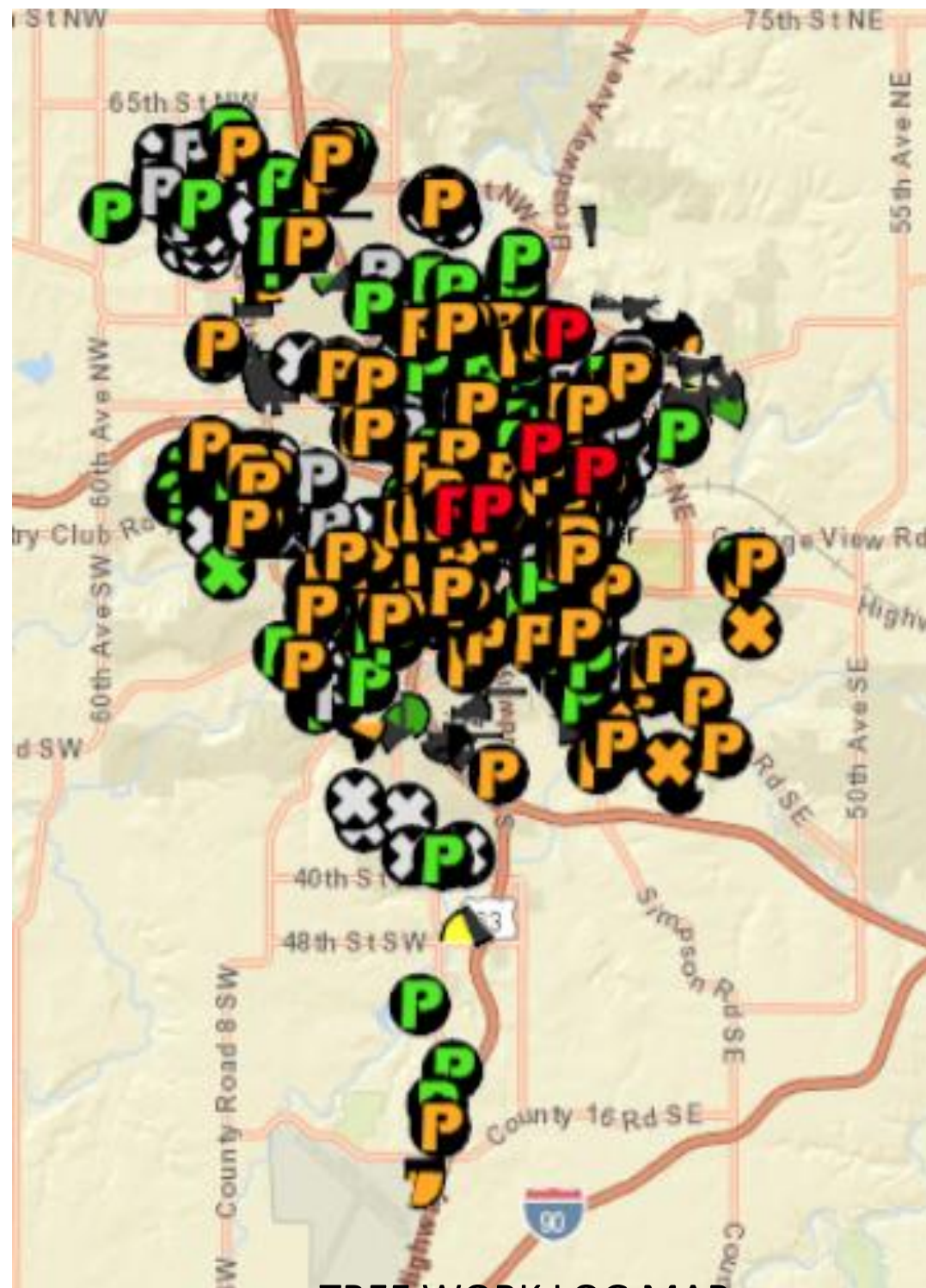


Budget Follow Up: Arborist Decision Package

Budget Follow Up: Arborist Decision Package

Of interest

- Since 1975 only 2 arborist have been added while city has grown from 15.75 square miles to 57.4 miles
- 1975 city had **12,000** blvd trees, today we have **56,000** blvd trees & 100,000 overall
- Backlog of work for trees has increased with expectations and with the ease of access through 311
- Back log for tree related work is +/-2650
- In 1975 the quantity of trees pruned was 1572, removed was 300, and planted 197, On average today the team prunes 5,000+ trees, removes 800, and plants 600 (not including grants)



TREE WORK LOG MAP





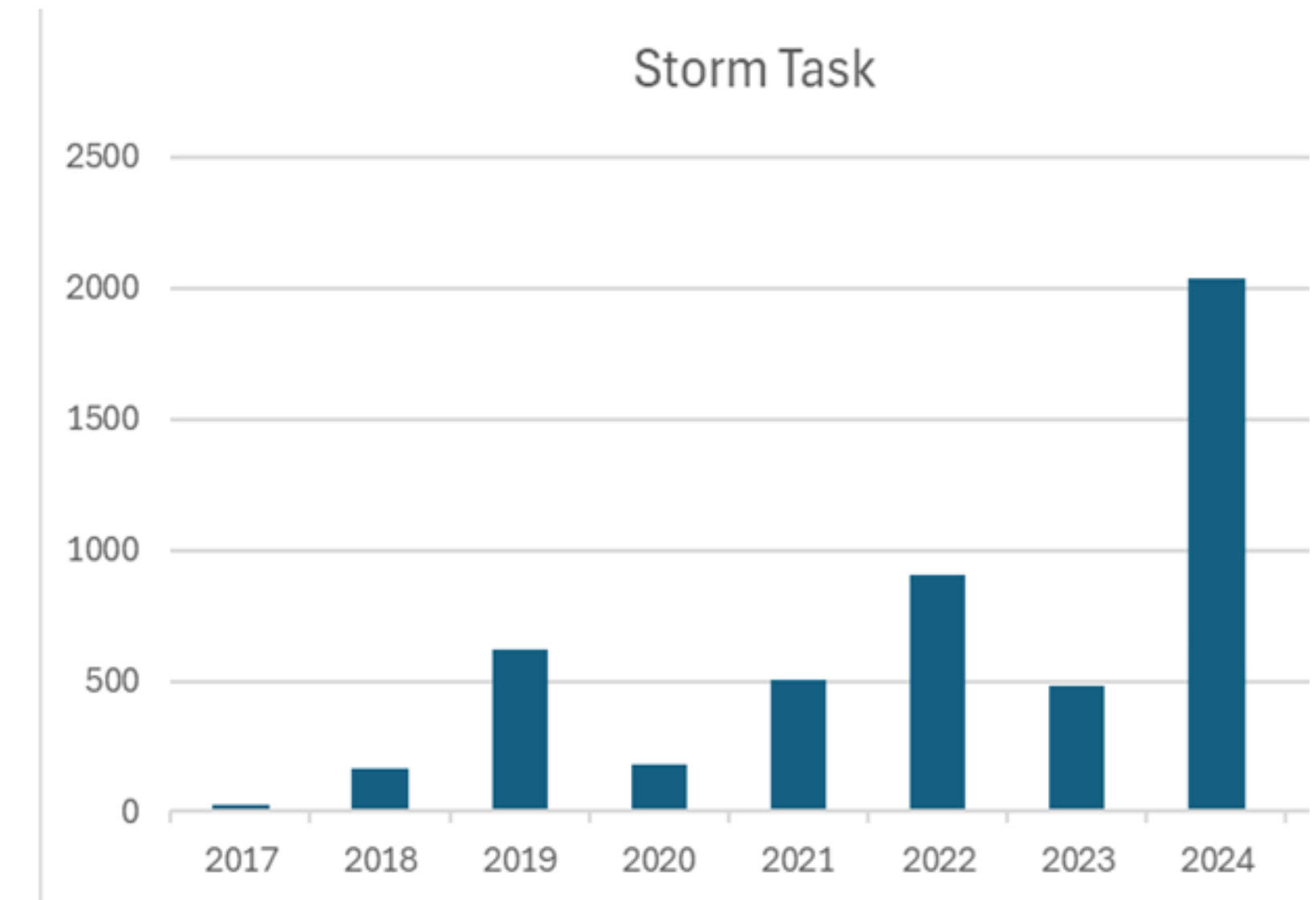
Budget Follow Up: Arborist Decision Package

Urban forest sustainability

- Moves towards UFMP goals of staffing, row clearance, inspections etc.
- Incremental increase in pruning cycle/better tree health – Currently +/-20 Year Cycle
- More responsive to urgent pruning needs (USPS new vehicle fleet)
- Ability to begin to reduce risk of public tree resource on private property – reduces city liability
- Better able to meet a growing city demands
- Needing to address increasing tree disease impacts (oak wilt, two-lined chestnut)

Storm response incidence

- Severe storms are trending up - 2024 set record of over 2,000 storm calls
- Providing more storm response support staffing safety and workload
- Storm response preempts other routine, but necessary work.
- Allowing opportunity to start implement structural pruning to reduce future storm impacts/risk





**Budget Follow Up:
Maintenance Service
Center Facility and BRT
Structure Maintenance**

Budget Follow Up: Maintenance Service Center Facility and BRT Maintenance Staffing



Decision Package Request - Budget Fiscal year 2026

37

Decision Package Title		Department Priority		
Maintenance FTE for Parks and Forestry Facility and BRT Infrastructure		6		
Decision Package Description (Please describe WHAT this DP is and WHY you are recommending it)				
This request is for a 1.0 Maintenance FTE to support the new PW/Parks and Forestry Facility and the pedestrian infrastructure of the BRT/LINK project. Joint Facilities lacks the staffing to operate and maintain these new, widely distributed assets. The new parks facility is set for turnover in June 2026, and having this position in place beforehand would allow for participation in construction meetings and training, ensuring familiarity with the building's systems before handover. A similar transition process would apply to the BRT/LINK project. Without this role, existing staff would be stretched thin, leading to reduced focus on current infrastructure, accelerated wear on major capital equipment, and increased reliance on contracted maintenance and repair services. We expect 25% of this position's salary to be funded via chargeback to the BRT operations budget beginning in 2027. Plan to submit this as 2026 and move the custodial position to 2027				
Service Level Supported				
Enhanced Service Level/New Program				
Foundational Principles Supported				
Environmental Stewardship, Fiscal Responsibility & Sustainability, Public Safety				
Strategic priorities Supported				
Affordable Living, Economic Vibrancy and Growth Management, Quality Services				
Department		Business Unit - Division		
City Administration		44605 - Joint Facilities Maintenance		
Type of Request				
Increase in expenditures with no new revenue				
Fiscal Details:				
Account Type	Short Description	GL Account No.	Amount	Duration
Expenditure [Tax Levy]	Salary	44605.80100	73,808	On Going
Expenditure [Tax Levy]	Health/Dental	44605.80640	44,297	On Going
Expenditure [Tax Levy]	Paid Family Leave	44605.80680	325	On Going
Expenditure [Tax Levy]	Benefits	44605.80560	11,429	On Going
Expenditure [Tax Levy]	Mobile	44605.82012	936	On Going
Expenditure [Tax Levy]	Startup	44605.83025	3,200	One-Time
Expenditure [Tax Levy]	Training	44605.82110	580	On Going
Total Expenditure:	Total Revenue:	Net Amount:		
134,575	0	\$134,575		
Submitted By				
Zachary T Wood				

- Covers both the Maintenance Center and BRT/Link vertical elements.
- Currently, Joint Facilities does not maintain the Parks Maintenance facility, only TOB (23,160 sqft). This will be an increase of 89,531 sqft, which the Facilities team will be maintaining. Additionally, there are significantly more complex geothermal heat pump systems being installed with this project, which will require significant preventative maintenance to preserve the lifespan of these advanced assets. When BRT/Link comes online, the areas responsible will be distributed over a 2.8 mile route, creating a significant burden for existing staff to perform their work across these new distributed assets. Based upon past practices with contracted maintenance at Fire Stations, we would expect contracted maintenance services to exceed the cost of an FTE
- The chart below highlights industry-standard staffing levels based on square footage from the International Facility Management Association (IFMA) 2022 industry report. With the addition of these facilities, there will be 1,012,638 sqft under the management of our maintenance team, which currently consists of 3.0 FTE's, equating to 337,546 sqft/FTE. Using industry standard metrics, adequate staffing levels would be 5.5 FTE's equating to 221k sqft/FTE. This position would bring us closer to those industry standard metrics with 4.0 FTE's each maintaining 253k sqft, as well as ensuring we have the staffing capacity to adequately maintain these assets and respond to needs for service as they arrive.

Maintenance Staffing: Generalists

Facility Size (RSF)	N	Number of FTEs	RSF per FTE	Percent In-House	Percent Contract	Shifts per Day	Days per Week
< 50,000	7	1.66	18K	79%	21%	1.0	4.1
50,000 – 100,000	14	3.91	19K	83%	17%	1.1	5.0
100,001 – 250,000	23	2.21	72K	82%	18%	1.3	5.2
250,001 – 500,000	12	2.17	202K	88%	13%	1.1	5.0
500,001 – 750,000	9	5.00	120K	87%	13%	1.1	5.4
750,001 – 1,000,000	6	7.17	128K	58%	42%	1.4	4.3
1,000,001 – 1,500,000	6	5.50	221K	83%	17%	1.0	5.0
1,500,001 – 2,000,000	6	10.83	166K	52%	48%	1.2	5.2
2,000,001 – 3,000,000	4	14.00	190K	75%	25%	2.0	5.5
> 3,000,000	8	17.25	496K	88%	13%	1.4	5.1



**Budget Follow Up:
Environmental
Stewardship and Natural
Gas Franchise Fee**

2023 Sustainability Investment Summary

Annual	Environment	Economy	Social Equity
Rochester Public Utilities			
Customer Relations Leadership, staff	\$7,155		
Utility Programs & Services, 100% staff time	\$791,648		
Customer Care, staff time	\$41,055		
Electric Rebates, budget	\$2,495,669		
Water Rebates, budget	\$69,288		
Electric Education/Marketing, budget	\$74,153		
Water Conservation Marketing, budget	\$1,500		
Professional Services - energy audits, rebate processing, program administration, budget	\$338,374		
Professional Services - environmental & regulatory compliance (air), budget	\$42,495		
Utility Permits - environmental & regulatory compliance, budget	\$59,000		
Professional Services - environmental & regulatory compliance (water), budget	\$80,749		
Utility Permits - environmental & regulatory compliance (water), budget	\$69,345		
Parks & Recreation Department			
Forestry Division, budget	\$1,918,534		
Public Works - Transit			
Manager of Facility Services, 5% staff time	\$9,561		
Transit & Parking Systems Manager, 5% staff time	\$10,691		
Transit Project Manager, 5% staff time	\$5,883		
Mobility Coordinator, 100% staff time			\$109,256
ZIPS Paratransit Service, budget		\$1,156,569	
Electric buses (2), budget	2,400,000		
Electric trucks (2), budget	106,876		
Public Works			
Stormwater Management, budget	\$6,874,401		
Deputy PW Director, 5% staff time	\$10,674		
Community Development Department			
Community Development Block Grant Funds (CDBG)			\$900,000
CD Office Assistant, 100% staff time			\$15,392
Senior Administrative Analysis, 100% staff time		\$147,069	
Administration			
Sustainability Coordinator, 100% staff time	\$107,000		
Sustainability, budget	\$20,000		
District Energy System Phase 1, budget	\$15,000,000		
District Energy System Phase 2, budget	\$22,000,000		
Solar array at airport, budget	\$2,000,000		
Active Transportation Coordinator, 100% staff time	\$132,498		
Manager of Facilities & Property, 50% staff time	\$85,646		
Building Automation Specialist & Facilities Supervisor, 75% staff time	\$109,340		
Facilities team, 10% staff time	\$23,830		
Maintenance team, 30% staff time	\$93,198		
DEI Director, 100% staff time			\$151,898
HR Business Partner DEI Recruitment & Retention, 100% staff time			\$96,072
Project Manager, Workforce Participation, 100% staff time			\$151,000
Diversity, Equity, & Inclusion, budget			\$108,000
Legislative Affairs & Policy Director, 50% staff time			
Strategic Initiatives Director, Project Manager, LINK			
TOTALS	\$54,978,563	\$1,303,638	\$1,531,618



\$61,458,819

Special Projects	Environment	Economy	Social Equity
Global Mayors Challenge		\$1,000,000	
Department of Labor		\$750,000	
Energy Efficiency Conservation Block Grant	\$170,000		
McKnight Grant (2023-2025)	\$225,000		
Community Sustainability Courses, staff time			
US Forest Service Urban Forestry Grant	\$1,000,000		
ReLEAF grant	\$500,000		
Harvard DEI Fellow			\$80,000
Sustainable Strategies DC, grant consulting contract			
Total of Special Projects	\$1,895,000	\$1,750,000	\$80,000
TOTALS INCLUDING SPECIAL PROJECTS	\$56,873,563	\$3,053,638	\$1,531,618



Responsible Environmental Stewardship

Goal A: Reduce greenhouse gas emissions associated with transportation

Goal B: Reduce greenhouse gas emissions associated with building energy consumption

Goal C: Enhance and Effectively Maintain Rochester's Natural Resources

Goal D: Optimize City services and assets to support Environmental Stewardship



Goal A: Reduce greenhouse gas emissions associated with transportation

- **Tactic 1 - Active Transportation:** Encourage the use of active transportation options for both commuting and recreational trips. Create support facilities to help meet the needs of active commuters. Continue to refine the framework for the responsible use of private scooters and Lime Scooters including designated corrals in the Downtown area. Evaluate a variety of financial strategies to invest in trails including reviewing our park dedication ordinance to allow investments in both park and trail development.
- **Tactic 2 - City Fleet Electrification:** Identify resources and implementation strategies to electrify the City's fleet while ensuring the financial viability of the Equipment Revolving Fund.
- **Tactic 3 - Community Transportation Electrification:** Work to encourage private electric vehicle charging infrastructure solution to make charging convenient. Monitor the implementation and adjust as public and private vehicle electrification infrastructure evolves.

Mode shift coordinator hiring in process
County trail planning to start in 2026

See next slide

Council finalizing policy



Goal B: Reduce greenhouse gas emissions associated with building energy consumption

- **Tactic 1 - Power Supply Resource Plan:** Monitor and support the implementation of the RPU 100% Net Renewable Energy by 2030 resource plan goal. Determine acceptable risk mitigation measures that might be necessary with the changing tax credit environment; evolving financial viability; and ability to build or contract enough locally produced renewable energy to meet the community's needs.
- **Tactic 2 - Energy Savings:** Continue to explore energy efficiency and decarbonization projects that have a reasonable return on time and capital.
- **Tactic 3 - Advanced Metering:** Successfully complete the implementation of advanced metering. Facilitate training and education on how customers can best use the information to manage their energy footprint.
- **Tactic 4 - Commercial Benchmarking:** Continue to refine the data collection and dissemination for commercial buildings over 50,000 square feet.
- **Tactic 5 - Commercial and Residential Energy Efficiency and Beneficial Electrification:** Maximize programming and direct investments through RPU's Energy Advisors in alignment with the MN Eco Act, Sustainability Division, and City partners to support carbon free options including geo thermal, heat pumps, and energy efficient appliances.
- **Tactic 6 - City Facilities:** Integrate B3 and Energy Star standards during new construction or material renovation of City facilities to the maximum extent possible. Ensure that projects are designed in conjunction with the facilities team to ensure that building automation, energy efficiency, and other standards are reflected.

The proposed 2026-2027 RPU budget and proposed 6% rate change will make significant progress toward the community GHG goals. It is anticipated that this will reduce 70%-90% of the electricity related community GHG emissions by 2030 emissions with early wind commitments.

Advanced metering is being implemented at a cost of \$34M within the RPU capital budget in 2024-2028.

A limited term commercial energy advisor teammate will be extended into 2026 to support the energy benchmarking initiative

RPU is projected to invest about **\$3.2 million** in this area in 2026. These investments help reduce capacity costs, avoid future infrastructure needs, and support long-term rate stability for customers.



Goal C: Enhance and Effectively Maintain Rochester's Natural Resources

- **Tactic 1 - Urban Forest:** Implement options to maintain our urban tree canopy through accelerated pruning, empowering property owners to maintain trees, rethinking boulevard trees, and substantial tree planting initiatives.
- **Tactic 2 - Air Quality:** Ensure real-time air quality data continues to be publicly available, monitored, and is actionable.
- **Tactic 3 - Water Quality:** Finalize the Comprehensive Surface Water Master plan and prioritization of its recommendations.
- **Tactic 4 - Drinking Water Supply & Water Quality:** Finalize the RPU Groundwater Management Study and RPU Water System Master Plan.



Arborist positions in 2026 and 2027 are recommended



Goal D: Optimize City services and assets to support Environmental Stewardship

- **Tactic 1 - Natural Gas Franchise Fee:** Explore the implementation of a natural gas franchise fee to fund the adopted strategic priorities and foundational principles.
- **Tactic 2 - Waste Management:** Monitor Olmsted County's development and construction of a material recovery facility (MERF). As county level waste and material management becomes clearer, discuss options to evolve organizational recycling, residential collection, organics, yard waste, and woody waste. Study peer-implemented best practices for single use plastic bags.
- **Tactic 3 - Data Driven Decision Making:** Launch a public-facing dashboard tracking emissions, waste, water, and city fleet.



A presentation on this topic occurs later in the presentation





NATURAL GAS FRANCHISE FEES

**Aligning Natural Gas Usage with
Environmental Stewardship Goals**

Franchise Fees

What Are Franchise Fees?

- Utility uses public right-of-way, City manages the right-of-way
- City has the right to establish a franchise fee if it is part of a franchise agreement
- Fees are passed directly to customers, itemized on bill, collected by the Utility, and remitted to the City

Why Franchise Fees?

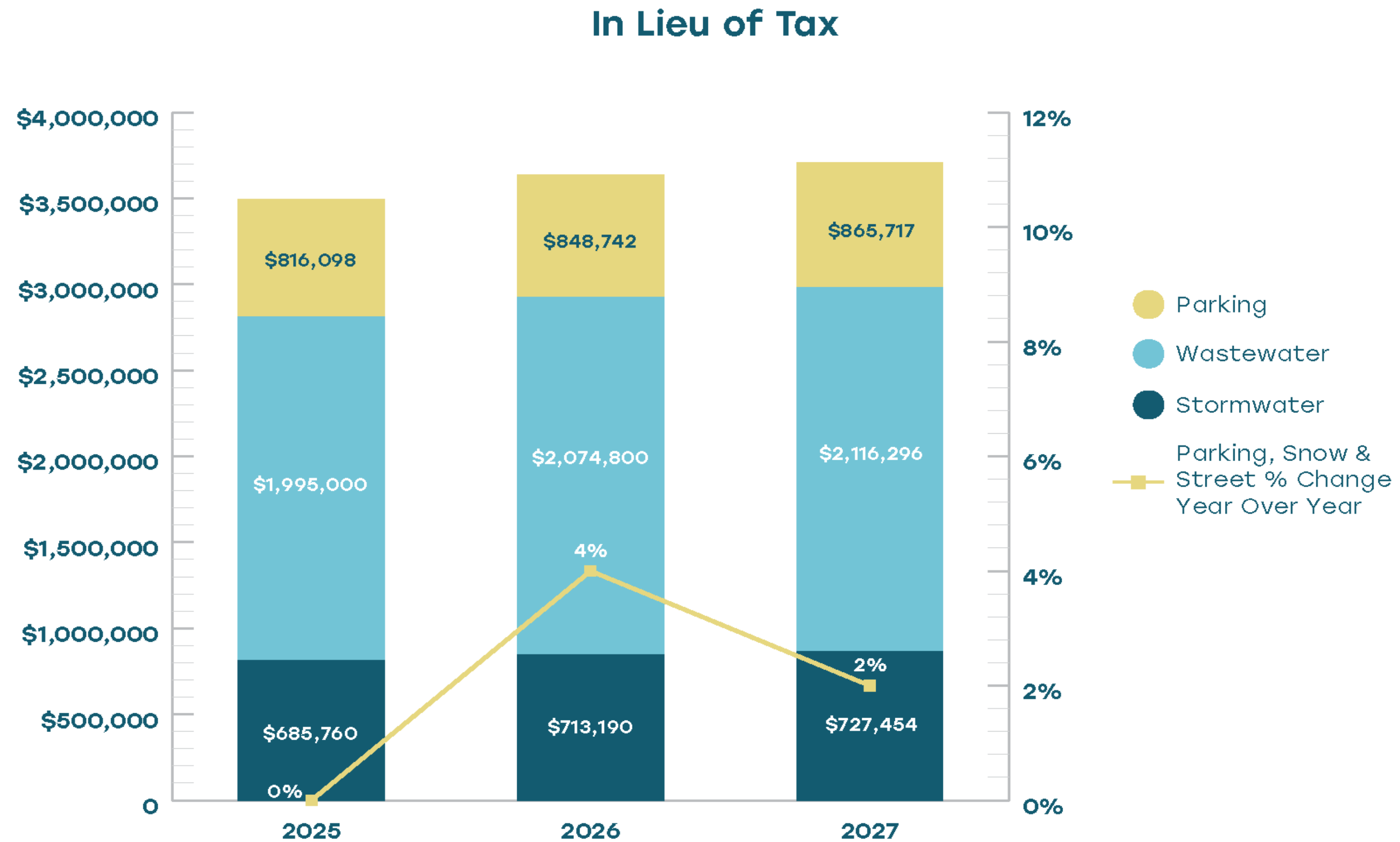
- Funding support to reflect utilization of the right of way
- Alignment with City's Foundational Principles and Strategic Priorities
- Alignment with Sustainability & Resiliency Plan
- Provides a stable local revenue source while reducing reliance on uncertain grant or levy funding
- Common among peer cities (benchmarking available)





In-Lieu 2026 and 2027 Parking, Wastewater and Stormwater

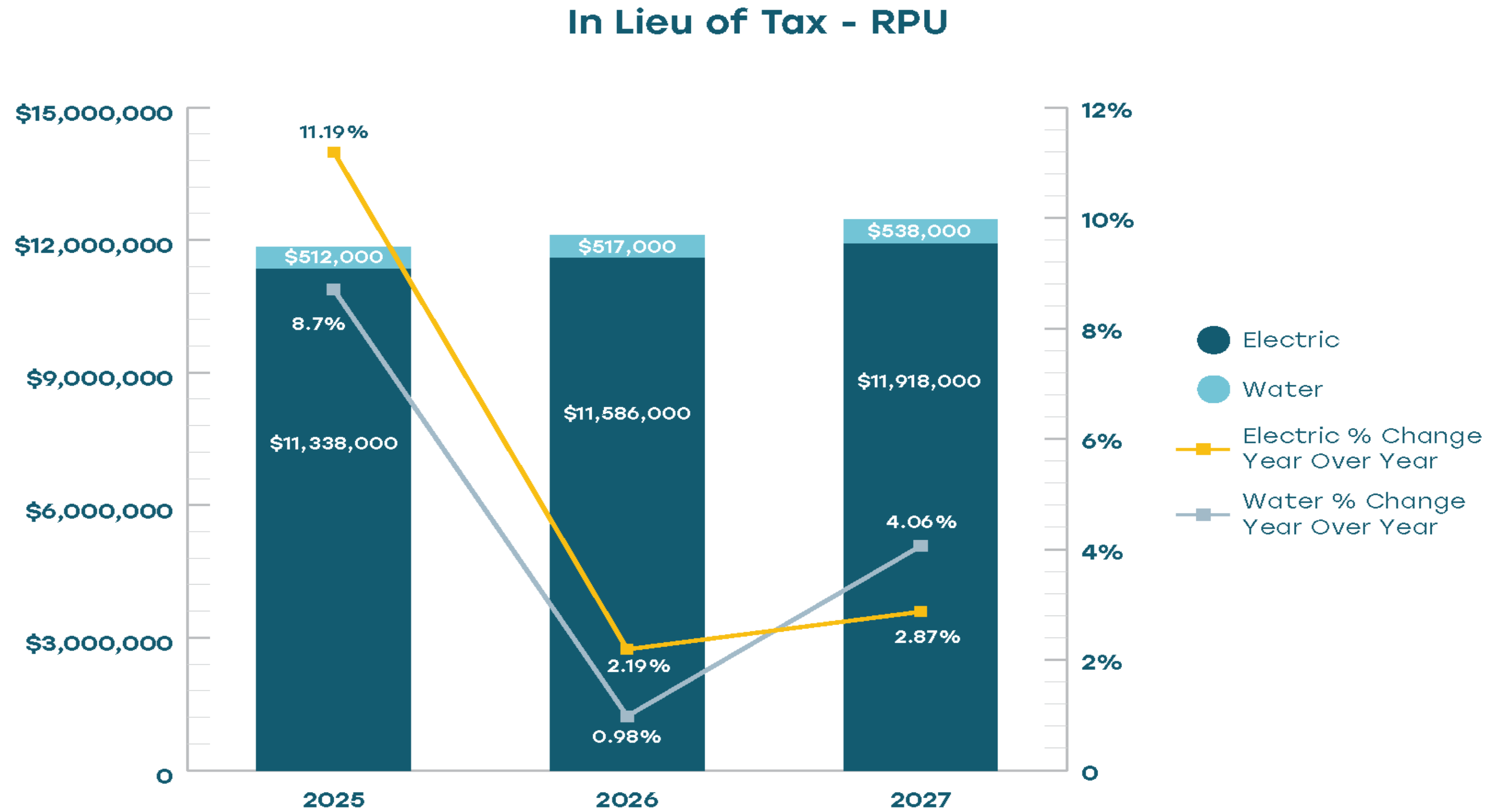
Payment In Lieu of Taxes (PILOT) transfers from enterprise funds to the General Fund will continue under existing formulas.





In-Lieu 2026 and 2027 RPU

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





FRANCHISE FEE OPTIONS



Franchise Fee Options

Fee model	Description	Estimated 2026 revenue	Key notes
Flat monthly fee	Fixed fee per meter	~\$1.03 million (Res/commercial = \$2/mo Large users = \$5/mo)	Simple To Implement; Predictable Revenue; Opportunities To Increase Revenue Would Likely Focus On Large Users
Per therm	Fee based on gas usage	~\$1.52 million (\$0.015/therm)	Tied to consumption; incentivizes energy reduction
% Of utility revenue	% Of gross utility revenue	~\$2.46 million (0.05%)	Highest yield; hesitation from MERC



Option 1 – Flat Fee Model

Description

- Customers pay a fixed monthly amount
- Estimated 2026 revenue: \$1.03 million/year using a \$2 and \$5 per month per meter rate class structure

Pros	Cons
Easy to implement and communicate	Not linked to energy use or emissions
Predictable revenue	Same fee regardless of income or usage
Doesn't fluctuate with energy use or weather	May feel unfair to low-usage households



Option 2 – Per Therm Model with No Inflation

Description

- Fee based on natural gas usage
- Estimated 2026 revenue: \$1.52 million/year at \$0.015 per therm

Pros	Cons
Directly tied to GHG emissions	More complex to implement and communicate
Encourages energy conservation & electrification	Revenue could fluctuate with usage patterns (weather, behavior)
More equitable – higher users pay more	Could be perceived as punitive to larger households/business



Option 2 – Per Therm Model w/ Inflationary Adjustment

- The franchise fee per therm, starting at \$0.015 and increasing by 3% annually.

YEAR	RATE PER THERM (\$)	THERM USAGE	PROJECTED REVENUE (\$)
1	0.01500	104,958,325.40	1,574,374.88
2	0.01545	106,007,908.65	1,638,096.55
3	0.01591	107,067,987.74	1,704,263.57
4	0.01639	108,138,667.61	1,772,963.67
5	0.01688	109,220,054.28	1,844,287.96
6	0.01739	110,312,254.83	1,918,331.60
7	0.01791	111,415,377.38	1,995,193.38
8	0.01845	112,529,531.15	2,074,976.36
9	0.01900	113,654,826.46	2,157,787.70
10	0.01957	114,791,374.73	2,243,739.27

* 1% annual increase in usage



Option 3 – Percentage of Utility Revenue

Description

- Charge a percentage of gross utility revenue
- Estimated 2026 revenue: \$2.46 million/year at 0.05%

Pros	Cons
Tied to economic growth	Less connected to individual customers
Would allow for expanded programs	Less direct link to energy/GHG goals
Don't need an inflation factor	Could face stronger opposition from utility*

**Based on previous research, MERC has indicated they'd prefer a flat monthly fee or per therm charge.*



Revenue use options

1. **Diversify general revenues and lower the tax levy**
2. **Direct to infrastructure needs such as streets or facilities**
3. **Invest in the environmental stewardship strategic priority**
4. **Other**



**ENVIRONMENTAL
STEWARDSHIP FOCUSED
REVENUE USE
PRIORITIES**



Revenue Use Priorities

Goal: Ensure equitable distribution of resources and support energy/GHG goals.

Scope of Use	What's Included
Community- Proposal focused	<ul style="list-style-type: none"> -Residential, commercial, and new construction incentives for energy efficiency and Weatherization -Support beneficial Electrification of HVAC and Appliances -Thermal energy network pilots
Organizational	<ul style="list-style-type: none"> -EV Fleet and charging -Green Infrastructure Projects -tree planting -Active transportation investment



RECOMMENDATION



Franchise Fee Options - Recommendation

Fee Model	Description	Estimated Annual Revenue	Key Notes
Flat Monthly Fee	Fixed fee per meter (\$2 - \$5/month)	~\$1.03 million	Simple to implement; predictable revenue
Per Therm	Fee based on gas usage (\$0.015/therm)	~\$1.52 million	Tied to consumption; incentivizes energy reduction
% of Utility Revenue	0.05% of gross utility revenue	~\$2.46 million	Highest yield; hesitation from utility

Recommendation – Hybrid/Phased Fee Structure



Recommendation – Hybrid/Phased Fee Structure

Years 1 – 3: Implement a flat monthly fee

- Provides ease of adoption and predictable revenue during program setup

Year 4: Automatically transition to a per therm fee

- Transition is built into original Council resolution
- Ties cost to consumption, GHG emissions, and creates a conservation incentive

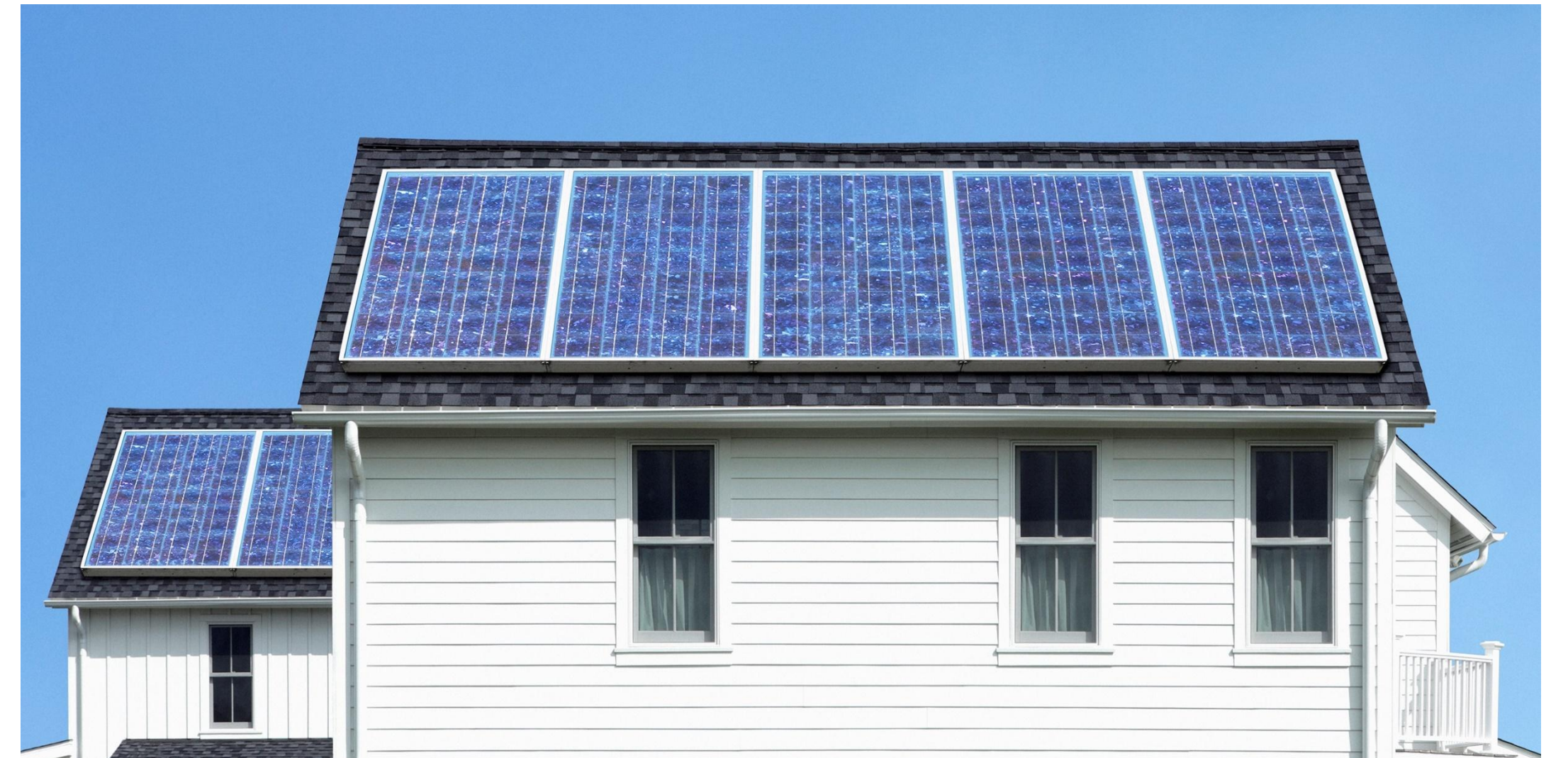
Why this approach?

- Gives residents and businesses time to implement energy efficiency upgrades to avoid per therm fees in Year 4
- Mirrors approaches in other MN cities
- Eases political and public transition
- Builds familiarity with fee structure
- Reinforces GHG goals by linking fees to usage in Year 4



Recommendation on Revenue Use

- Half of the funding for competitive community generated projects
- Half of the funding for organizationally focused Environmental Stewardship priorities
- Develop definition around funding priorities and community engagement strategy if there is interest in continuing the conversation

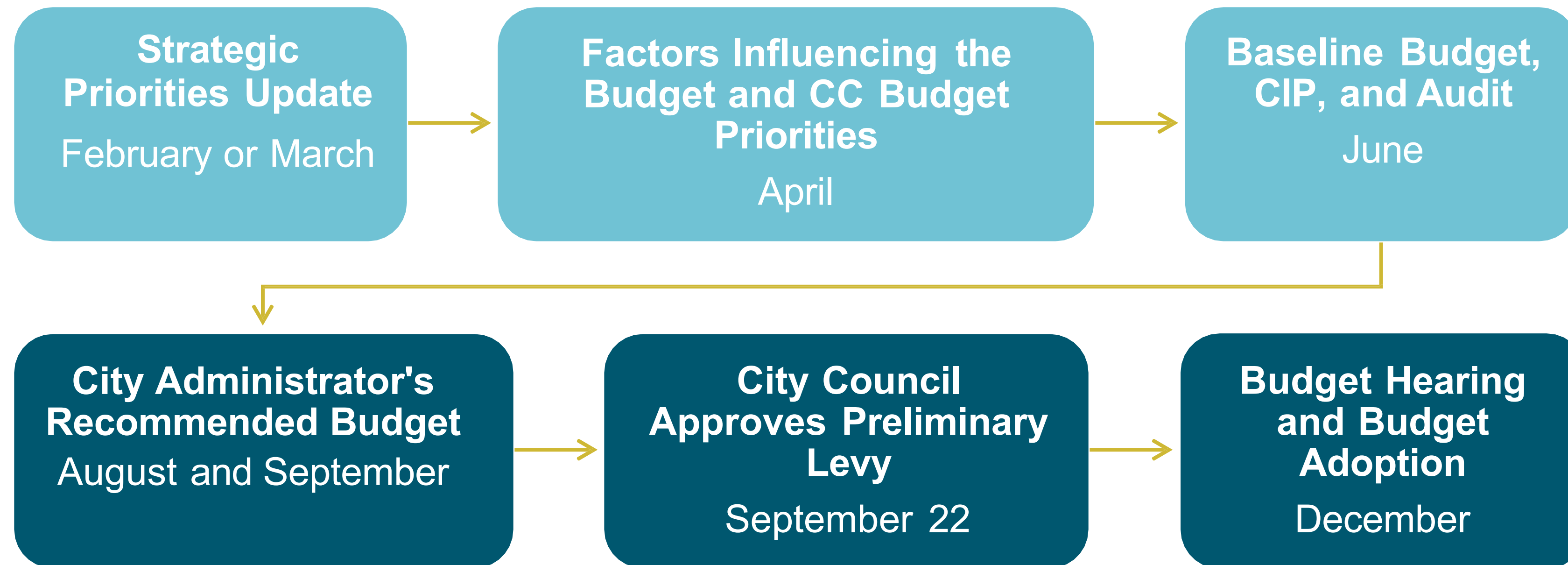




Budget Follow Up: September 15th Meeting

- **Summary of EV Vehicles and Equipment Revolving Fund**
- **Current Collaboration on RCTC Facilities and Potential Evolution**
 - **RPU Fee Proposals**
 - **Other**

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. Does the Recommended Budget effectively balance the City's Foundational Principles and Strategic Priorities?
2. Is the recommended 2026 preliminary tax levy for consideration September 22, 2025, acceptable?



THANK YOU!

QUESTIONS?



**PREVIOUS STUDY SESSION
SLIDE PRESENTATIONS FOR
REFERENCE**



CITY OF
ROCHESTER
MINNESOTA

SLIDE 68

RECOMMENDED 2026-2027 BUDGET

August 25, 2025

Priorities & Principles







Strategic Priorities

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

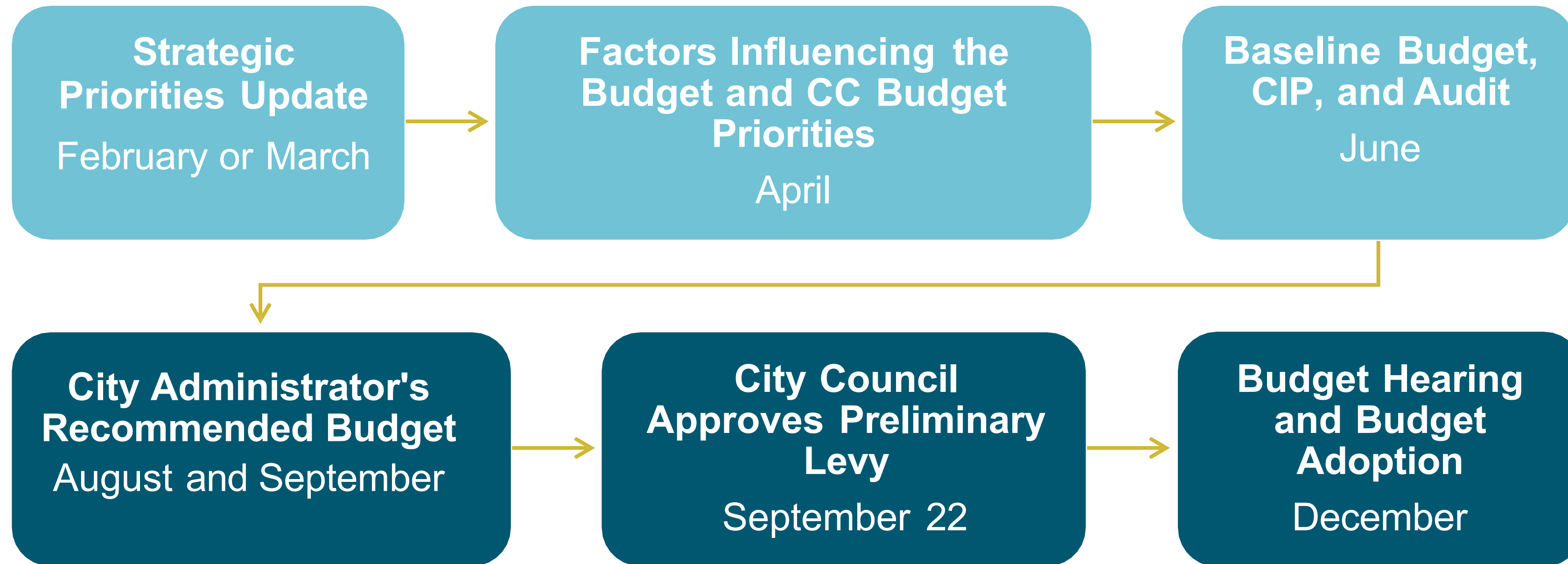
-  Economic Resilience
-  Housing Access
-  Inclusive Growth Management
-  Responsible Environmental Stewardship
-  Transformational Capital Projects

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



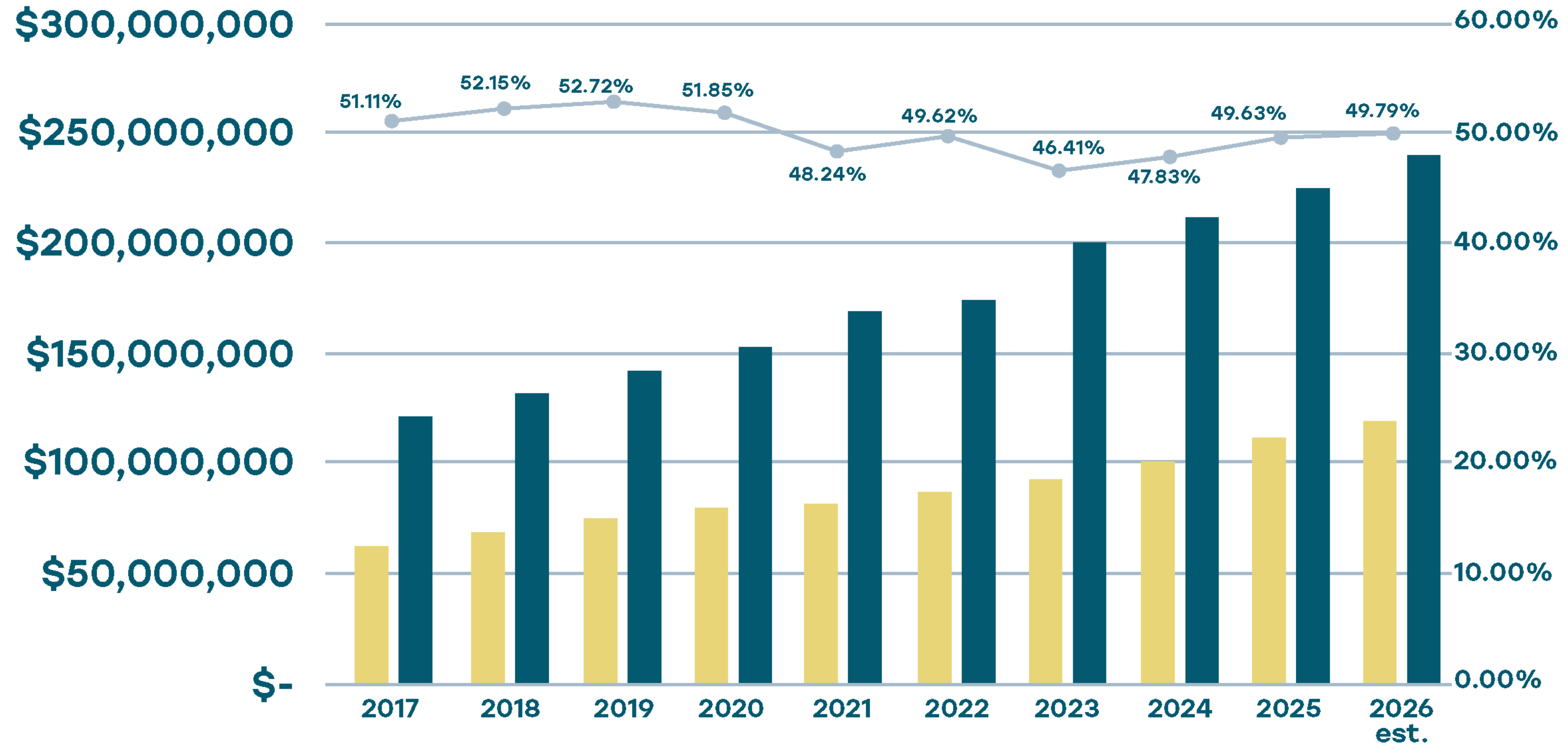
**Community &
Organizational Impact**



**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

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



Preliminary Estimated Market Valuation

2025 Property Valuation Growth:

Preliminary estimates payable 2026

New Construction 1.77%

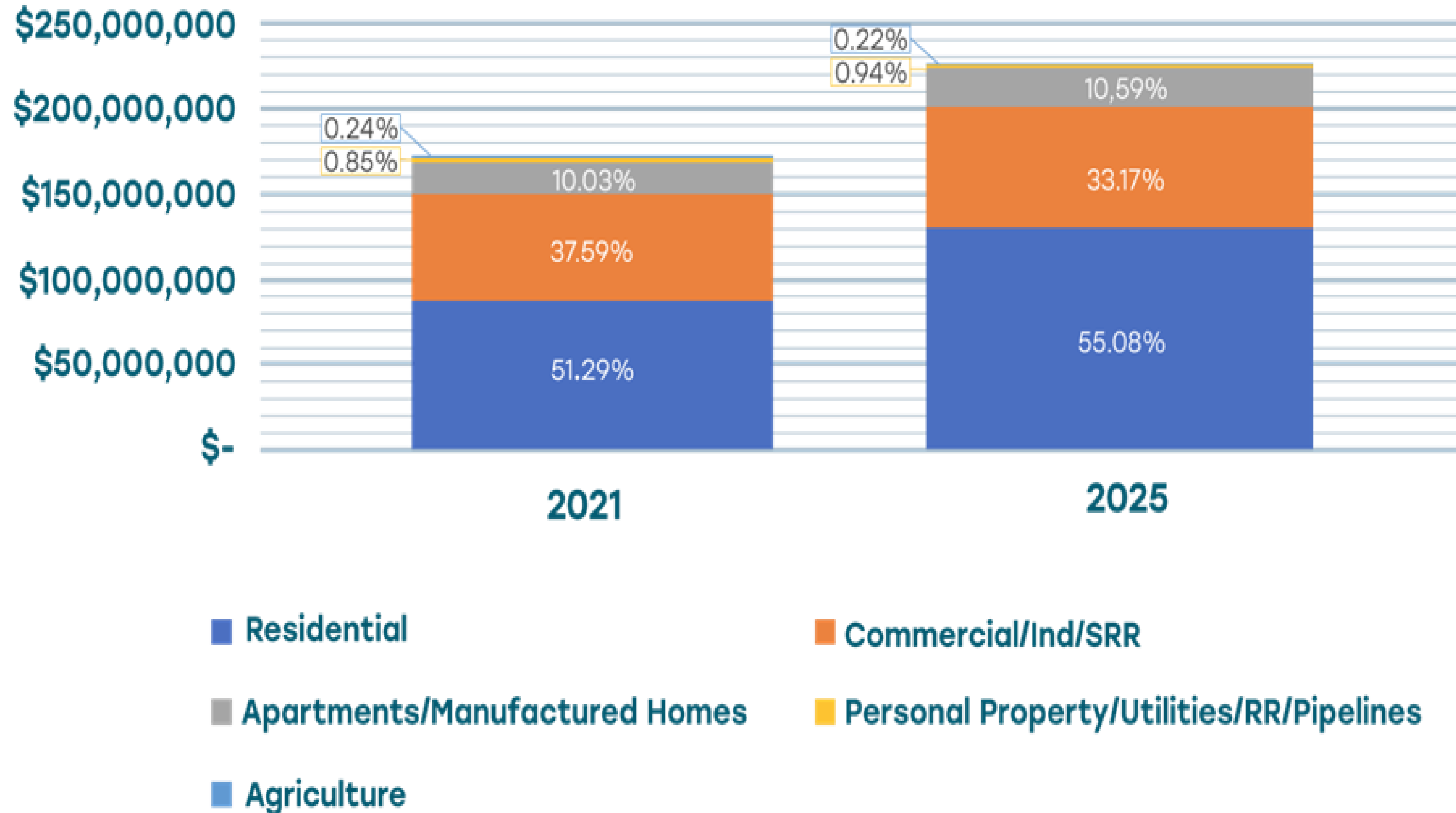
Valuation Adjustment 4.81%

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



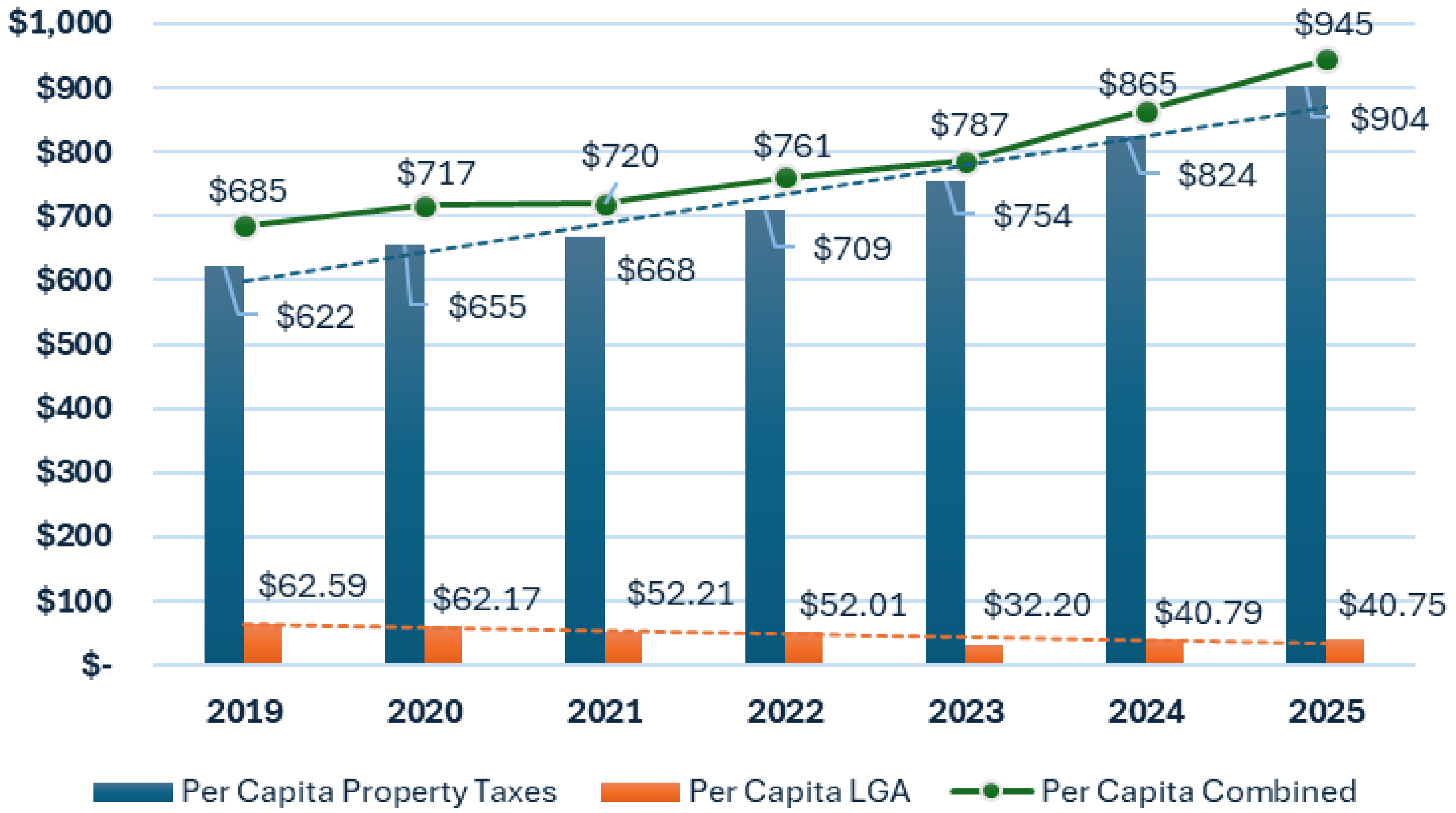
Net Tax Capacity Comparison for Rochester Property Classifications



- 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



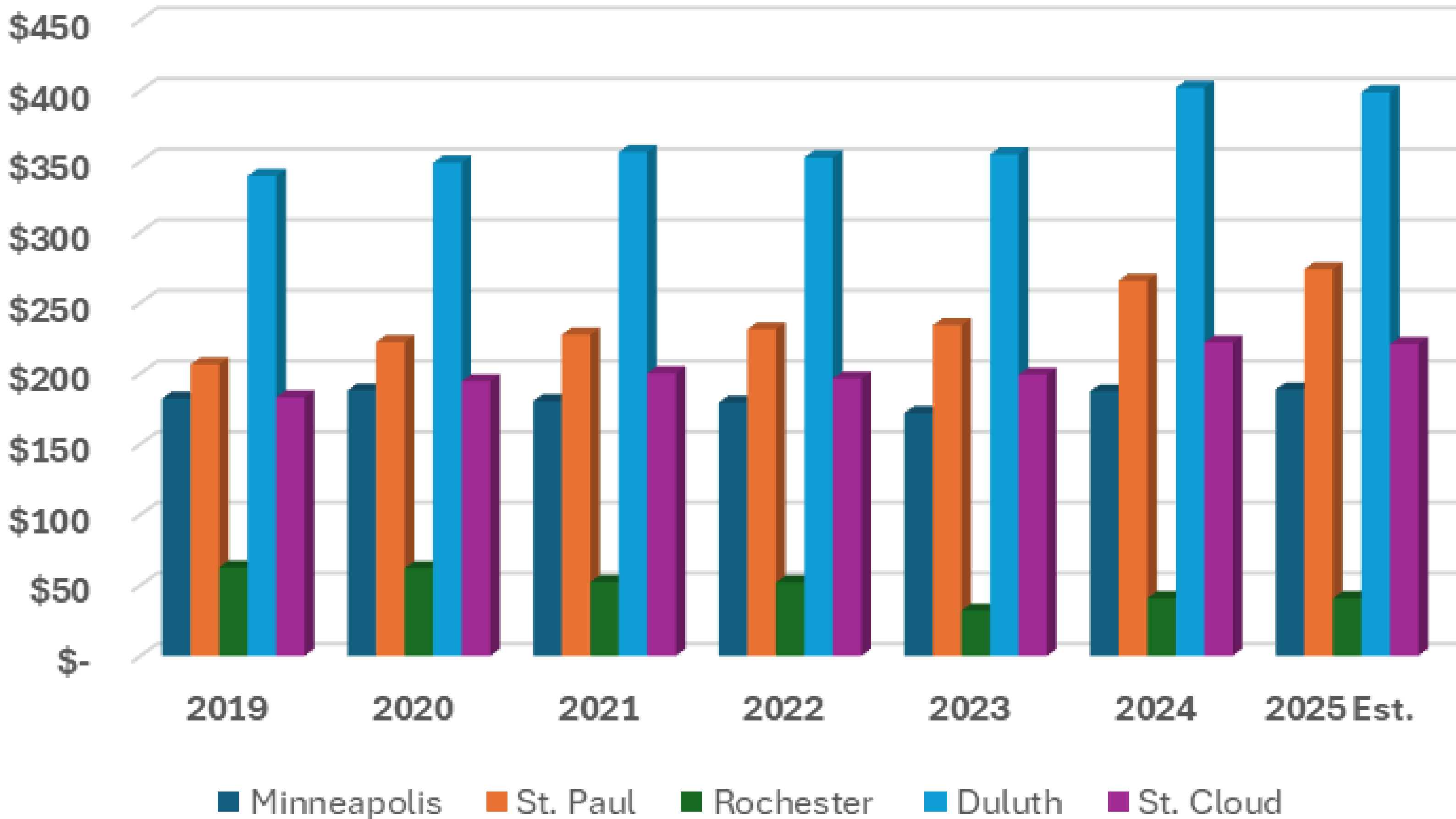
Property Taxes & Local Government Aid (LGA) Per Capita



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)

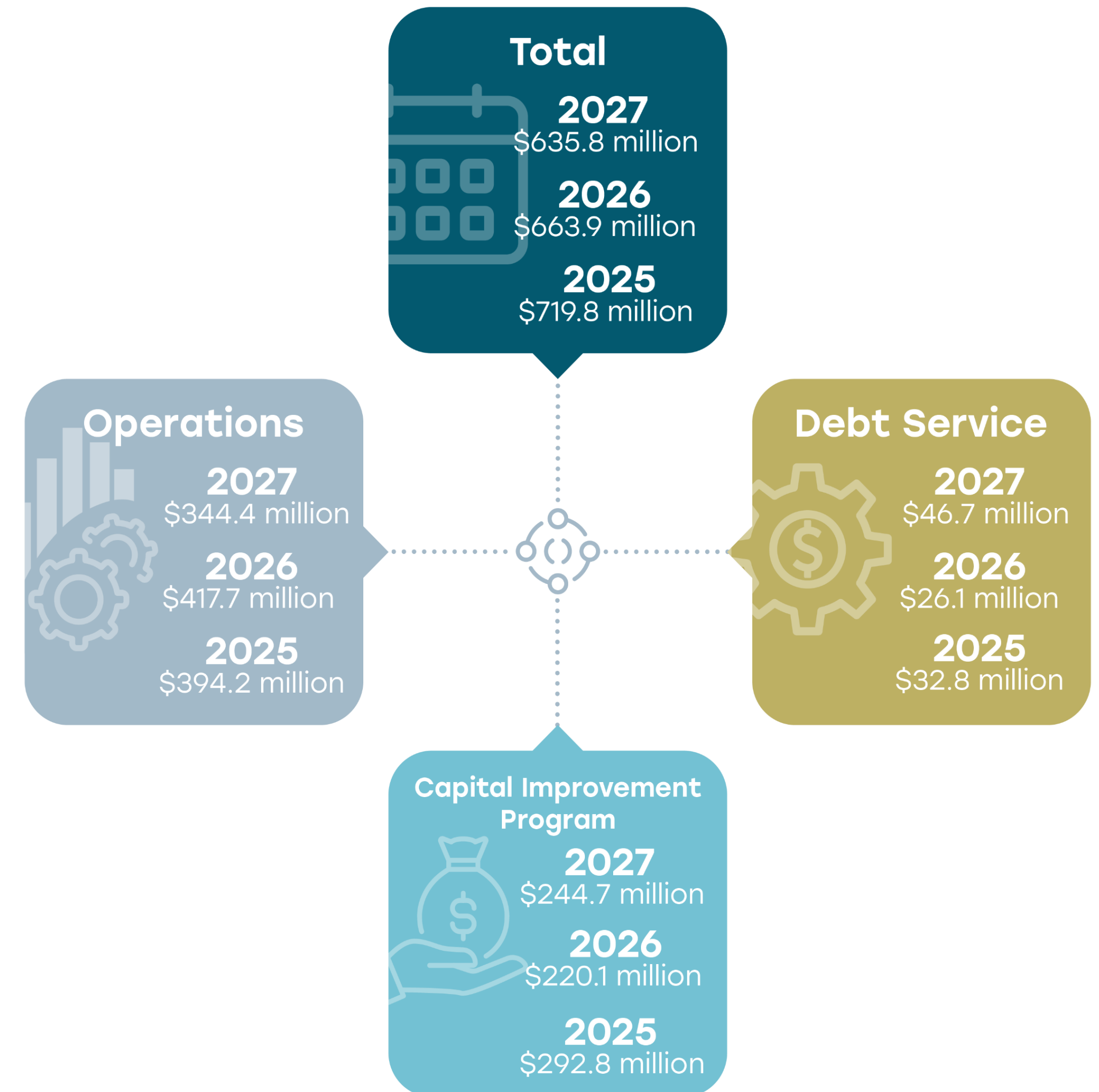
All Funds Combined

- **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

2025 vs 2026 vs 2027 Operating Expense

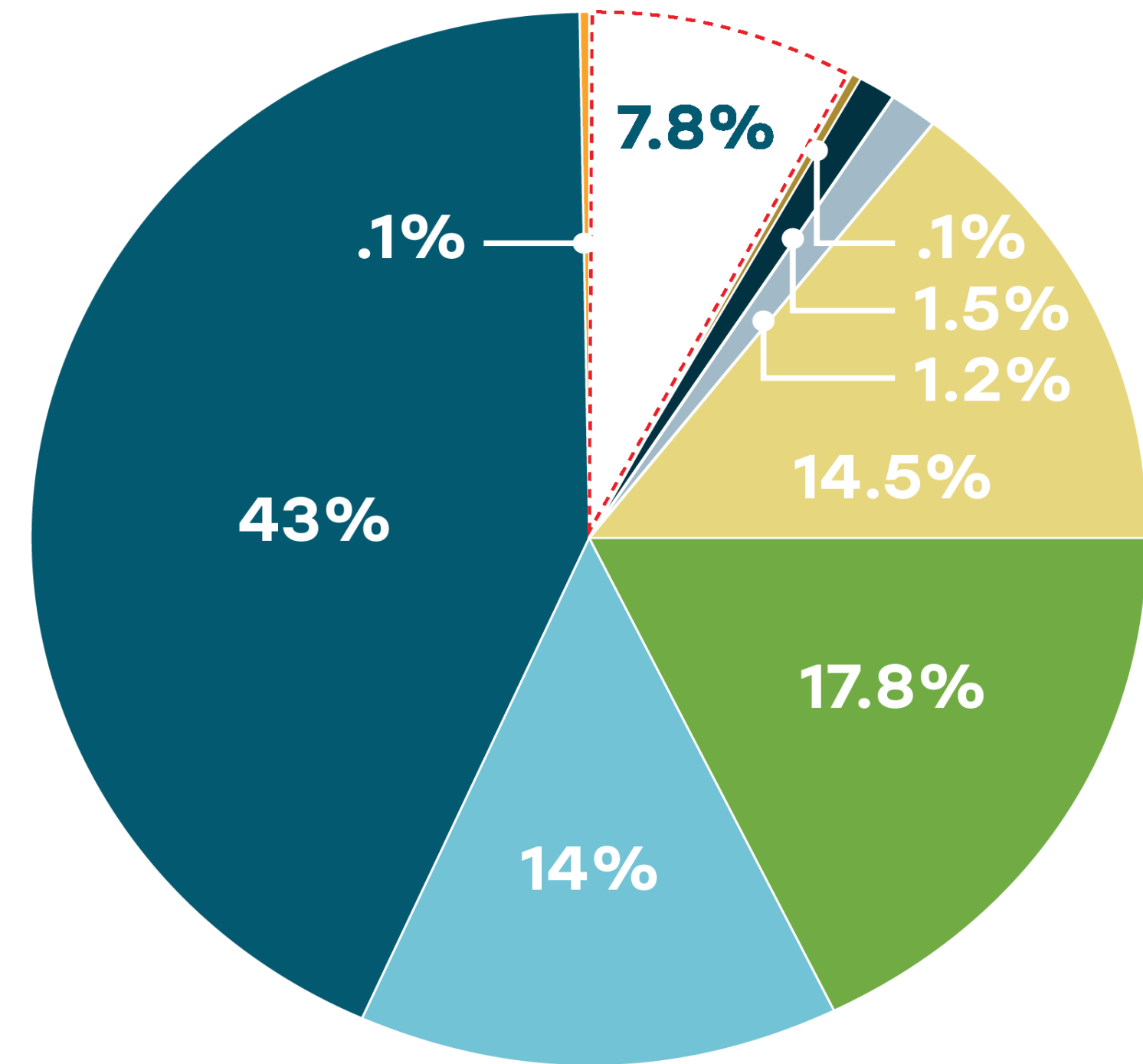




Where Does The Money Come From?

- 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

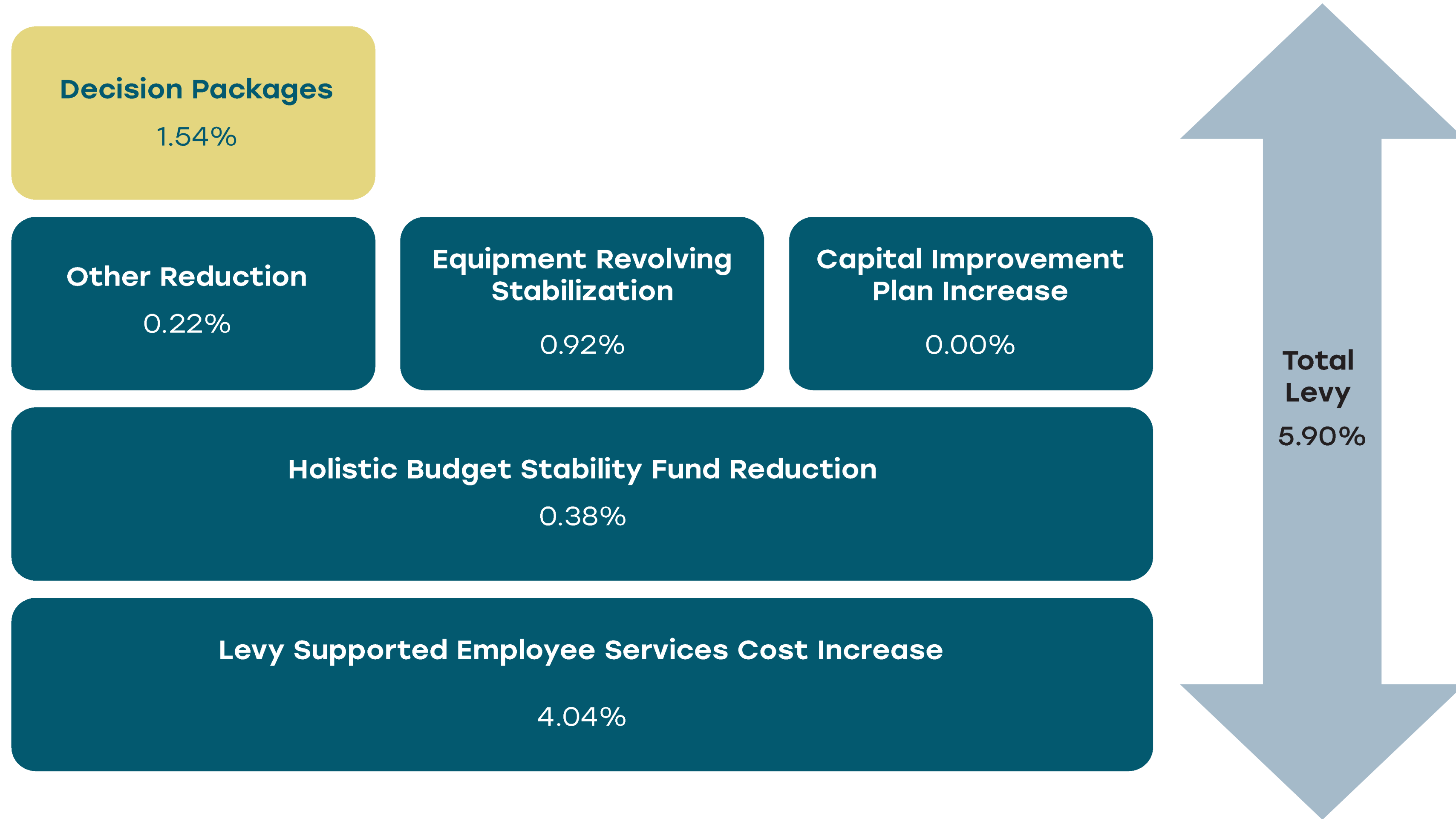
Other Considerations

- 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.



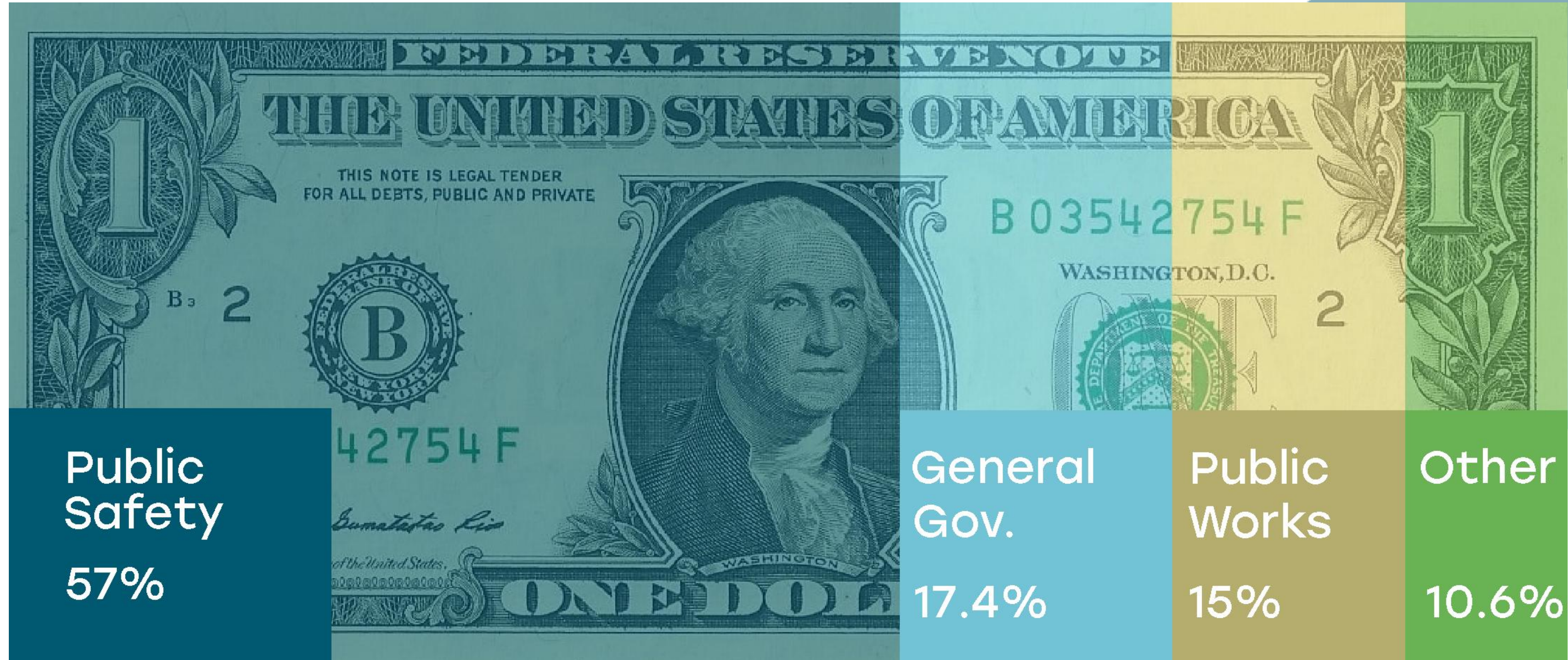
Budget Stability Funding (\$6.2M)

- 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?

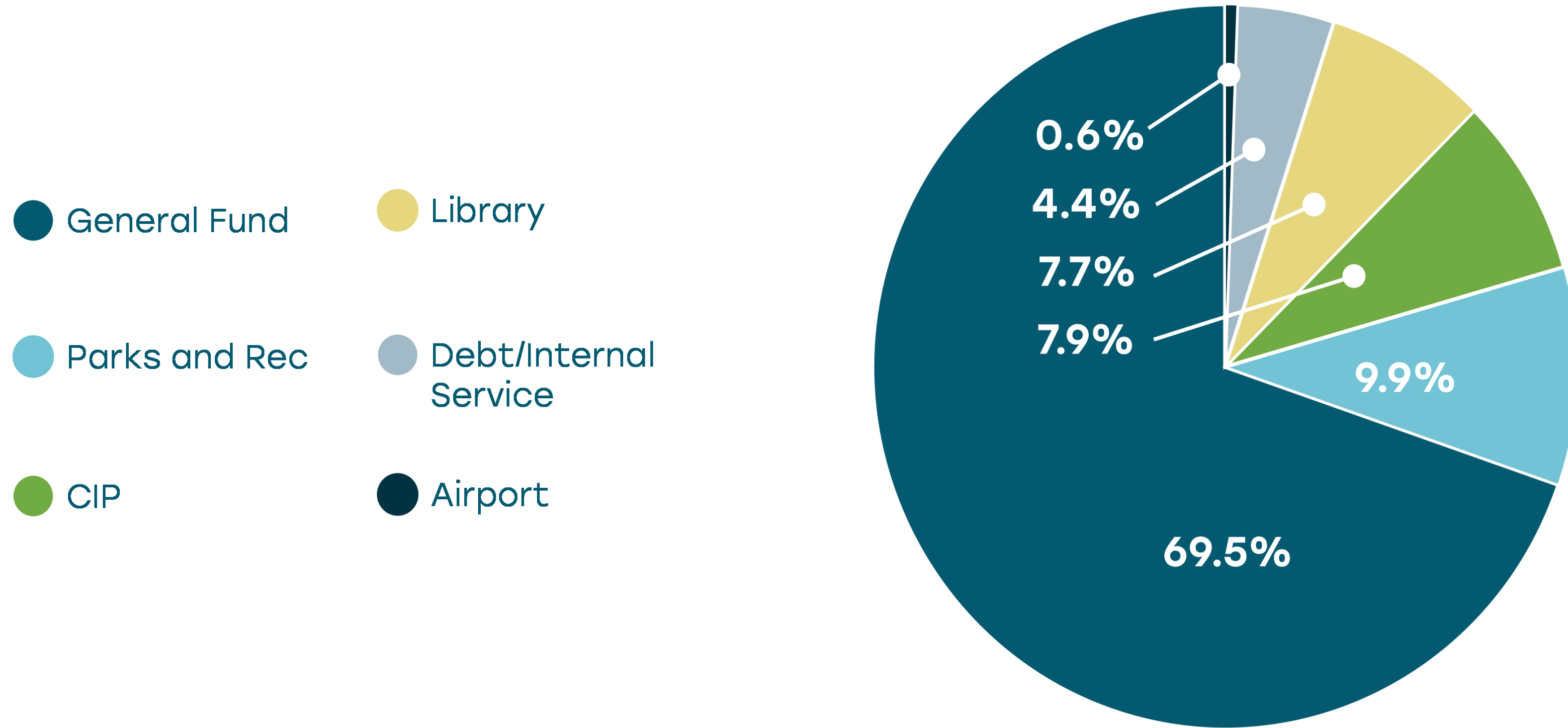
2026 General Fund expenses are \$10.9 million more than 2025.





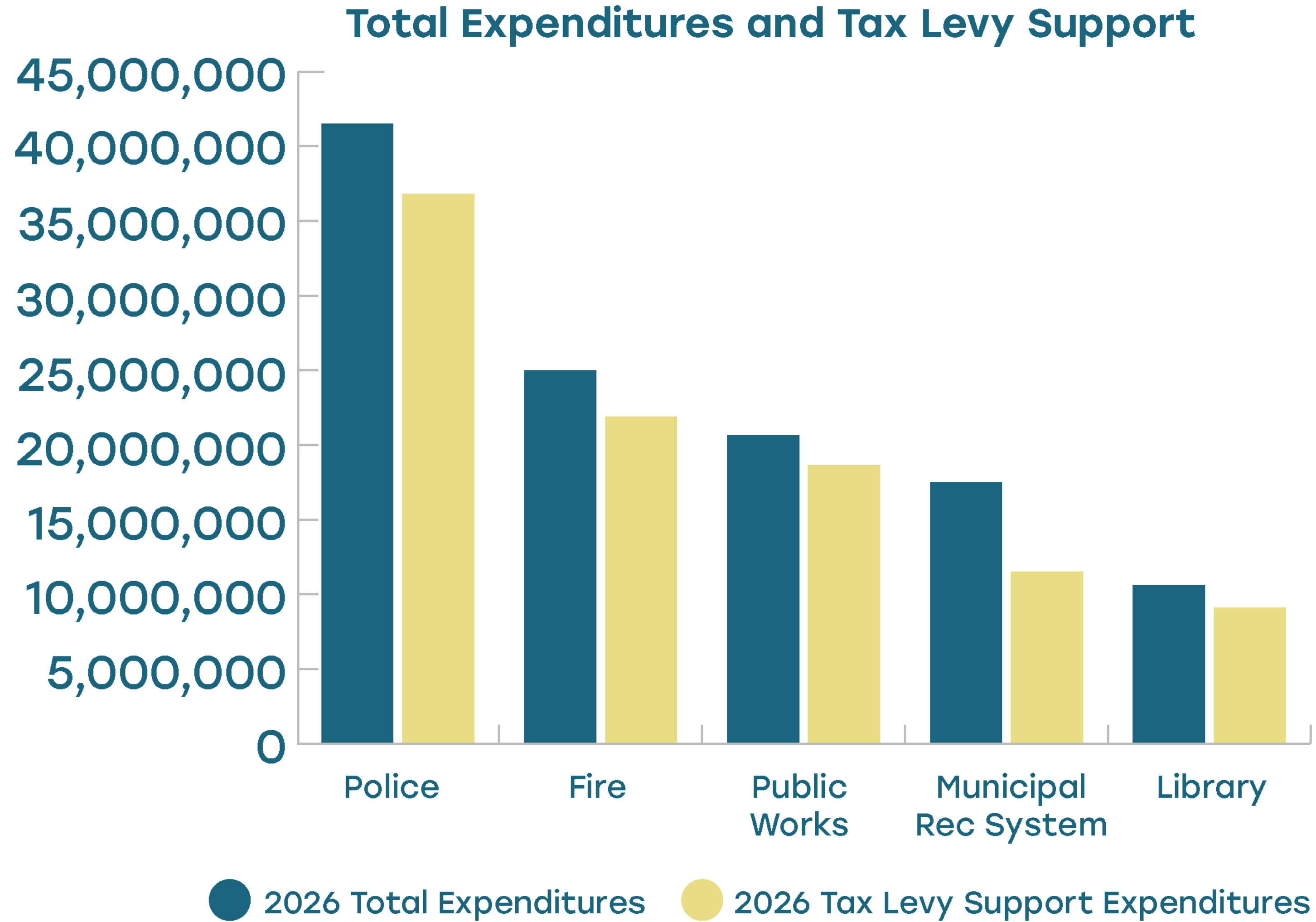
2026 Property Tax Distribution

2026 Property Tax Distribution



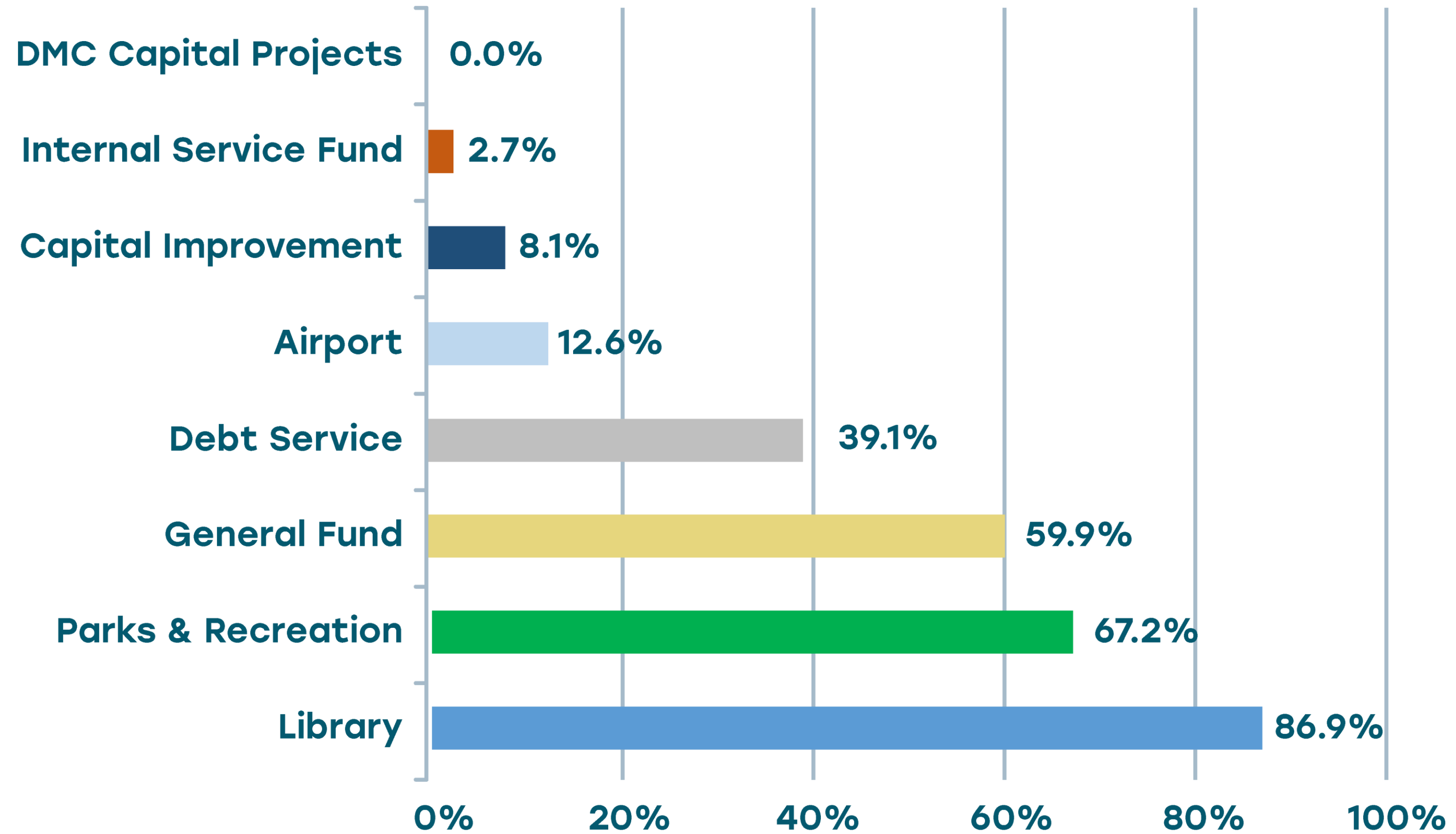


2026 Total Expenditures And Tax Levy Support





Fund Reliance On Tax Levy





Long-Range Financial Management Plan- Recommended Budget

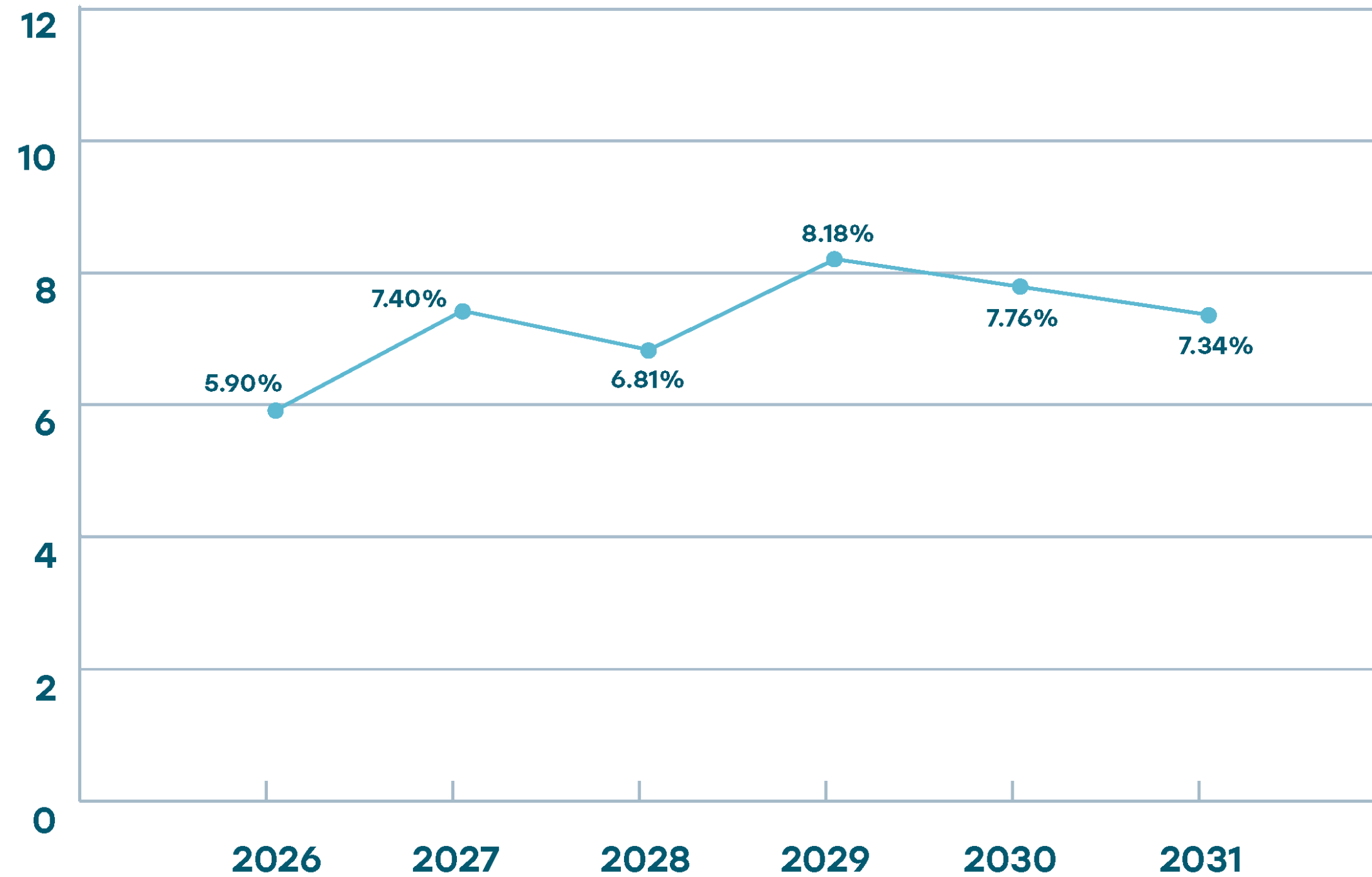
Taxes Levied on Tax Capacity	2026	2027	2028	2029	2030	2031
Projected Levy for General Fund	(82,189,827)	(89,050,125)	(96,890,284)	(106,105,260)	(115,760,264)	(125,927,078)
Projected Levy for Library Fund	(9,095,025)	(9,468,609)	(10,091,630)	(10,687,287)	(11,317,706)	(11,986,060)
Projected Levy for Muni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

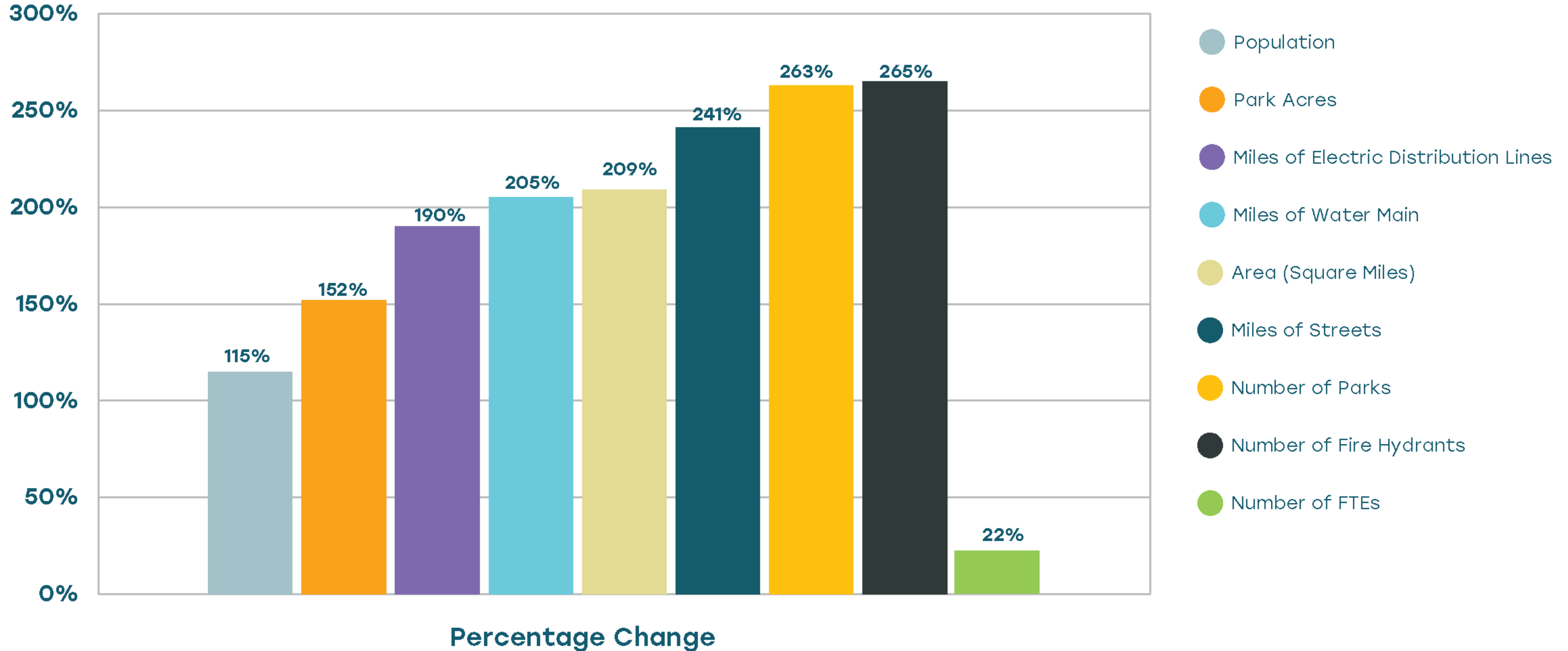
Table 1
2026 & 2027 Major Revenues Versus 2025 Inclusive of RPU

	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

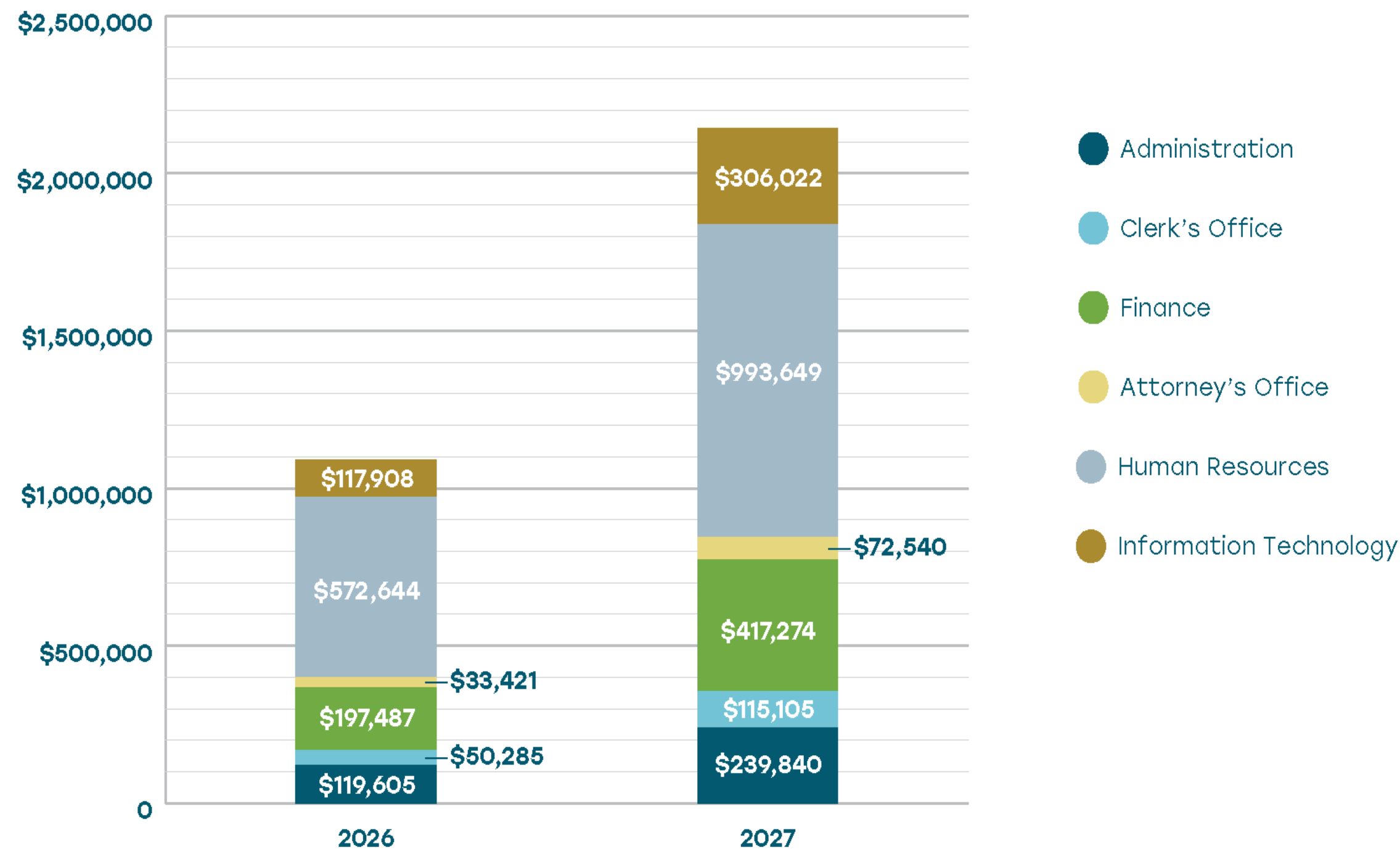
2027 Total Allocation: \$2,144,430



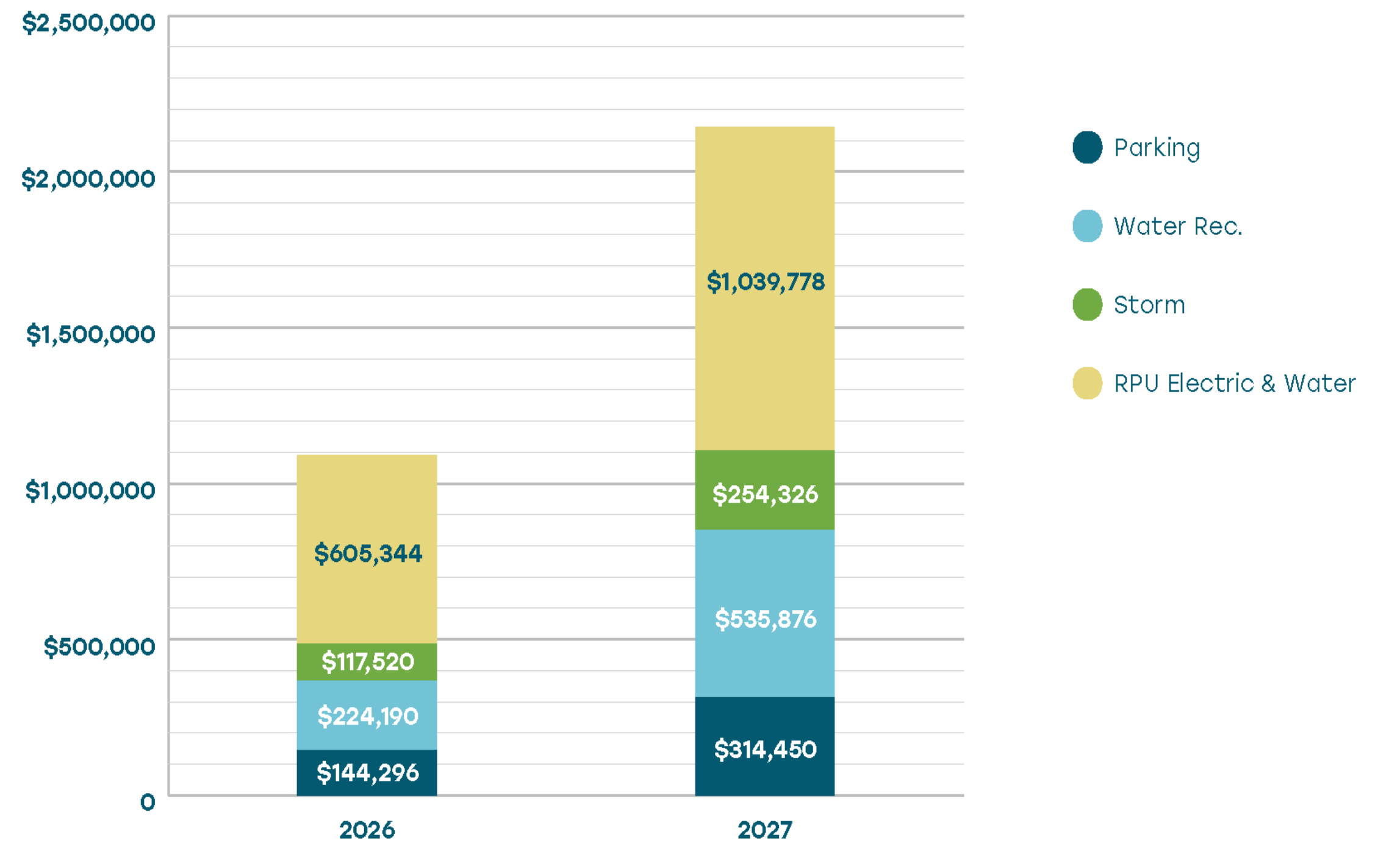
2026 Central Service Total Allocations

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

Central Service Allocations From:



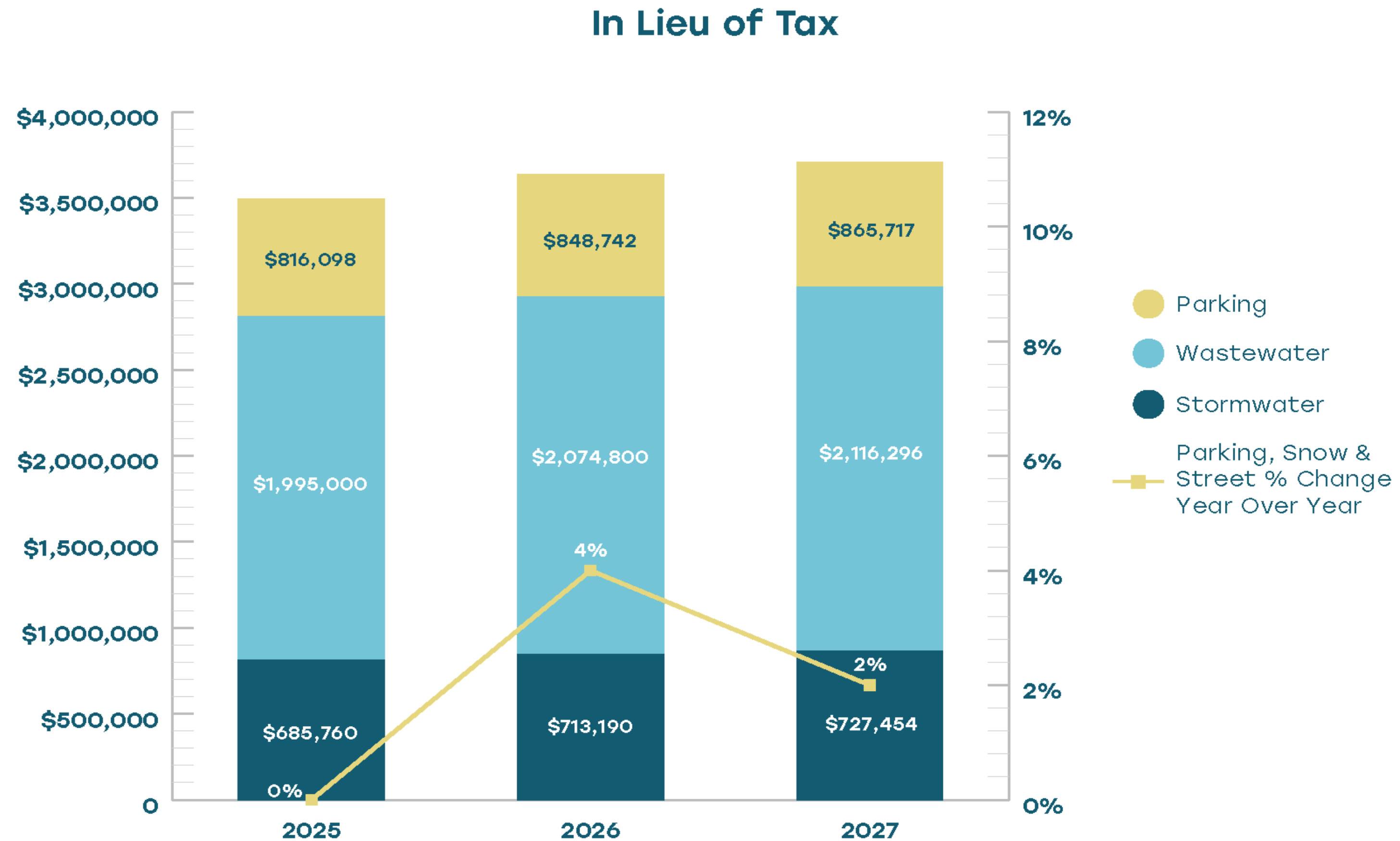
Central Service Allocations To:





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.

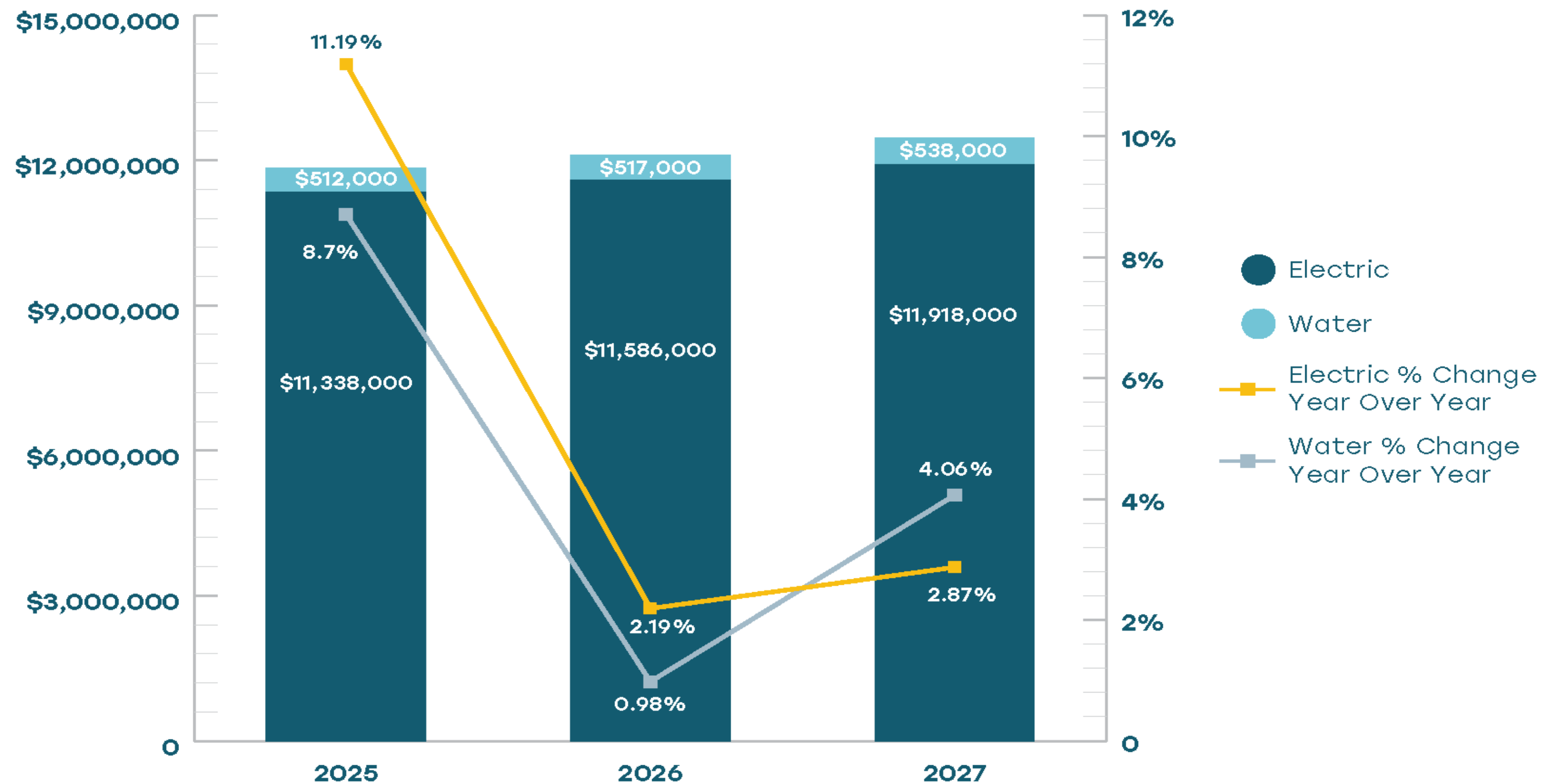




In-Lieu 2026 and 2027 RPU

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

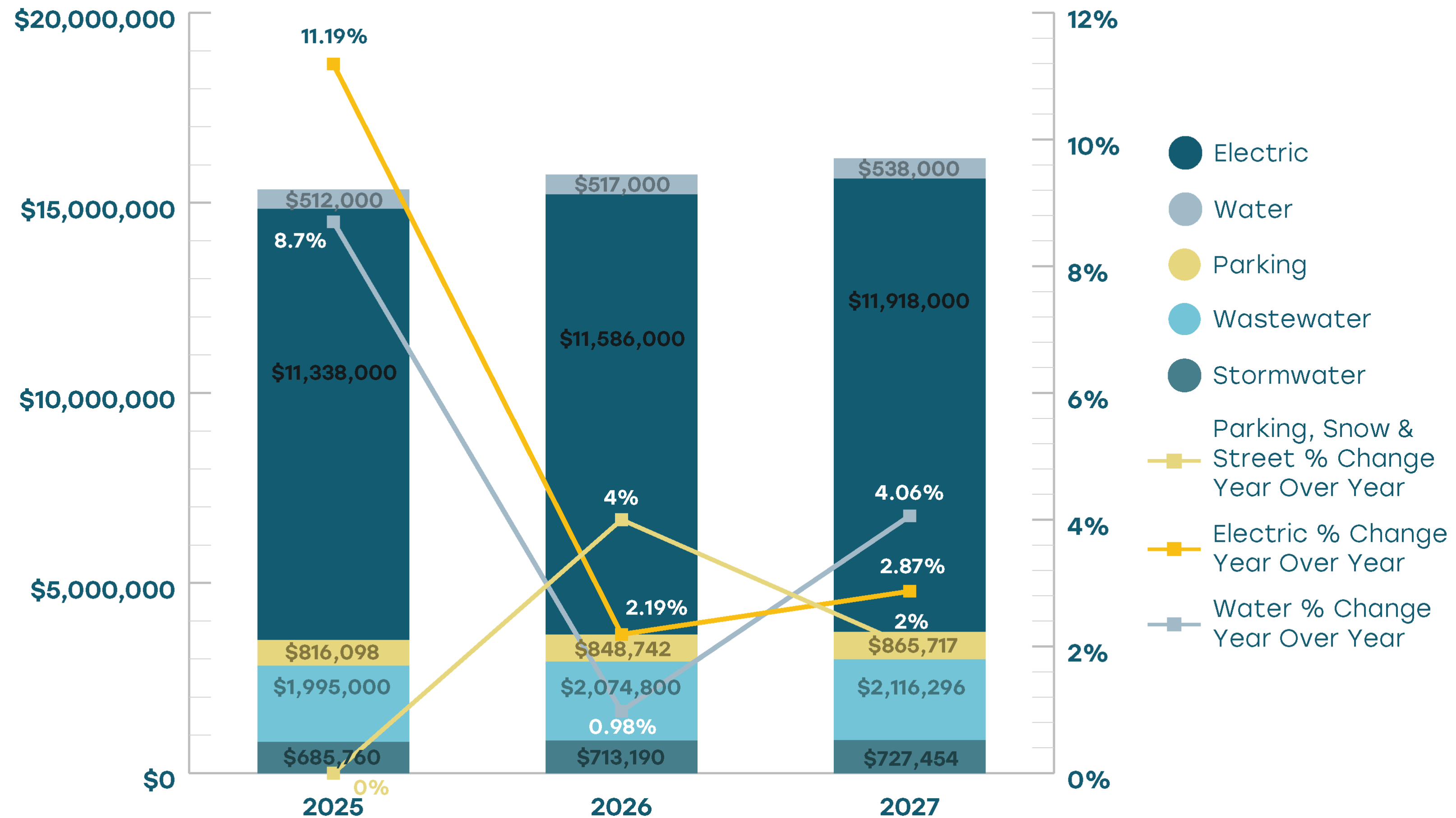
In Lieu of Tax - RPU





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 required 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

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





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





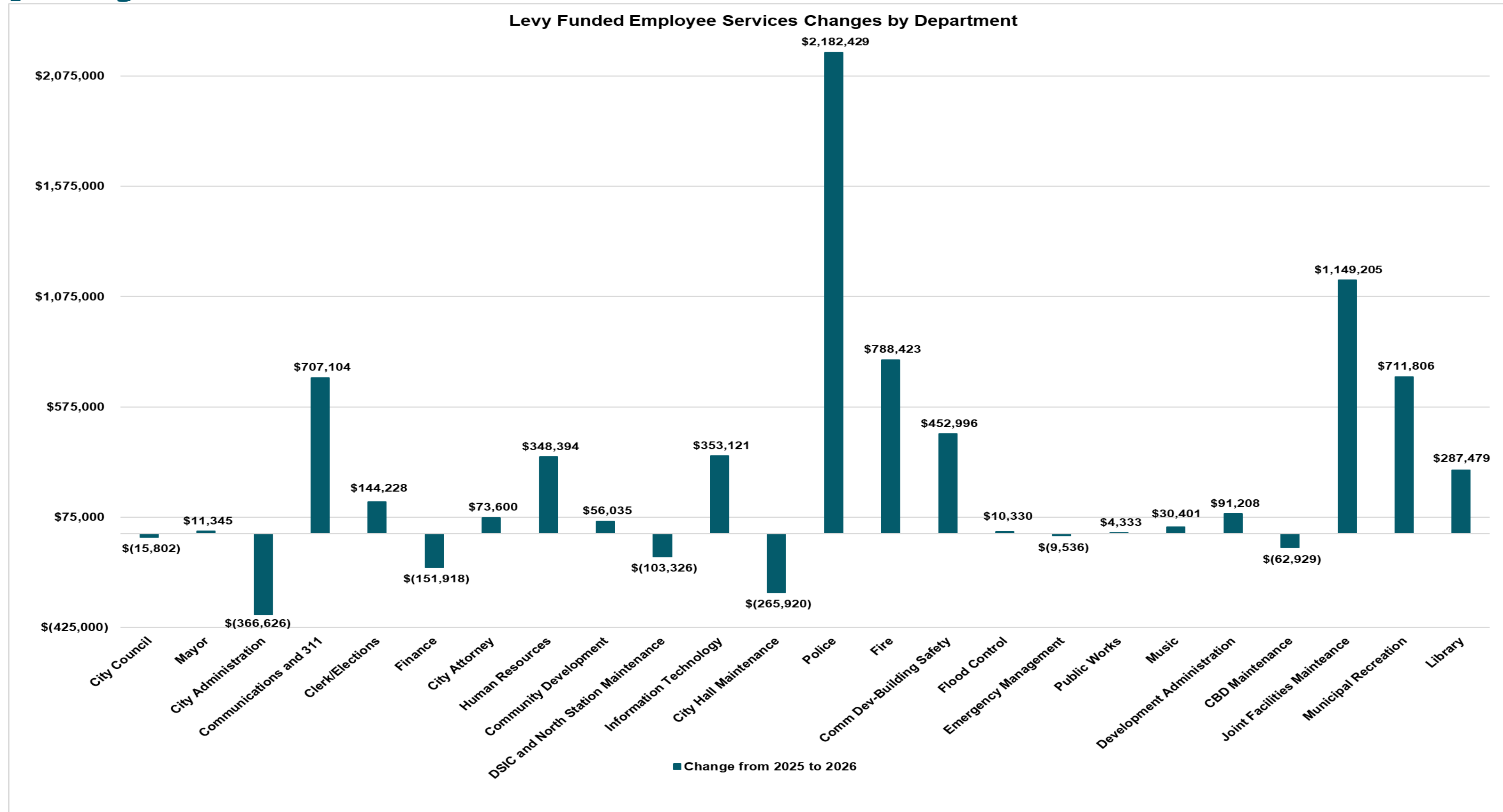
2027 Decision Packages- Tax Levy vs Non Tax-Levy

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 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)



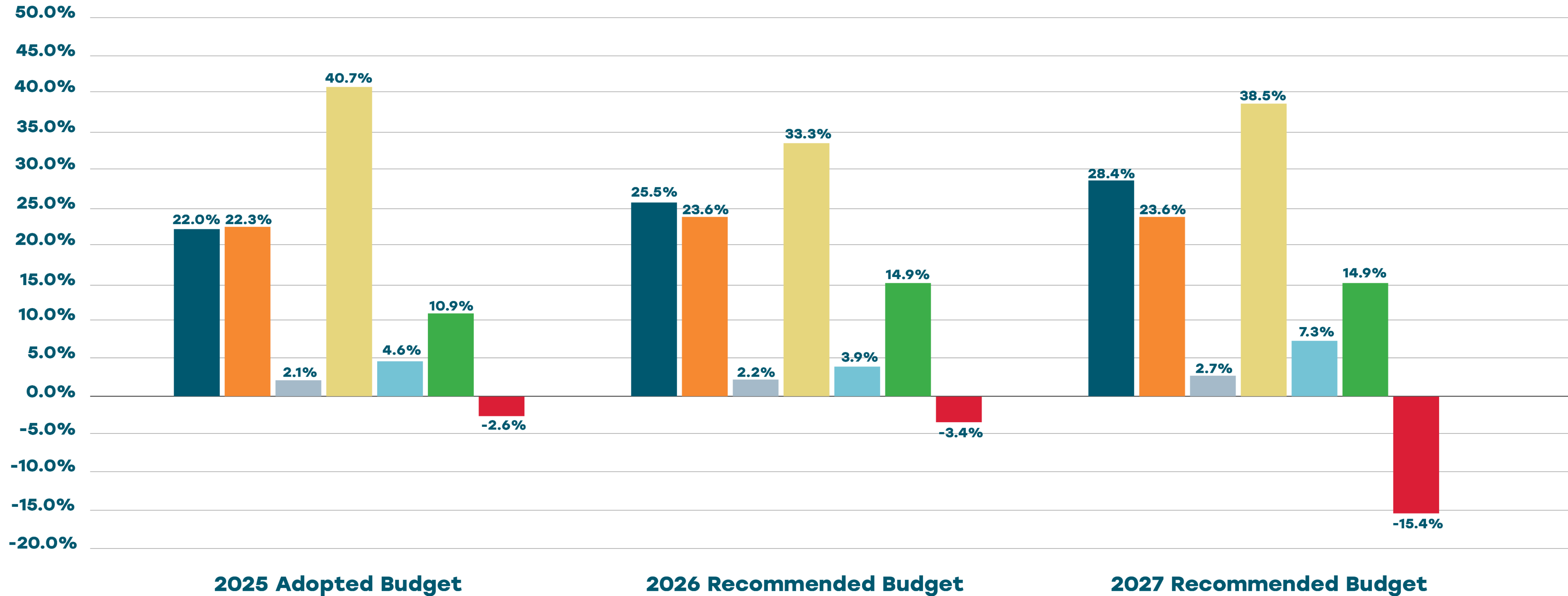


Outside Agencies: Summary of Services Provided

- **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

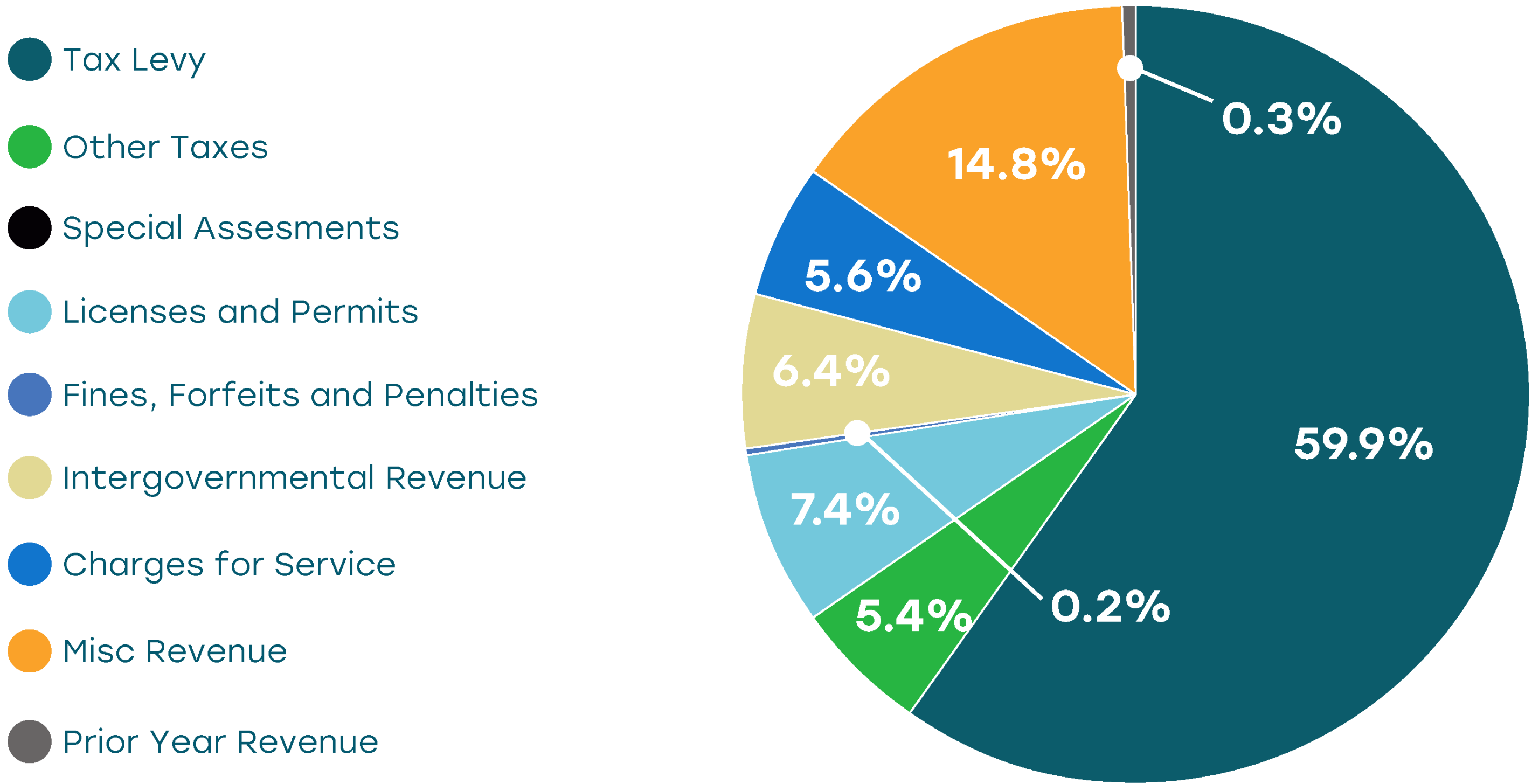
	2025 Adopted	2026 Recommended	Difference
Revenue	\$126,331,898	\$137,207,994	\$10,876,096

- 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?

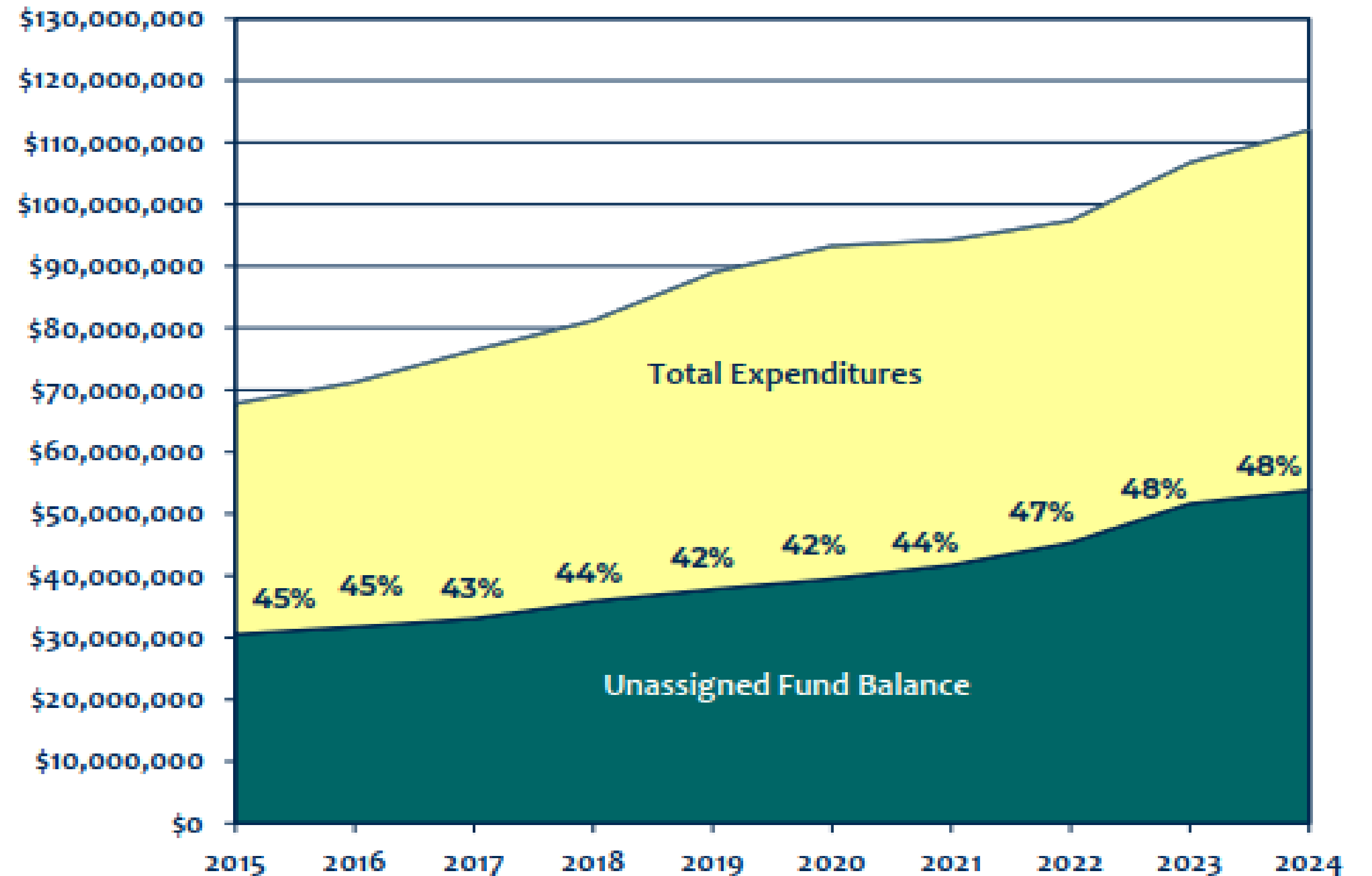
• 2026 General Fund Revenue: \$137.2 million



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



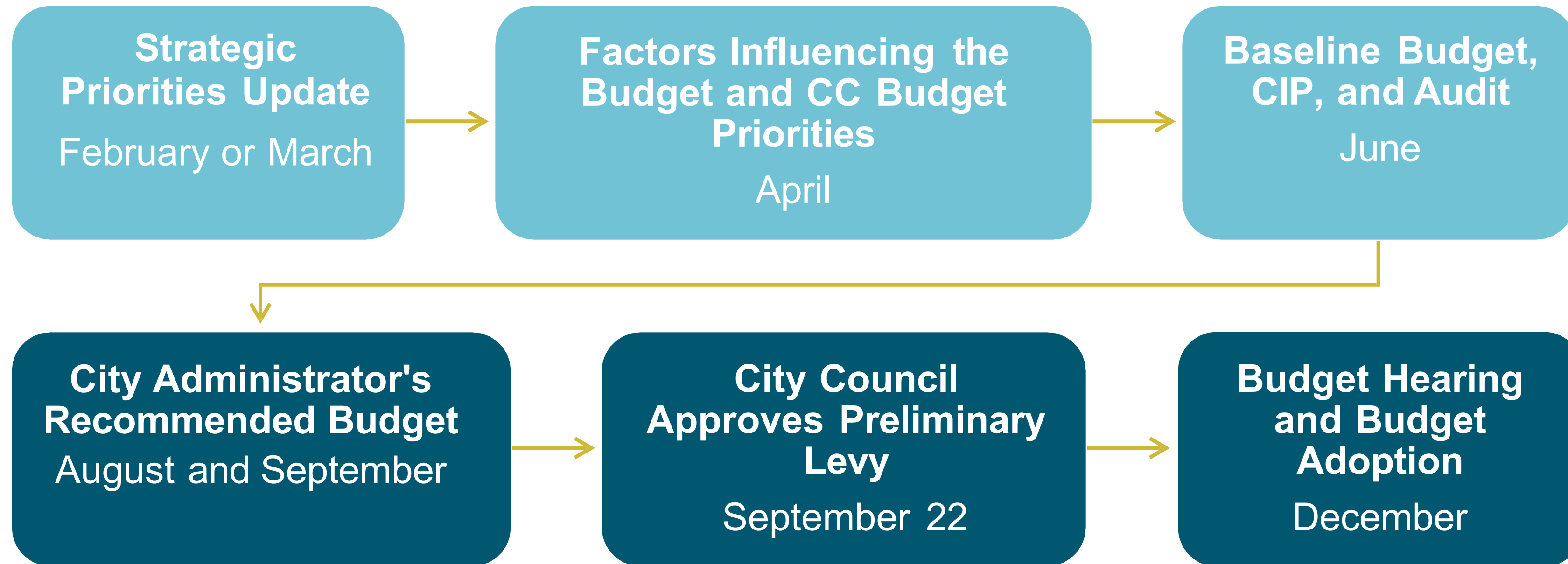
Enterprise Fund – RPU Electric Utility

	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