



STUDY SESSION ITEM

ITEM 1: 2022/2023 Budget

On March 22nd the Council received a high level overview of factors influencing the 2022/2023 budget. On April 19th the discussion continues with the following policy questions:

1. Does the City Council want any specific services or issues evaluated as part of the 2022-2023 Budget?
2. Does the City Council have any specific feedback on establishing the property tax levy for 2022 and 2023?
3. Do the guiding principles of the American Rescue Plan (ARP) funding reflect the council direction?

Discussion will assist the team in continuing to shape a 2022-2023 Budget that reflects that high level financial policy goals of the Council, balancing financial considerations with the delivery of quality services to the community for the foreseeable future.

Attachments:

- **Presentation: 2022/2023 Budget - Factors Influencing - Council Budget Priorities**



2022/2023 BUDGET

Factors Influencing Council Budget Priorities



Policy Questions

- 1. Does the City Council want any specific services or issues evaluated as part of the 2022-2023 Budget?**
- 2. Does the City Council have any specific feedback on establishing the property tax levy for 2022 and 2023?**
- 3. Do the guiding principles of the ARP funding reflect the council direction?**

Team Rochester

Draft: 2/26/2021
Final: when Council
advance is scheduled

Budget, Capital Improvement, and Long Term Financial Management Plan Process

PHASE 1:
Preparation

March 1 through April 16

PHASE 2:
Prioritization

April 5 through May 7

PHASE 3:
Development

May 28 through July 16

PHASE 4:
Recommendation

July 19 through October 11

PHASE 5:
Adoption

September 20 through December 13

Overall Budget 2021 - \$472 Million

City of Rochester Budget 2021, inclusive of RPU

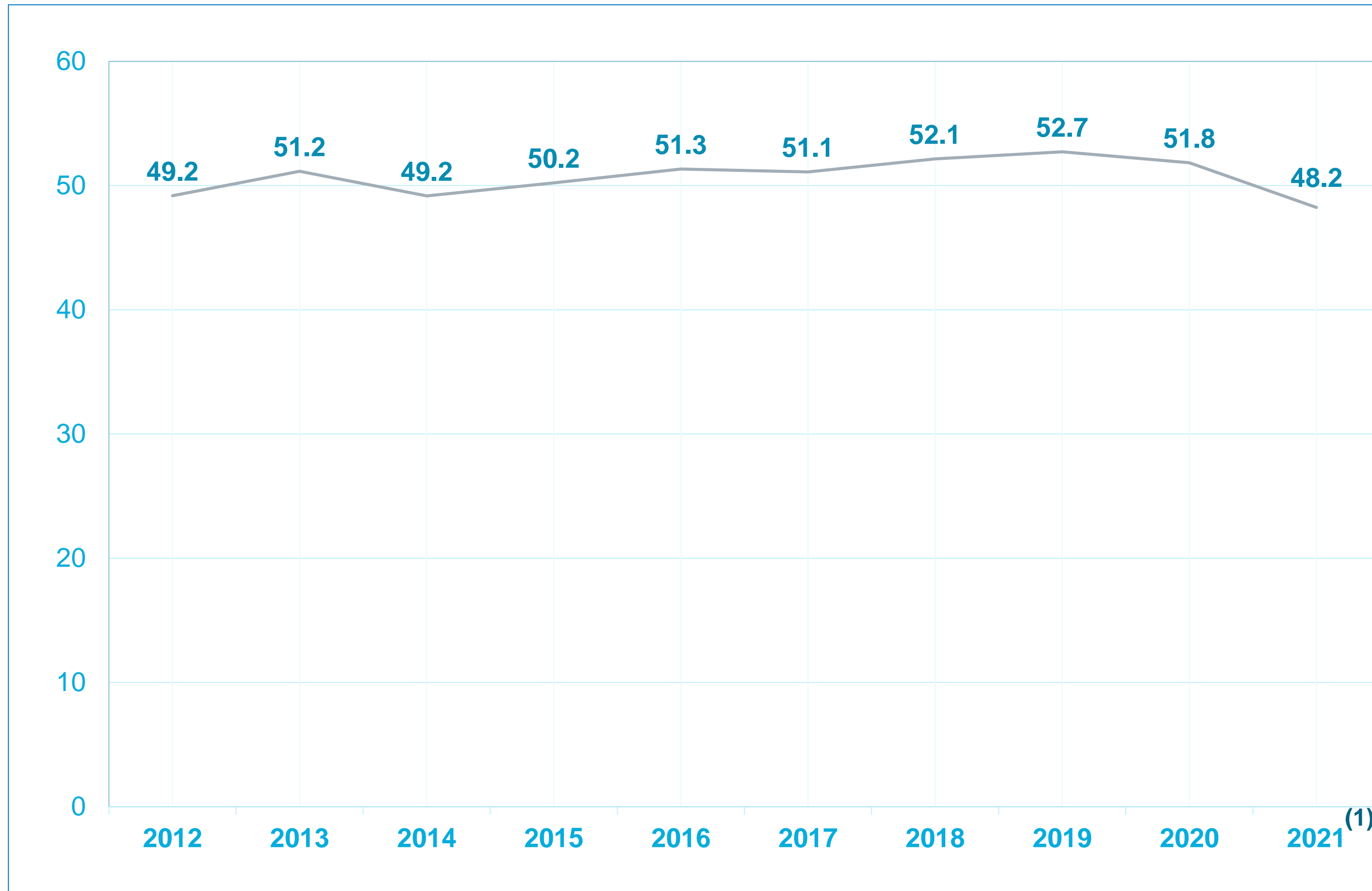


BUDGET FORMULA





City of Rochester Tax Capacity Rates since 2012



(1) .01436 market value rate added in voter-approved 2021 for Parks levy

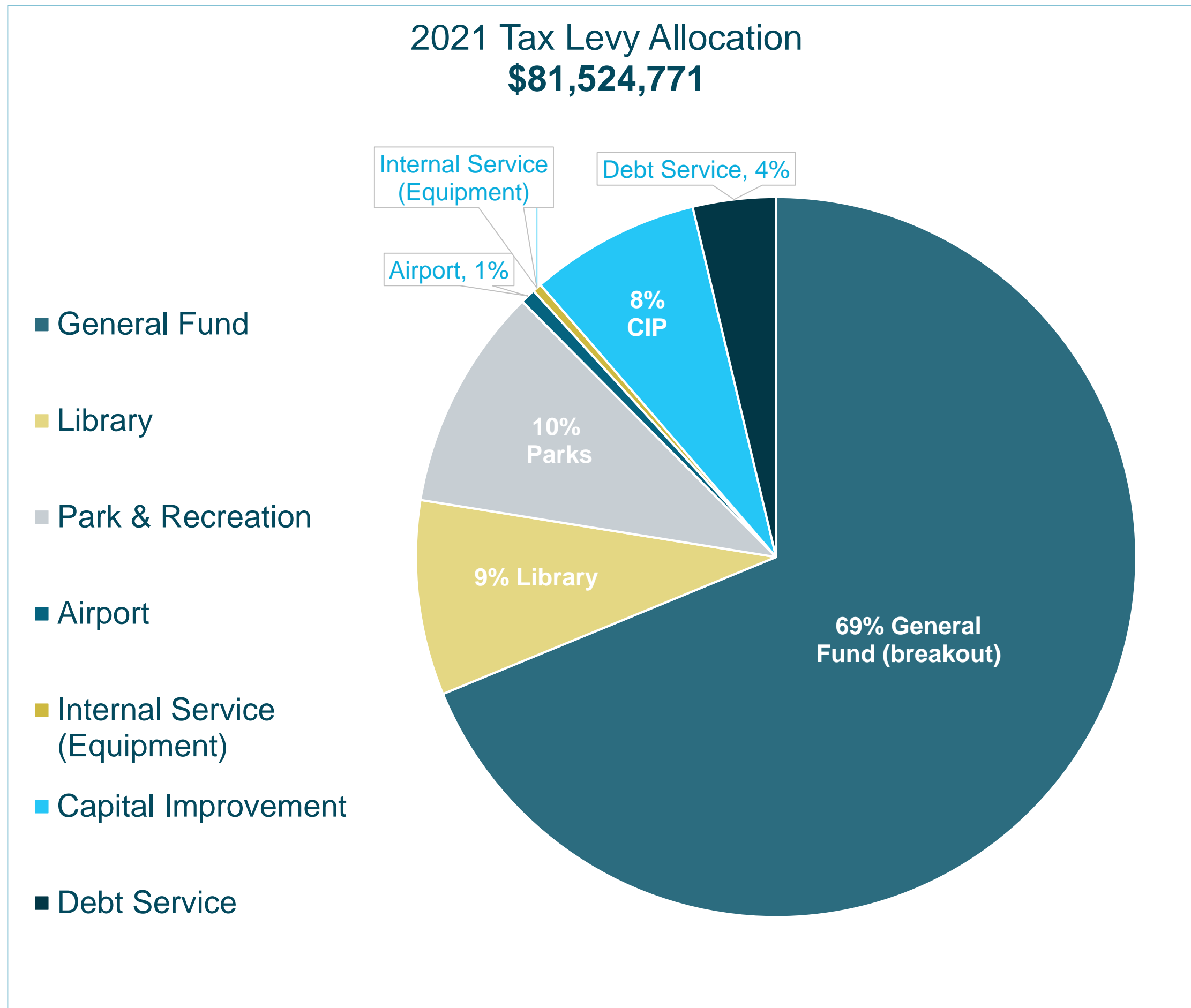


2022/23 Considerations

Pay 2022 Property Valuation Growth - EMV Certification:

New Construction	1.6%
+ <u>Valuation Adjustment</u>	<u>2.9%</u>
Total Growth In EMV	4.5%

2021 TAX LEVY ALLOCATION

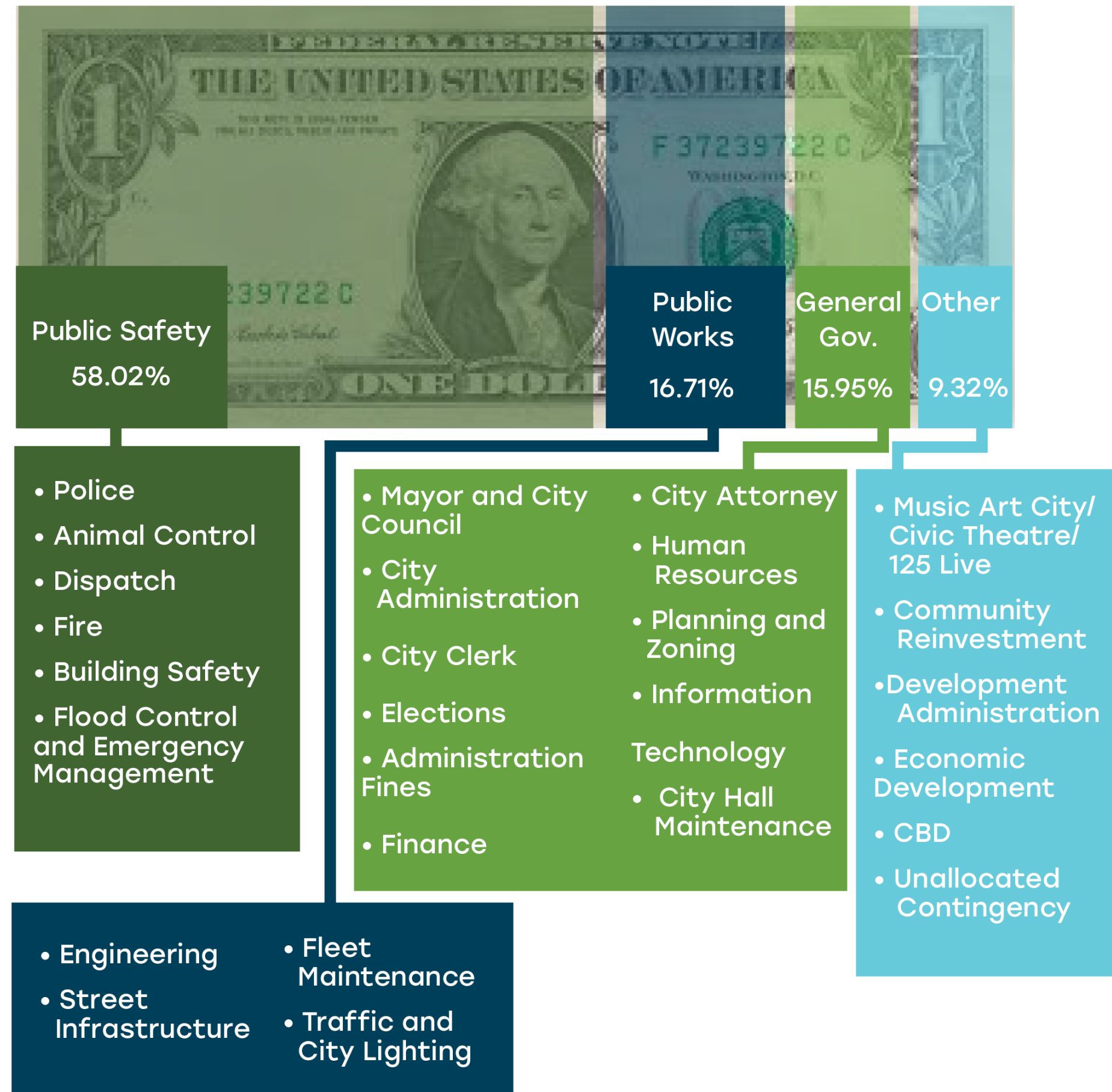


Allocation of City Property Tax 2021		
Fund	Amount	Percent
General Fund	56,083,536	69%
Library	7,127,713	9%
Park & Recreation	8,170,142	10%
Airport	557,907	1%
Internal Service (Equip	328,629	0%
Capital Improvement	6,220,410	8%
Debt Service	3,036,434	4%
	81,524,771	100%



Breakdown of General Fund Dollar Spend

General Fund Expense
\$96,955,994



- Sources of revenue to General Fund are primarily:
 - ✓ Property Tax
 - ✓ Local Government Aid
 - ✓ General (non-dedicated) Revenues
 - ✓ Limited direct fees (e.g. Liquor Licenses, Permits)
- Most of these services cannot be funded by direct charges for service.
- Heavy reliance on personnel to deliver quality service levels (74.5% of general fund expenses)
- Costs of these services increase each year (inflation, population and geographic growth)



Expense Trends

- **Step and Salary Adjustments:** 4.08% overall
- **Health and Dental:** Approximately 6% increase (trend)
- **Fixed Service Contract Renewals:** Inflationary Adjustments-Some Significant



Revenue Impacts in Levy-Supported Operations

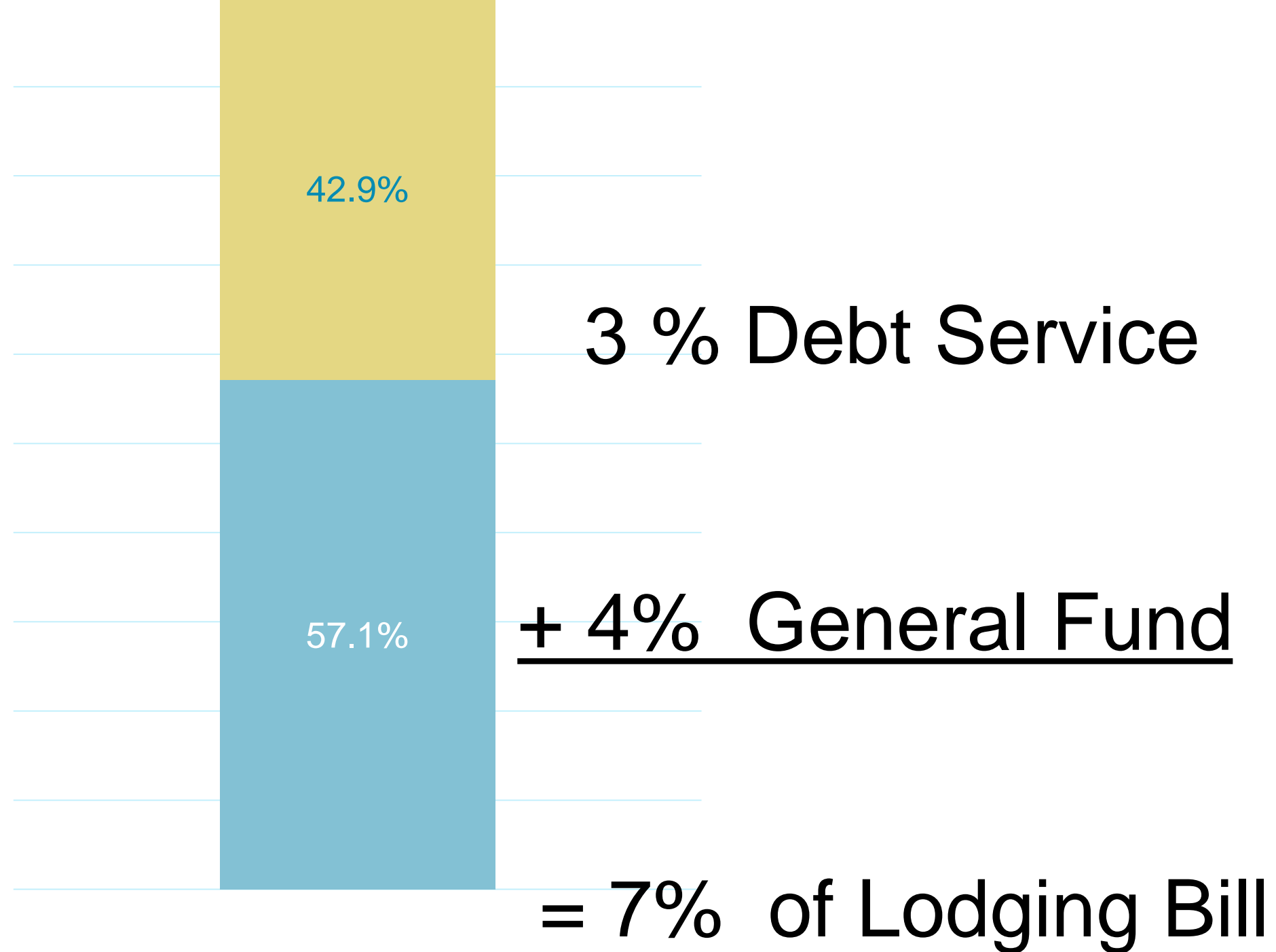
- **Lodging Tax:** down approximately 46% since pandemic
- **LGA:** Formula decrease of \$1.5 million (active legislative efforts)
- **In-Lieu of Tax payments:** declining trend - 2020 actual down \$445K (3.6%) from 2019
- **Building Permit Revenue** down \$591K (19%) from 2019
- **Property Tax Delinquency:** ~\$2 million
- **Liquor License:** Budgeted increases not implemented



Revenue Impacts in Levy-Supported Operations

- **Lodging Tax:** down approximately 46% since pandemic

Lodging Tax Authorization



	2020	2019
Lodging Tax Allocated to General Fund	\$3,245,621	\$5,996,427
Lodging Tax Allocated to Debt Fund	\$2,434,215	\$4,497,319

- General fund lodging tax obligations – RCVB/Roch Sports **\$4.4 million / Year**
- Debt Fund Lodging Tax Obligations (2015 GO bond) 2015 GO Bond - **\$2.866 million / year**



Near and long term challenges

- **District Energy** – Financing Capital and Operational Changes
- **Phone System Transition** – Legacy phone system gone 12/31/21 - new options will have cost implications
- **Parking Fund** – Fee increases decreased contract parking - no waiting list
- **Unsettled bargaining agreements**
- **Facilities** – Life Cycle costing / depreciation
- **Equipment Revolving** – Limited replacements to save \$'s now create backlogs in future
- **Workers Compensation Fund** – Trend challenges driving need to increase contribution rates



Options for revenue diversification

- **Street Light Utility**
- **Natural Gas Franchise Fee**
- **Sidewalk Improvement District**
- **Other fee increases**



Two-Year Budget

Advantages:

- Plan financially for operations over longer time horizon
- Ability to alternate financial / strategic planning years
- Unforeseen circumstances addressed with supplemental budget in year 2
- Better identify expense and revenue trends and implement solutions to assure long term structural integrity of budget

CITY OF ROCHESTER EXPENDITURE SUMMARY			
	2021	2022	2023
	Budget	Budget	Budget
Total General Government	15,464,406	16,234,217	16,925,021
Total Public Safety	56,256,317	59,700,063	63,231,259
Total Public Works	16,197,973	17,101,521	18,009,892
Miscellaneous Other General Fund	9,037,298	8,255,086	8,510,226
Total General Fund	96,955,994	101,290,888	106,676,398
Library	\$8,396,638	\$8,170,219	\$8,579,779
Municipal Recreation System	\$12,643,934	\$13,257,852	\$13,845,745
Mayo Civic Center	\$242,201	\$245,676	\$249,164
Airport	\$4,768,592	\$4,920,448	\$5,076,351
Transit	\$14,257,782	\$14,702,372	\$15,155,127
EDA Administration	2,310,820	2,380,145	2,451,549
Parking	5,918,024	6,095,565	6,278,432
Sewer Infrastructure Maintenance	7,536,783	7,762,886	7,995,773
Water Reclamation Plant	14,165,644	14,590,613	15,028,332
Sanitary Sewer Fund Debt	644,254	663,582	683,489
Total Sanitary Sewer	22,346,681	23,017,081	23,707,594
Storm Water Utility	5,974,430	6,153,663	6,338,273
Total Enterprise Funds Budget	34,239,135	35,266,309	36,324,298
Total Budget with Transfers	173,815,096	180,233,909	188,358,411
Internal Service Funds	7,379,280	7,600,658	7,828,678
Capital Improvements	99,918,939	146,724,312	156,164,855
Debt Service	10,934,560	11,262,597	11,600,475
Rochester EDA	2,359,735	2,430,527	2,503,443
Grand Totals	294,407,610	348,252,004	366,455,862



Long Term Strategy

- **Long Term Budget Stability** - Develop a strategy to effectively offset the use and addition of one time funding for 2021 budget stability.

Challenges that continue from flat tax levy (reduced available resources long term)

- General Fund reserves utilized to fund 2021 budget (one time funding)
- Positions frozen, other expenditures reduced, and tax levy supported CIP reduced to fund 2021 budget (not sustainable at current service levels)

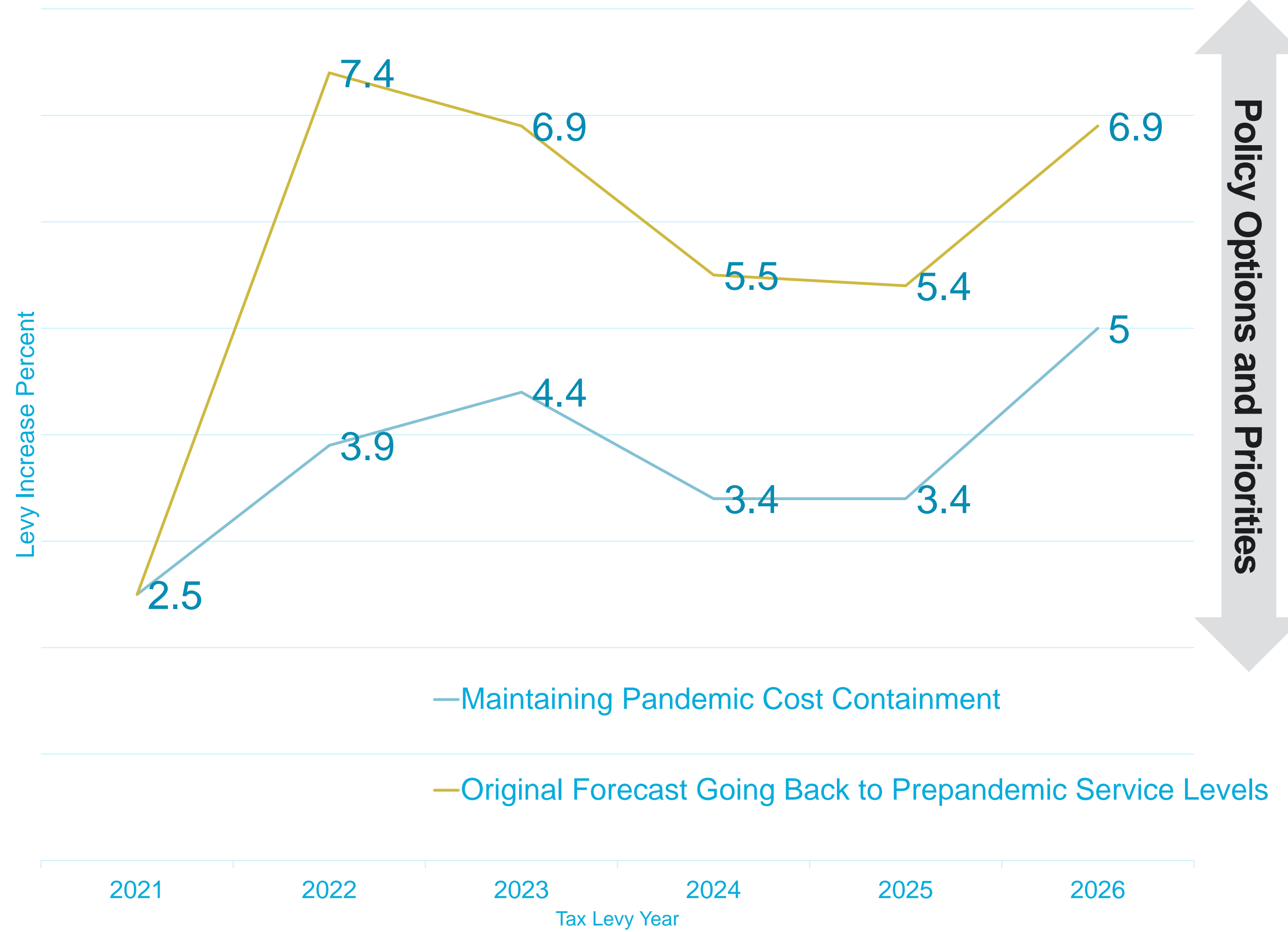
Opportunities to build back structural integrity of budget over 2022-2023

- Continued availability of one-time funding from 2020 budget due to COVID reimbursements and cost containment
- Addition of ARP funding in 2021/2022



Six-Year Forecast Scenarios

Annual Percent Increase In Levy



AMERICAN RESCUE PLAN

Overview

1. Direct Funding Provided to the City of Rochester-
\$17,560,000
2. This is the only funding specifically targeted toward local government revenue loss and budget stability.
3. Specific Treasury Guidance will be Provided by May 11th.
4. Half of the funds are provided by May 11th and the other half provided in 2022. All funds need to be spent by the end of 2024.
5. Other Elements of the Rescue Plan: Economic Assistance to Individuals and Families; Employee Benefits; Small Business Assistance; Public Safety; Transportation and Infrastructure; Health and Human Services; Housing and Utility Assistance; Broadband; Nutritional Assistance; and Education Assistance.

AMERICAN RESCUE PLAN

Guiding Principles

1. Use funding strategically to address structural imbalance created by revenue loss and unsustainable expense reductions resulting from the pandemic.
2. Invest for future cost avoidance, operating cost reduction, service innovation, and other strategies to ensure a resilient budget.
3. Consider programmatic investments that ensure support for people, economic inclusivity, and post pandemic economic activation.
4. Invest within a framework that reflects our commitment to strategic communications, engagement, and equity.



Policy Questions

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