



# City Council

## 2020 Operating and CIP Budget Priorities Advance

April 5, 2019





# Goals

Review current budget, fund balances, and historic revenues

Discuss factors influencing 2020 operating budget

Discuss possible new approach for the 6 year CIP

Affirm existing foundational principles and strategic priorities

**Receive Council input on priorities for operating and CIP budgets**



## Team Rochester

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

**PHASE 1:**  
Preparation

February 19 through April 12

**PHASE 2:**  
Prioritization

April 5 through May 27

**PHASE 3:**  
Development

May 31 through July 15

**PHASE 4:**  
Recommendation

July 22 through September 9

**PHASE 5:**  
Adoption

September 16 through December 16



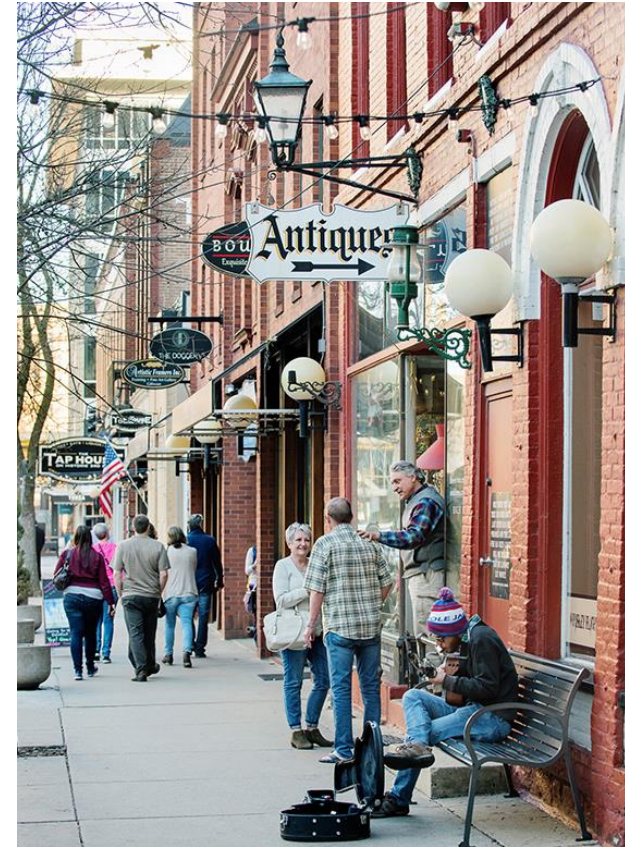
## **City of Financial Distinction**

### **The City of Rochester has a AAA Rating**

Rochester has received a Certificate of Achievement for Excellence in Financial Reporting for almost 50 years, the longest in the state of Minnesota.



96% rate the quality of life in Rochester as excellent or good





87% believe  
Rochester is  
headed in the  
right direction



84% consider the  
general value of  
city services as  
excellent or good



# 2019 BUDGET REVIEW

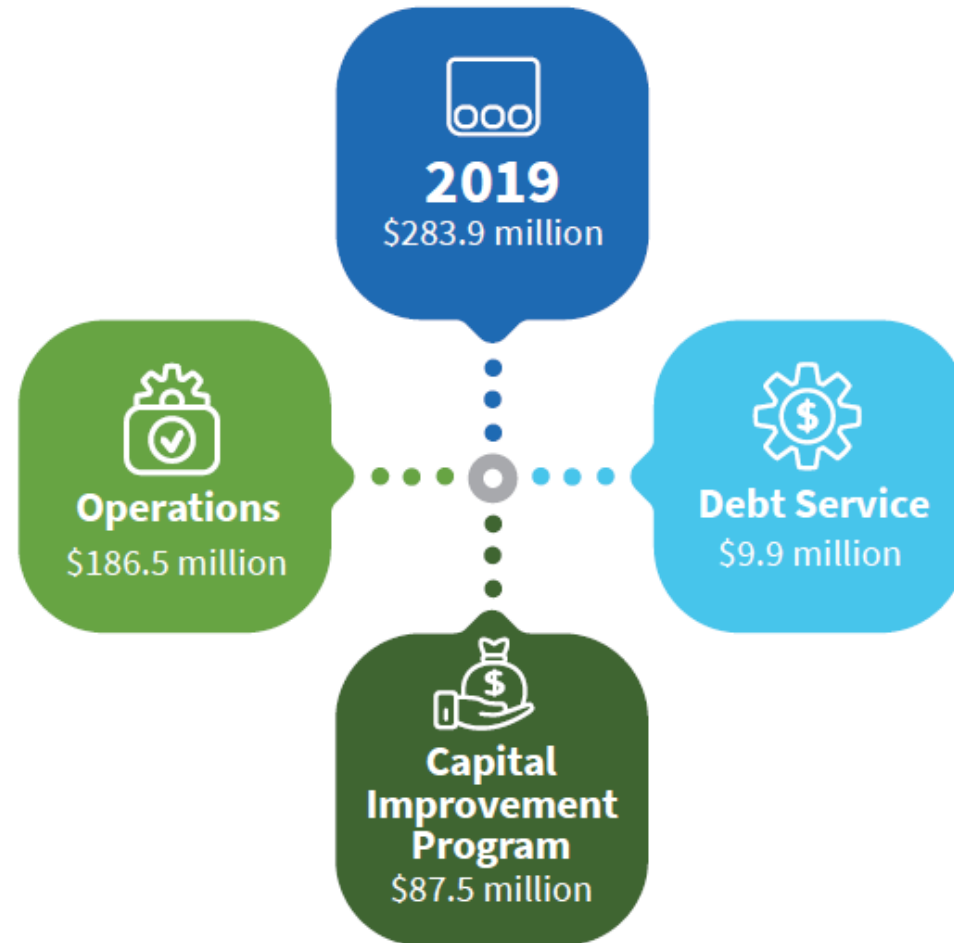


# BUDGET FORMULA



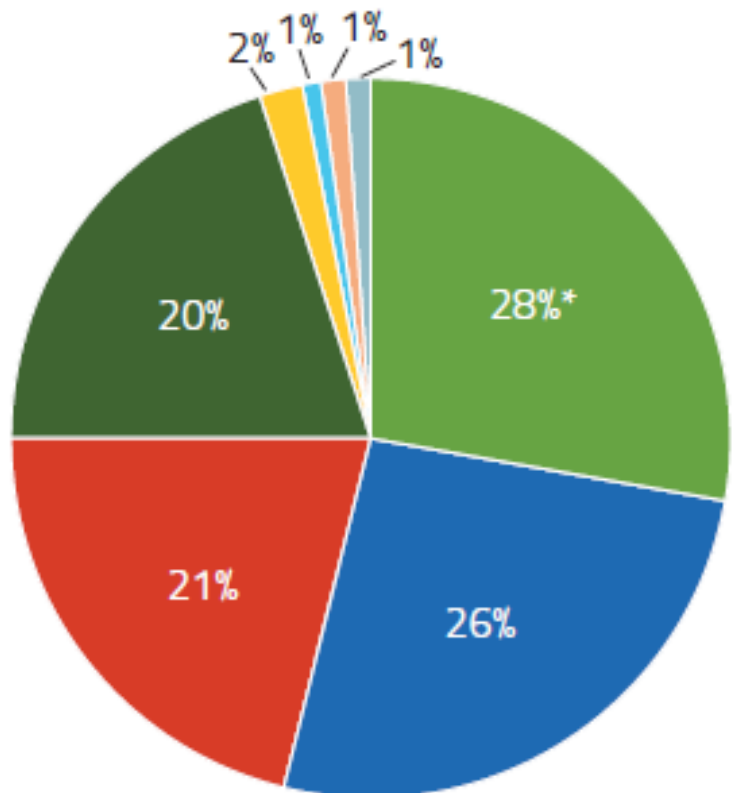


# 2019 Budget

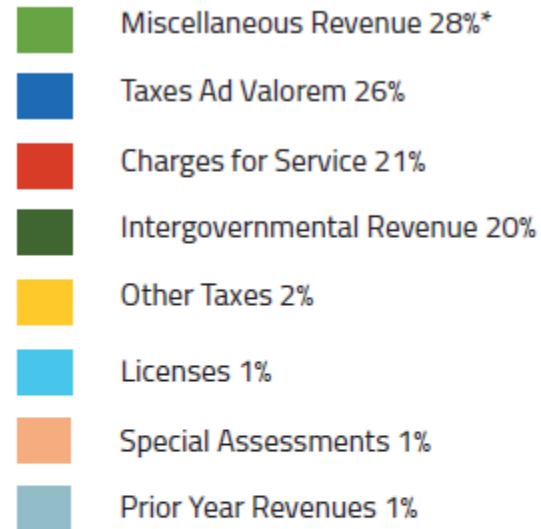




## 2019 Total Operating Revenue



## Where Does the Money Come From?

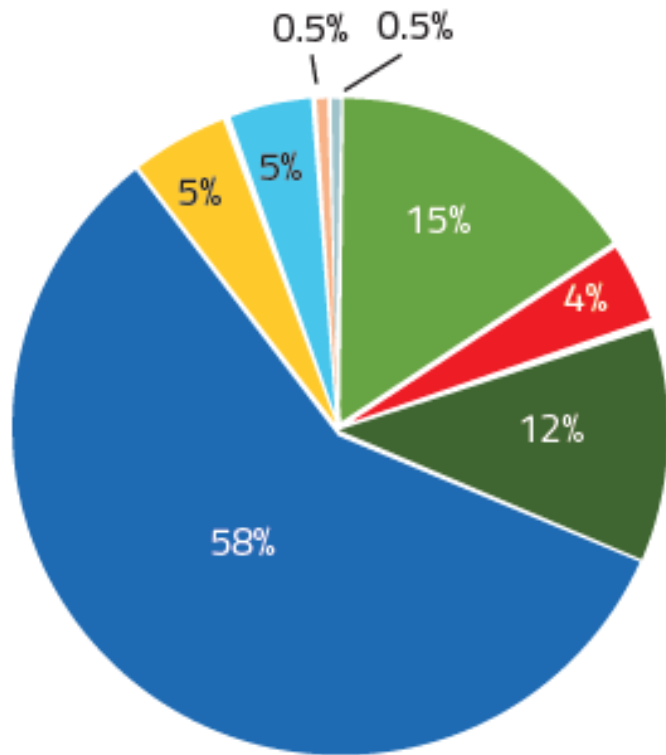


\* Miscellaneous Revenues include:









- Non Property Tax Debt Payment Revenue
- Capital Improvement Program Revenues
- In Lieu of Tax Enterprise Funds



**General Fund Revenue**  
**\$90.3 million**



# Where Does the Money Come From? -General Fund Only-

-  Taxes Ad Valorem 58%
-  Other Taxes (such as Hotel/Motel Tax, Cable Franchise Fee, and People Coop Franchise) 5%
-  Licenses and Permits 5%
-  Miscellaneous Revenue 15%
-  Charges for Service 4%
-  Intergovernmental Revenue 12%
-  Fines, Forfeits, and Penalties 0.5%
-  Prior Year Revenue 0.5%



# Property Tax

Average Residential Home



35.9%	36.9%	26.3%	0.9%
Olmsted County	City of Rochester	School District (535)	Olmsted County HRA

Commercial/Industrial Property

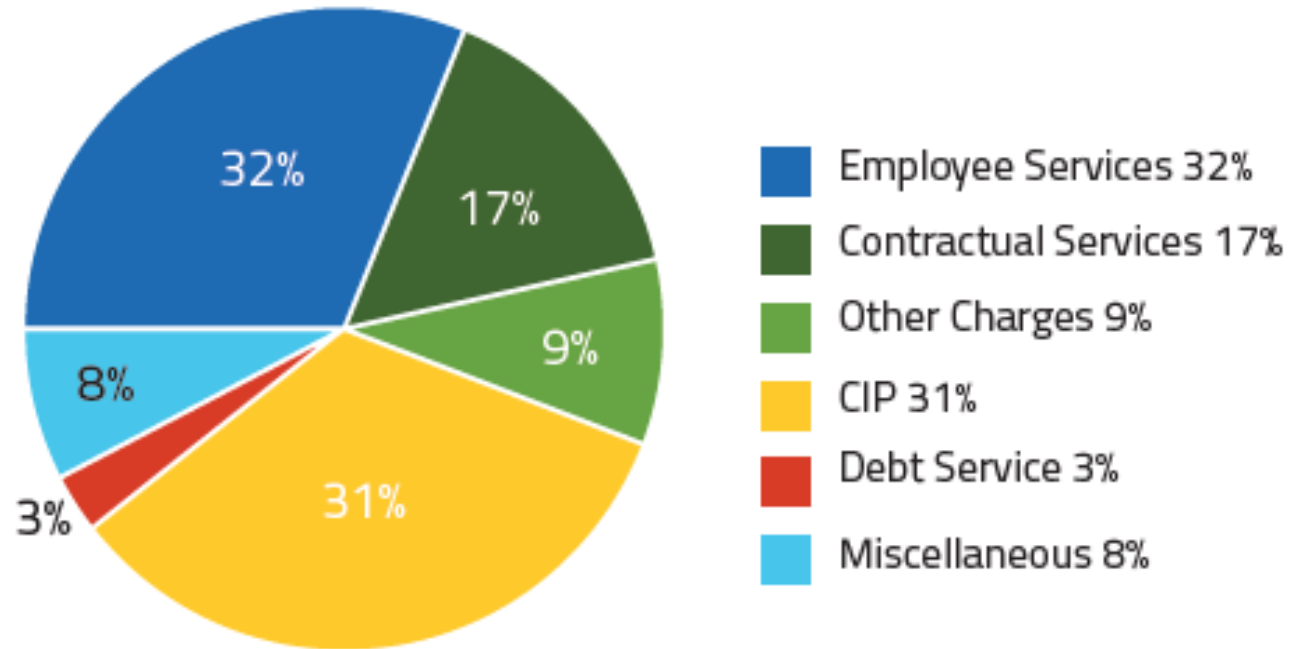


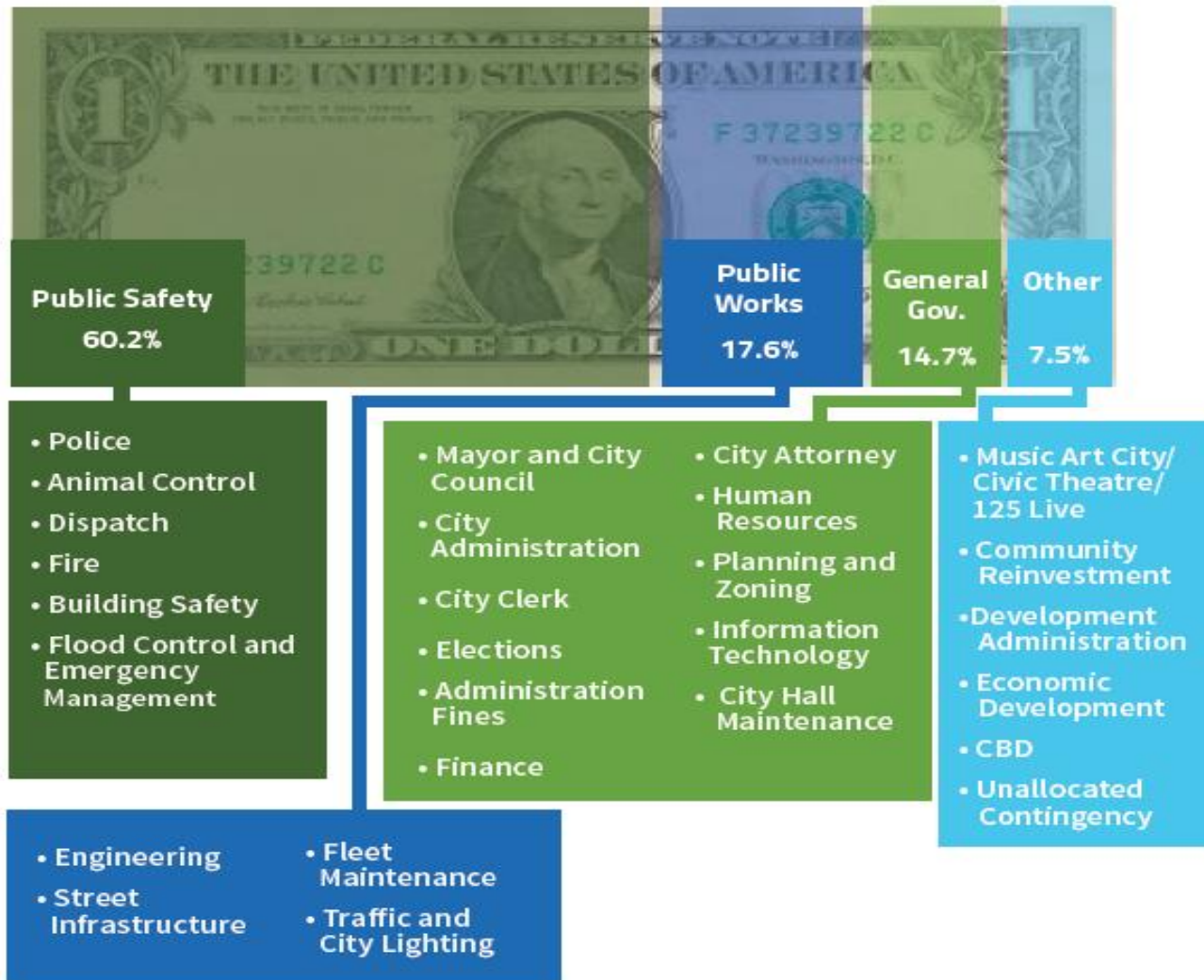
30.0%	30.9%	22.6%	15.8%	0.8%
Olmsted County	City of Rochester	State of MN	School District (535)	County HRA



# Where Does the Money Go?

2019 Adopted Budget of \$283.9 million





# Where Does the Money Go?

-General Fund Only-

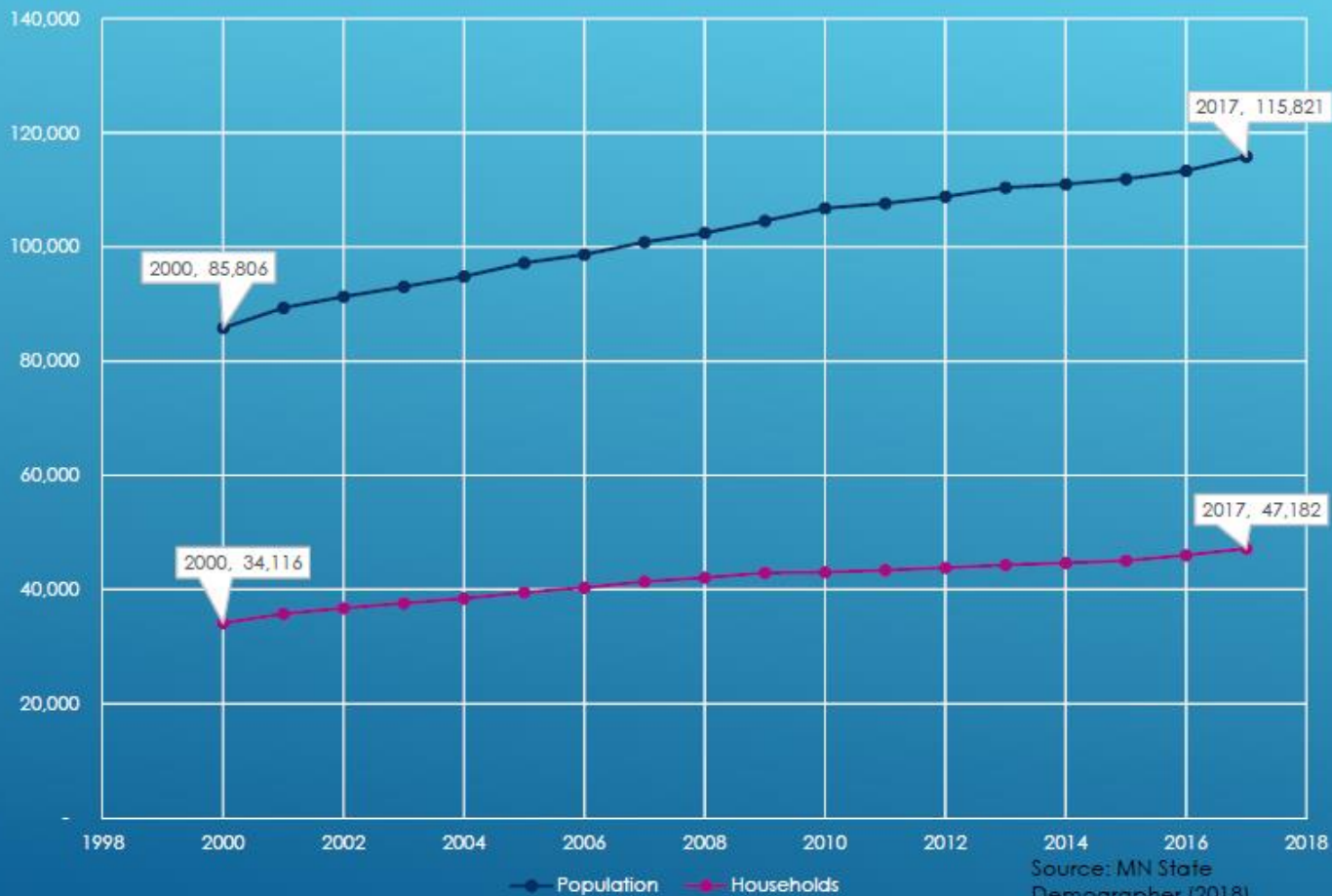
\$90,362,262



# HISTORIC REVENUE



## Rochester Population Growth 2000 - 2017

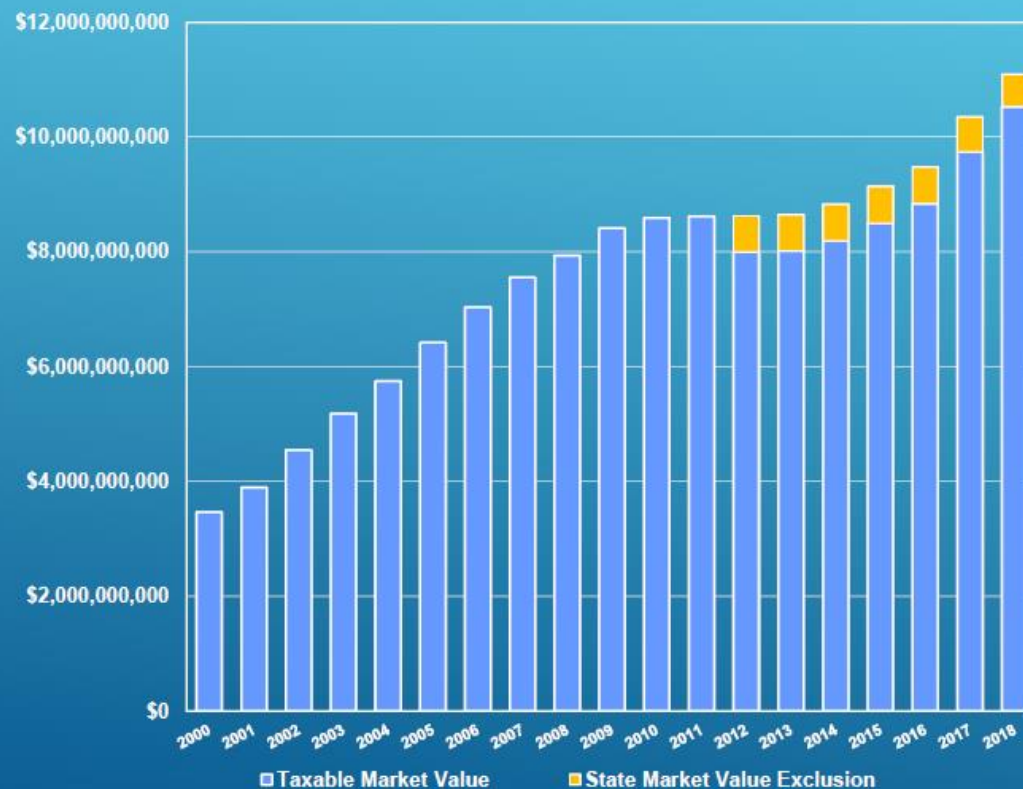


Source: MN State  
Demographer (2018)

- ▶ Continual Growth
- ▶ Population
- ▶ 1.75%  
Compounded
  
- ▶ Households
- ▶ 1.84%  
Compounded



## TOTAL TAXABLE MARKET VALUE



- ▶ Taxable Market Value for 2018 is **\$10.5 Billion**, up **\$790 Million (7.5%)** from 2017
- ▶ Estimate Additional 8.3% increase for Pay 2019
- ▶ Average Compounded Growth of 6.7% since 2000
- ▶ Includes both real property and personal property

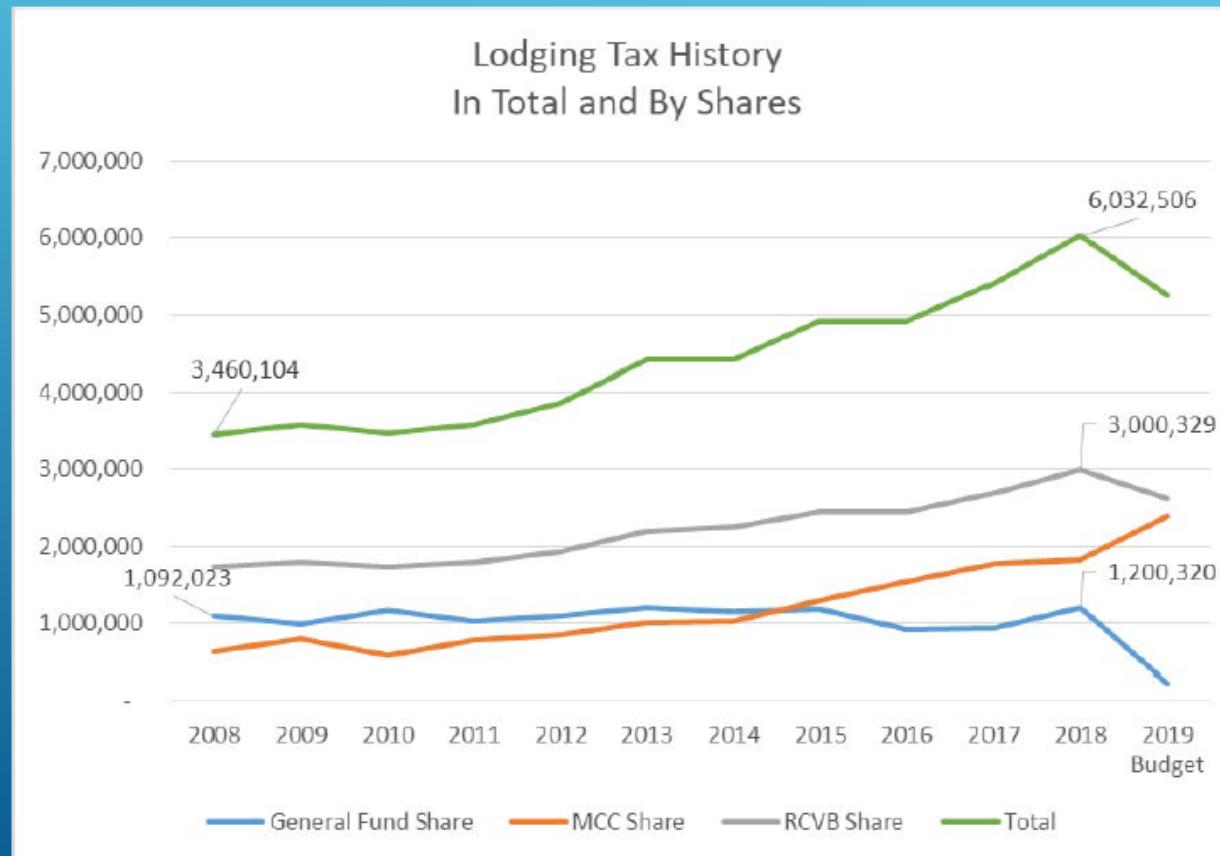


# GOVERNMENTAL FUNDS – ALL REVENUES





# LODGING TAX



Lodging Tax - Operating

4% Total Collection:

1% RCVB (ER) by Law

1% RCVB by Agreement

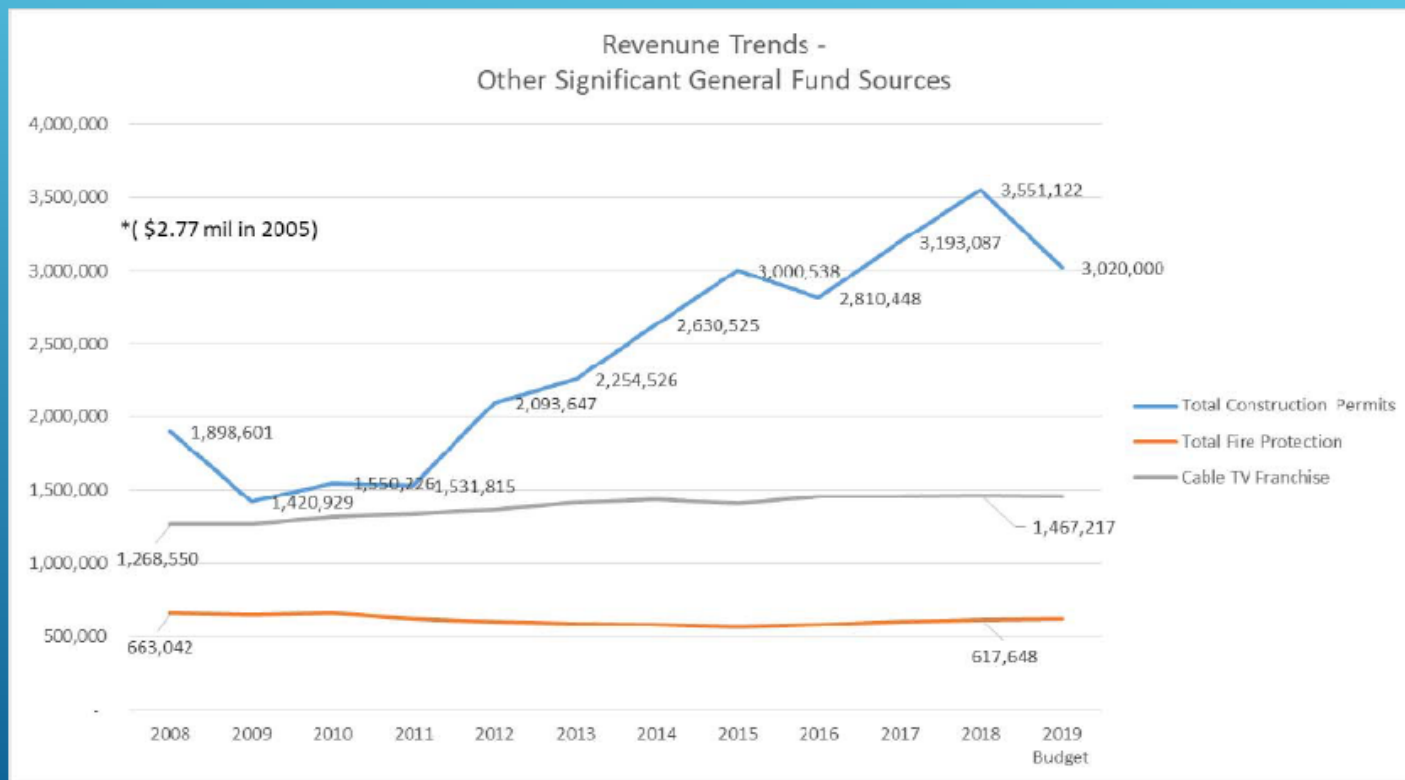
Remaining 2%:

X% to Fund MCC Revenue Gap

2% -X% to General Fund



## General Fund – Miscellaneous Revenue Sources



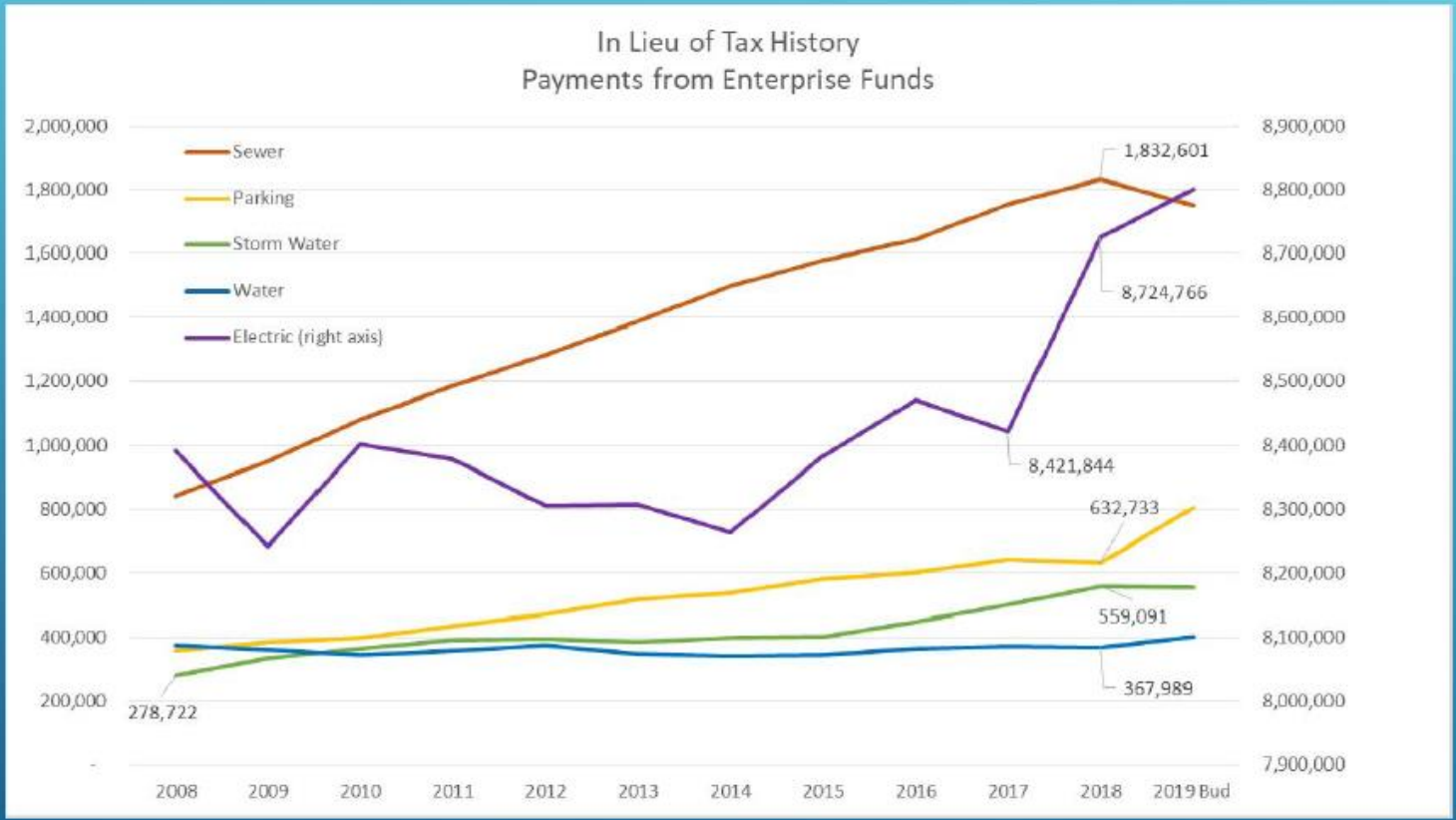
Construction Permits  
 - Significant, but can be volatile  
 - 2005 peak of \$2.77 mil dropped to \$1.42 mil by 2009

Cable TV Franchise  
 - Only on TV revenues (not internet)  
 - Despite growth in community and cable bill inflation, flat revenue source.

Fire Protection Service  
 - (Townships)  
 - Valuation Shrinking as property annexed



In Lieu of Tax History  
Payments from Enterprise Funds



All but Electric and Water Utility in-lieu calculations based on % of utility gross revenue.

Electric and Water in-lieu calculation based on volume of sales adjusted for CPI only in years of rate changes

Note significant increase in Electric payment



## Payments In-Lieu of Tax – From City Utilities – Current Calculations

Utility	In-Lieu Calculation	Notes
Electric	\$0.0072400 Per Net KWH	Adjusted by CPI only in years of rate increase
Water	\$0.0655000 Per Hundred Cubic Ft Sold (CCF)	Adjusted by CPI only in years of rate increase
Sanitary Sewer	7% of Gross Revenue	Follows Revenue Changes
Parking	9% of Gross Revenue	Follows Revenue Changes
Storm Water	8% of Gross Revenue	Follows Revenue Changes



# FUND BALANCES



# Fund Balance History by Fund - 2006-2018

Fund Balance Analysis  
2006-2018

Fund	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>General Government:</b>													
General	\$ 19,049,670	\$ 21,191,433	\$ 19,434,360	\$ 22,043,737	\$ 22,313,749	\$ 23,127,951	\$ 25,761,818	\$ 27,169,199	\$ 29,431,232	\$ 30,543,618	\$ 31,745,754	\$ 33,067,485	\$ 35,841,523
Library	1,224,951	1,318,495	1,467,932	1,798,326	1,774,507	1,977,534	2,186,594	2,265,405	2,416,382	2,583,084	2,721,455	2,902,066	3,091,044
Municipal Recreation System	1,095,173	1,225,945	1,571,742	2,244,772	2,182,269	2,205,955	2,327,913	2,525,130	2,713,599	2,809,699	3,286,785	3,600,797	3,229,594
Mayo Civic Center	-	-	-	-	-	-	-	-	(42,389)	475,589	681,152	764,665	1,512,357
Airport Operations	3,749,001	4,602,249	5,283,306	5,042,372	3,830,289	3,218,374	1,514,238	558,458	996,806	1,112,367	1,961,149	3,098,119	4,529,798
Transit	618,449	418,064	98,206	311,892	392,548	784,710	792,494	682,933	619,084	1,372,209	2,272,069	2,354,003	2,842,367
MN Bio Science Center	-	-	-	504,953	554,622	592,262	798,984	665,036	882,556	907,584	908,915	1,019,052	1,296,109
Construction Improvement	64,925,364	85,367,916	83,438,180	77,065,602	95,637,295	90,332,885	93,993,771	91,009,101	88,813,510	133,683,694	99,098,523	95,386,268	124,654,937
<b>Enterprise:</b>													
Parking	11,473,116	13,292,167	10,992,753	12,152,227	12,606,010	13,766,706	14,931,947	17,042,031	18,884,061	20,435,098	22,229,457	36,409,030	20,875,480
Electric Utility	23,740,729	33,996,717	37,685,285	45,511,508	46,891,223	47,342,761	46,610,706	53,969,505	52,097,671	44,404,305	39,477,010	56,872,190	56,872,690
Water Utility	1,040,685	3,377,128	4,535,124	5,438,982	5,811,481	5,849,272	6,662,258	5,372,814	4,169,310	2,913,285	3,843,868	5,244,039	5,244,739
Sewer Utility	11,959,259	17,032,179	10,030,218	20,224,054	17,746,596	20,950,110	19,976,913	20,633,041	22,156,579	26,008,059	30,251,244	34,992,008	37,712,031
Storm Water Utility	880,412	94,984	422,519	1,187,055	1,228,585	2,678,223	4,225,933	5,509,276	7,643,261	9,301,267	10,650,655	13,175,479	15,972,959
<b>Internal Service:</b>													
Equipment Revolving	6,121,899	5,486,189	6,080,098	6,201,192	7,441,326	7,705,745	7,860,569	6,989,116	6,200,390	5,230,336	3,997,757	3,195,912	3,075,528
Information Technology Revolving	3,109,311	3,307,587	3,470,943	3,401,593	3,562,883	3,428,536	3,480,044	3,650,125	3,665,791	4,167,214	4,210,272	4,525,291	3,956,691
Self-Insurance	10,834,679	15,156,616	20,405,519	22,994,723	24,852,318	26,052,772	25,745,981	27,372,594	28,416,444	25,307,215	21,324,128	18,283,112	18,164,734
Debt Service Funds -All legally committed.													

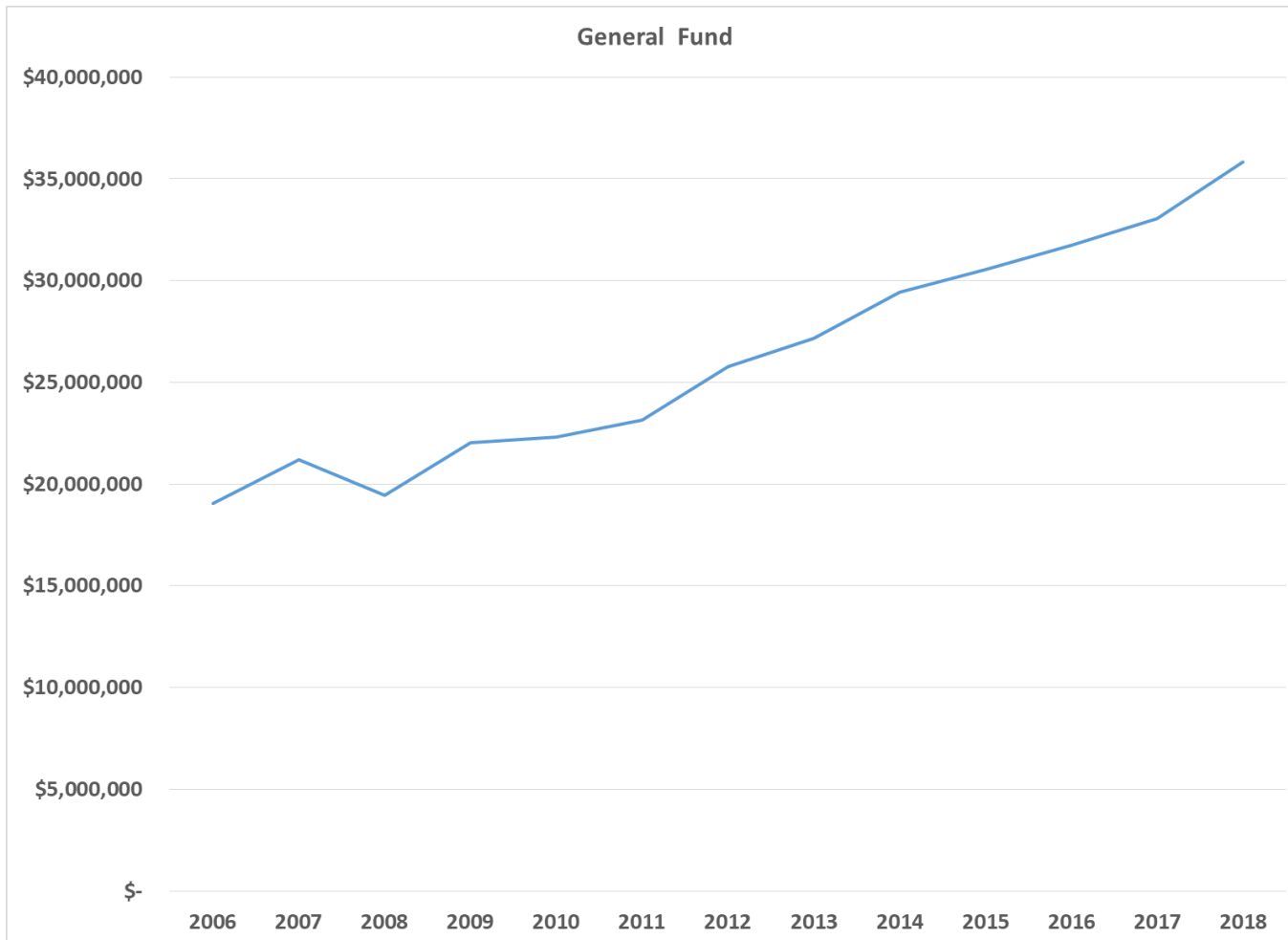
Construction Improvement further broken down later in this slide deck



# Construction Improvement Fund By Category Area - 2006 – 2017

Construction Improvement Fund Balance Analysis  
2006-2018

Major Categories	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Airport	\$ 2,571,773.52	\$ 2,637,274.60	\$ 2,039,978.10	\$ 1,565,107.99	\$ 882,552.21	\$ 1,018,276.68	\$ 1,922,866.53	\$ 2,256,013.09	\$ 3,098,592.48	\$ 1,797,821.13	\$ 7,154,179.12	\$ 2,602,813.70	4,361,869.21
Parks	2,177,169.32	2,250,324.84	2,565,538.54	2,638,298.42	2,550,118.81	(896,038.81)	2,590,972.06	2,641,638.93	3,224,146.01	4,625,299.36	5,012,614.92	4,523,073.01	5,411,863.40
Golf	93,736.44	29,393.33	195,899.07	185,566.09	170,252.94	90,489.03	95,439.31	241,936.69	434,797.11	403,139.16	385,371.99	467,008.38	813,239.36
Recreation Center	49,350.61	63,201.36	27,569.02	94,052.01	52,628.57	33,698.31	74,390.26	54,646.64	2,043,575.18	493,327.51	(44,928.27)	(2,091,445.00)	(2,512,919.01)
Graham Arena	71,239.88	111,713.63	132,314.48	152,104.73	164,517.09	182,557.06	68,706.50	113,532.61	110,896.90	124,859.33	37,636.86	87,953.40	55,804.53
Mayo Civic Center	194,044.52	570,045.07	385,105.25	260,266.04	274,472.36	442,136.48	601,636.61	777,589.52	1,556,313.93	38,725,917.30	12,404,387.89	4,634,221.50	5,173,305.25
Destination Medical Center	-	-	-	-	-	-	-	(118,250.66)	(5,908,982.64)	(9,824,751.81)	(13,777,656.37)	(1,912,830.00)	6,981,997.38
Downtown Development/Tax Abatement District	2,089,013.65	1,292,055.53	(429,307.20)	580,259.77	579,546.90	1,251,366.63	1,866,651.61	2,588,458.11	3,379,208.10	4,189,118.45	4,457,837.69	5,282,067.65	6,293,879.78
Other Projects	11,584,632.72	8,788,138.91	6,710,120.09	3,692,811.46	18,109,678.70	8,780,584.15	8,607,720.34	8,203,221.79	5,609,487.42	5,121,358.67	2,032,028.42	2,575,024.65	3,744,030.41
Major Streets	4,643,298.67	5,343,001.48	16,926,486.56	11,800,105.00	14,308,793.35	14,718,426.97	13,302,906.96	11,737,068.06	23,035,791.33	28,298,068.29	25,641,341.84	23,961,502.12	29,659,857.77
Traffic	669,390.83	545,904.79	195,414.41	598,839.55	675,457.79	476,986.37	670,657.77	501,122.83	903,421.19	2,600,564.43	278,180.25	506,601.00	69,135.34
Pedestrian Facilities	627,215.20	512,288.36	909,182.77	830,377.51	1,334,555.76	982,200.83	1,528,963.17	918,953.74	735,334.77	726,801.32	403,670.61	689,710.62	460,870.52
Mass Transit	347,951.96	376,443.10	(770,300.65)	701,090.23	1,813,949.27	751,418.35	725,331.36	852,815.81	1,175,892.90	540,129.85	1,013,326.82	1,577,989.73	1,073,477.16
Sewer and Water	(4,005,771.23)	14,544,966.62	14,906,634.09	8,232,709.49	9,113,150.82	6,870,502.10	6,196,073.13	7,504,915.84	7,504,072.88	4,928,893.78	4,587,224.76	4,090,753.99	6,755,214.18
Storm Water	268,274.38	(331,589.82)	(292,965.95)	(336,250.00)	(336,250.00)	-	-	-	-	-	-	-	-
Flood Control	26,759,423.62	27,628,677.09	27,386,192.25	24,339,667.29	23,329,605.97	22,901,085.92	22,411,485.50	23,039,731.89	21,304,989.34	20,843,221.23	20,355,558.98	19,101,903.12	17,225,837.93
<b>Other Categories</b>													
Basic Construction	119,659.83	192,554.93	135,952.61	117,160.20	78,739.31	(123,941.59)	(60,083.52)	56,276.85	56,312.23	48,360.47	3,454.83	(936.00)	(66,685.05)
Bridge	311,160.56	335,406.49	198,244.24	758,901.03	(54,081.29)	973,297.72	1,366,804.40	490,153.55	1,125,413.58	464,316.36	273,953.40	64,025.13	(53,169.82)
Future Property Acquisition	2,560,359.54	2,399,672.84	2,745,299.79	2,739,537.61	2,790,205.94	3,206,941.76	1,764,212.88	2,043,959.59	702,577.28	246,008.13	591,676.89	993,105.90	973,843.74
Future Construction Assessment Projs	8,969,286.78	12,250,303.57	9,024,623.83	5,645,903.78	6,530,007.03	4,769,814.43	3,774,947.71	1,750,785.37	1,808,358.06	3,076,372.53	8,511,914.82	6,957,378.20	7,373,191.12
Future Construction	1,730,475.15	1,204,177.52	937,641.18	912,253.69	865,139.32	719,302.01	5,102,579.96	5,044,026.53	1,534,104.36	1,444,071.85	183,377.89	1,465,336.70	2,337,863.14
TIF Districts	(3,082,533.73)	3,386,219.81	(5,180,493.60)	331,955.26	913,539.73	1,680,320.50	2,819,223.73	3,575,269.62	2,225,723.20	3,327,010.27	3,819,626.47	4,335,124.76	4,618,061.39
Sales Tax Funds	6,176,211.78	1,237,741.95	4,689,051.12	11,224,884.85	11,490,714.42	21,503,460.10	18,562,284.73	16,735,234.60	13,153,484.39	21,483,786.39	15,773,743.19	15,475,886.17	23,904,369.22
<b>Total</b>	<b>\$ 64,925,364.00</b>	<b>\$ 85,367,916.00</b>	<b>\$ 83,438,180.00</b>	<b>\$ 77,065,602.00</b>	<b>\$ 95,637,295.00</b>	<b>\$ 90,332,885.00</b>	<b>\$ 93,993,771.00</b>	<b>\$ 91,009,101.00</b>	<b>\$ 88,813,510.00</b>	<b>\$ 133,683,694.00</b>	<b>\$ 99,098,523.00</b>	<b>\$ 95,386,268.00</b>	<b>\$ 124,654,937.00</b>

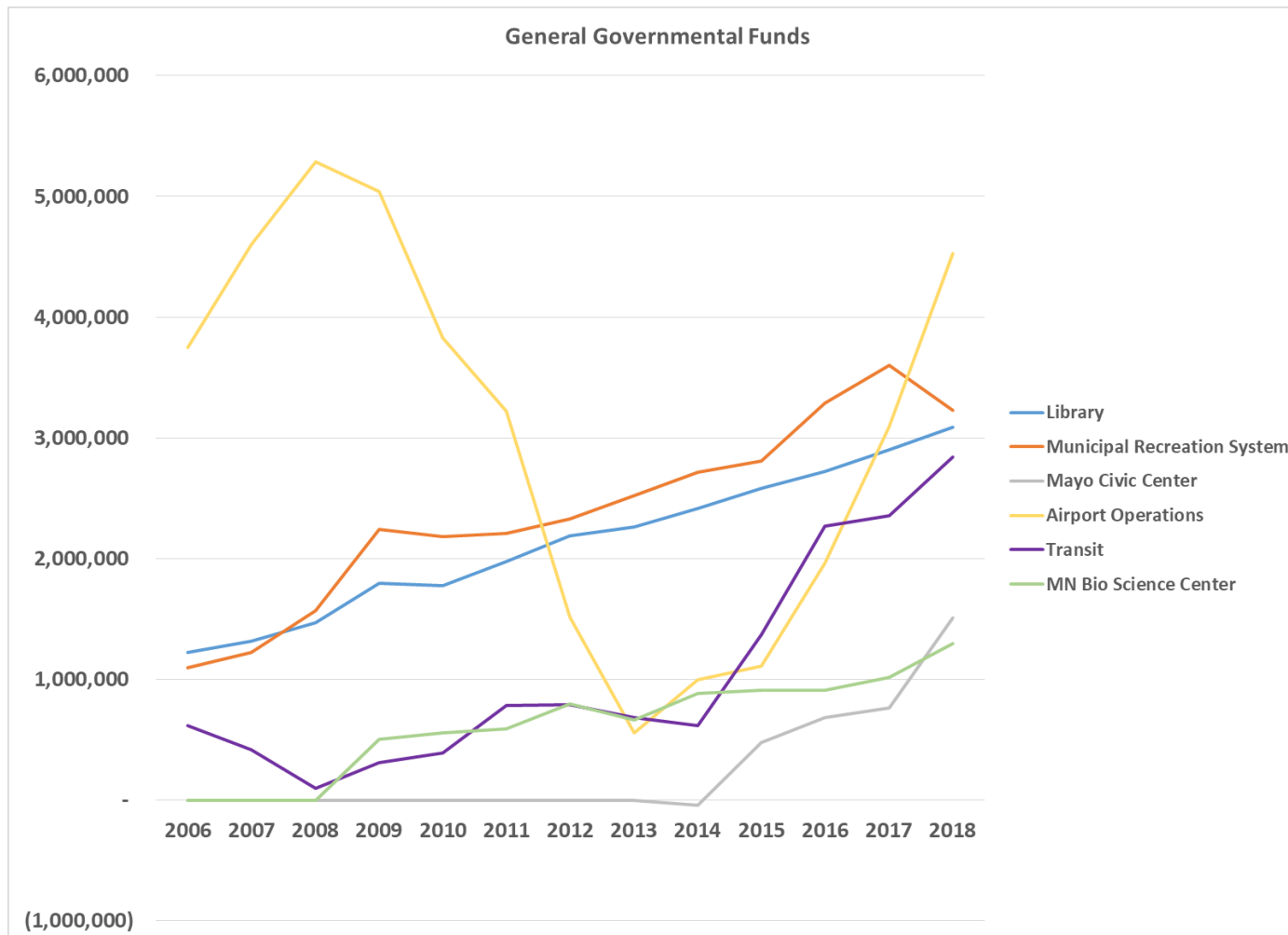


## General Fund

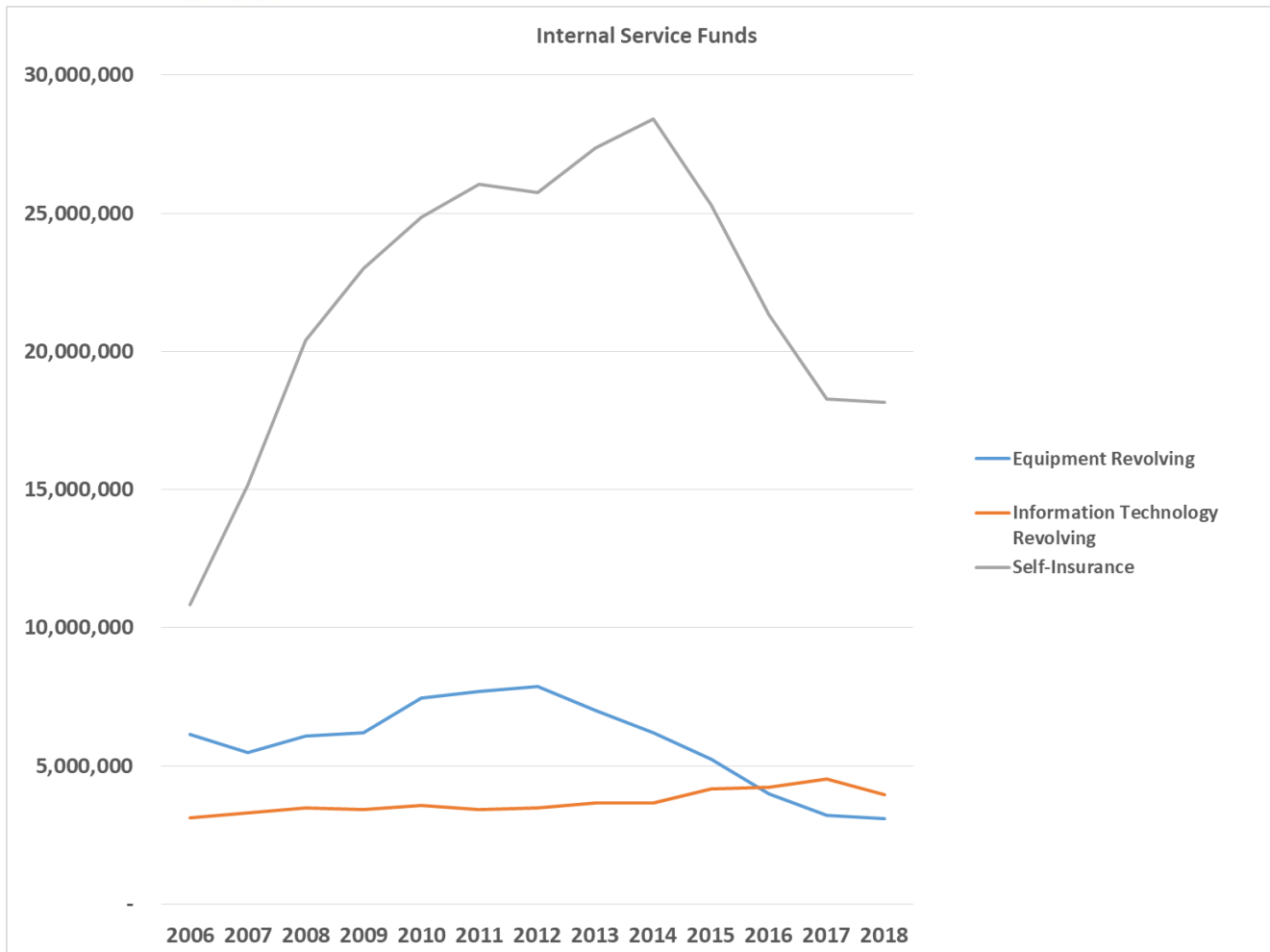
- Tax / LGA Supported
- Growth targeted according to policy at 42% of Expenditures
- Draw down for one-time events – Current Balance does NOT reflect \$1.25 million for Park and Rec Projects as that transfer will occur in 2019
- Provides resiliency looked for by bond rating agencies



## Governmental Funds



- Airport – Large Capital Components – shift in funding formula following LGA cuts, now returning to prior levels
- Library/Municipal Recreation – Targeted percentage of operations
- Recreation one-time use of reserves for project
- MCC and Bio Business – “Start-ups”
- Transit – Heavy Capital Investment Components



## Internal Service

- Insurance
  - Claim dependent
  - Earnings rate drop
  - 14% premium increase for 2018 abated freefall.
  - Additional 14% in 2019 will hopefully create gains.
- Equipment Revolving
  - Fleet Expansion
  - Earnings drop
  - Specialized equipment inflation (e.g. fire trucks)
  - Stemmed Losses in 2018. 2019 should bring some growth
- Information Technology
  - Draw for planned 2018 systems refresh



# KEY FACTORS IMPACTING 2020 BUDGET



1% INCREASE IN TAX LEVY = \$747,000

Employee expenses increase = \$4.3 million (+5.75%)

North Service Center debt = \$1.3 million (+1.75%)

New MCC/ER Model savings = \$1 million (-1.35%)

Additional 2018 savings = \$500,000 (-0.675%)



## Current Tax Levy CIP Strategy

\$5 million annually in 11 categories

Funds 40 projects on average (down from 60)

Parks \$750,000 - \$1,200,000 annually

13 – 22 projects partially funded



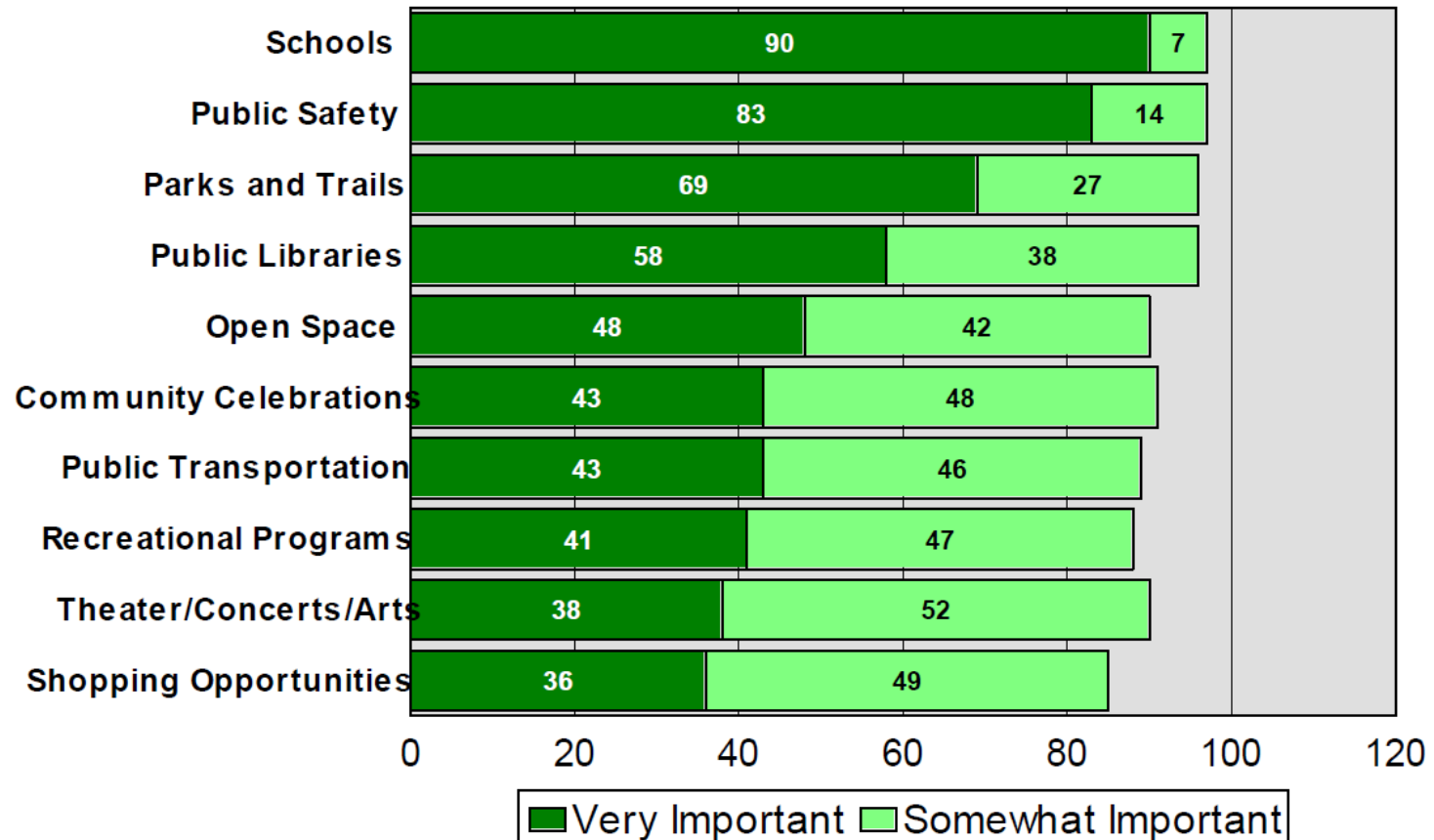
# COUNCIL BUDGET PRIORITIES





# Importance to Quality of Life

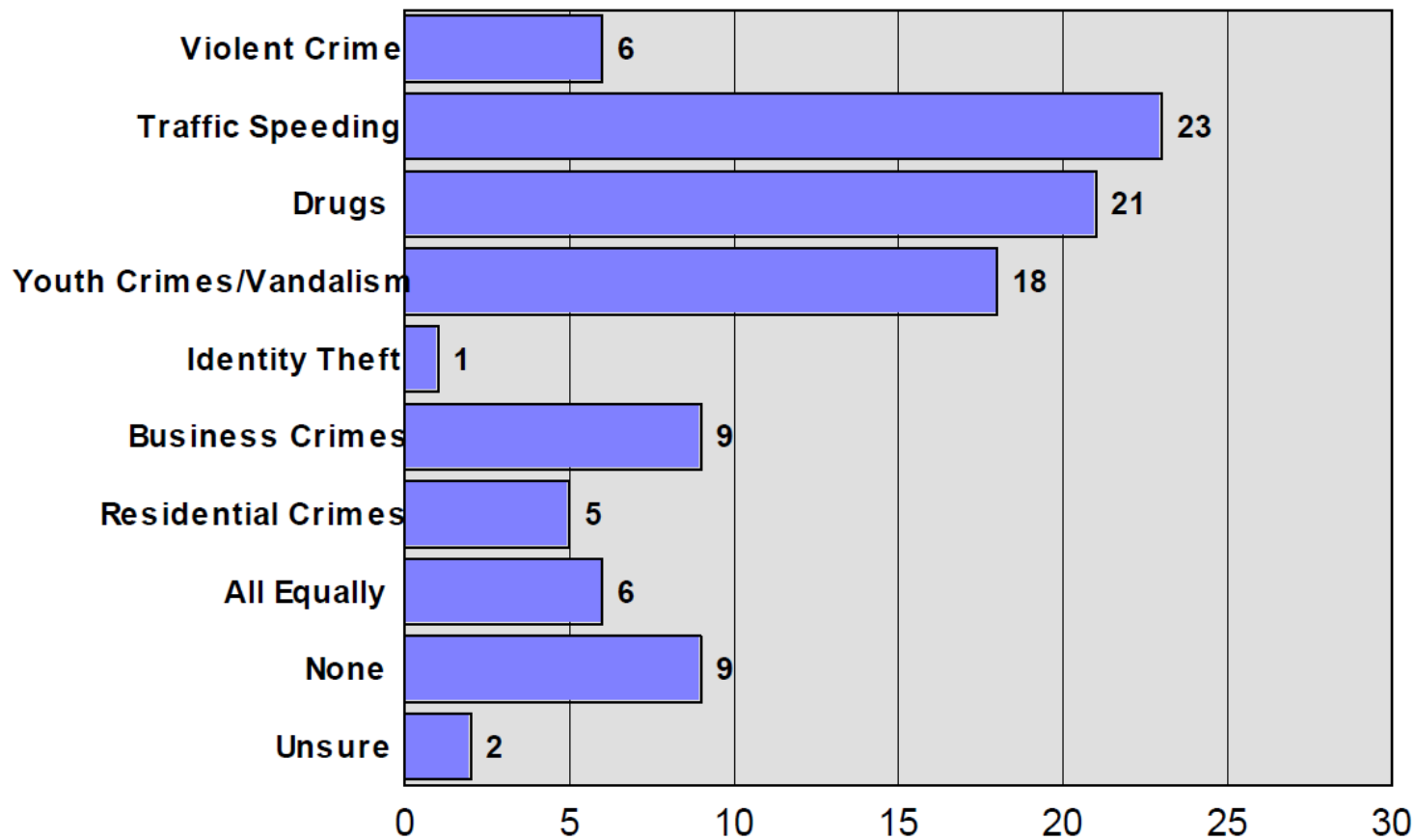
2018 City of Rochester





# Greatest Public Safety Concern

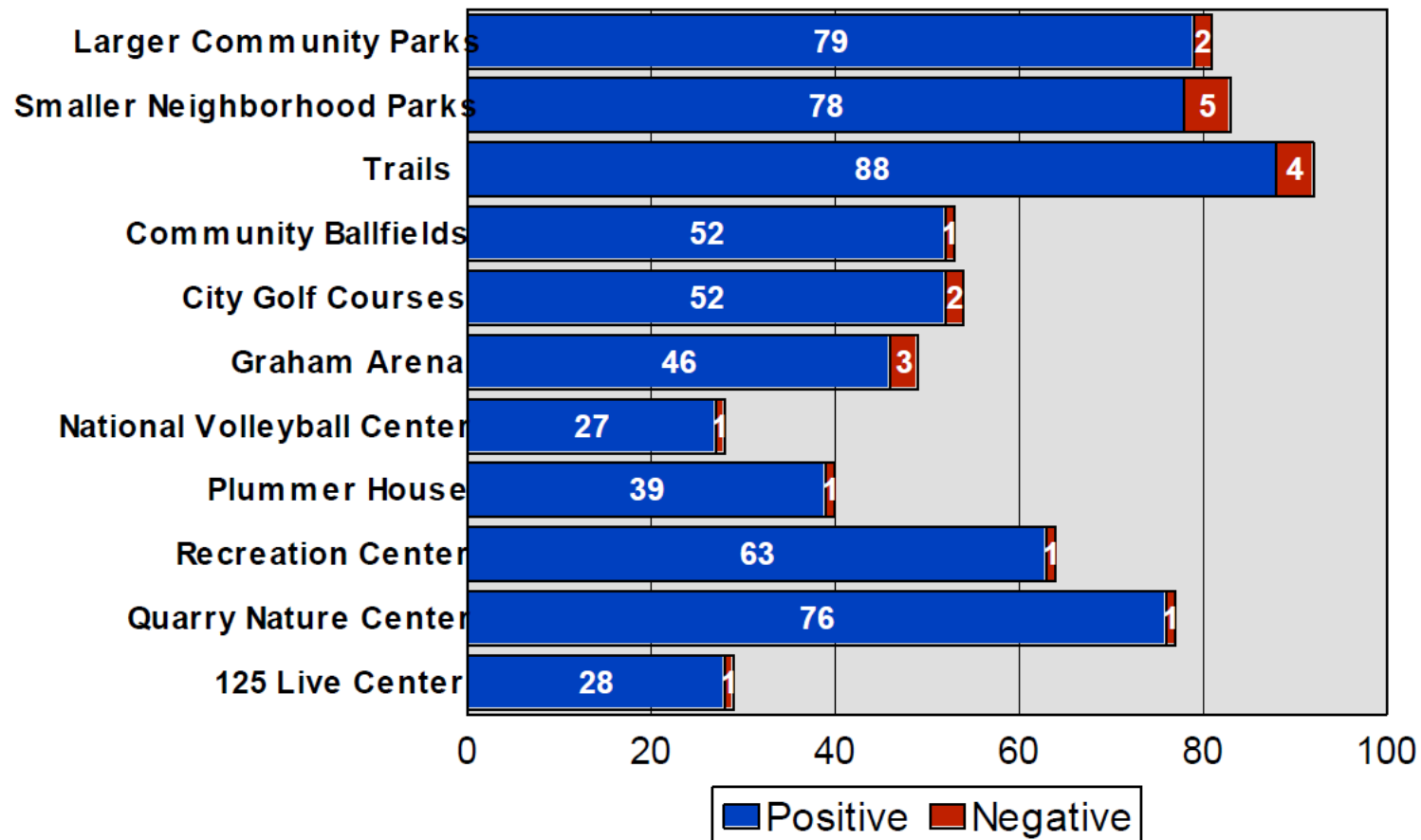
2018 City of Rochester





# Rating of Park System Components

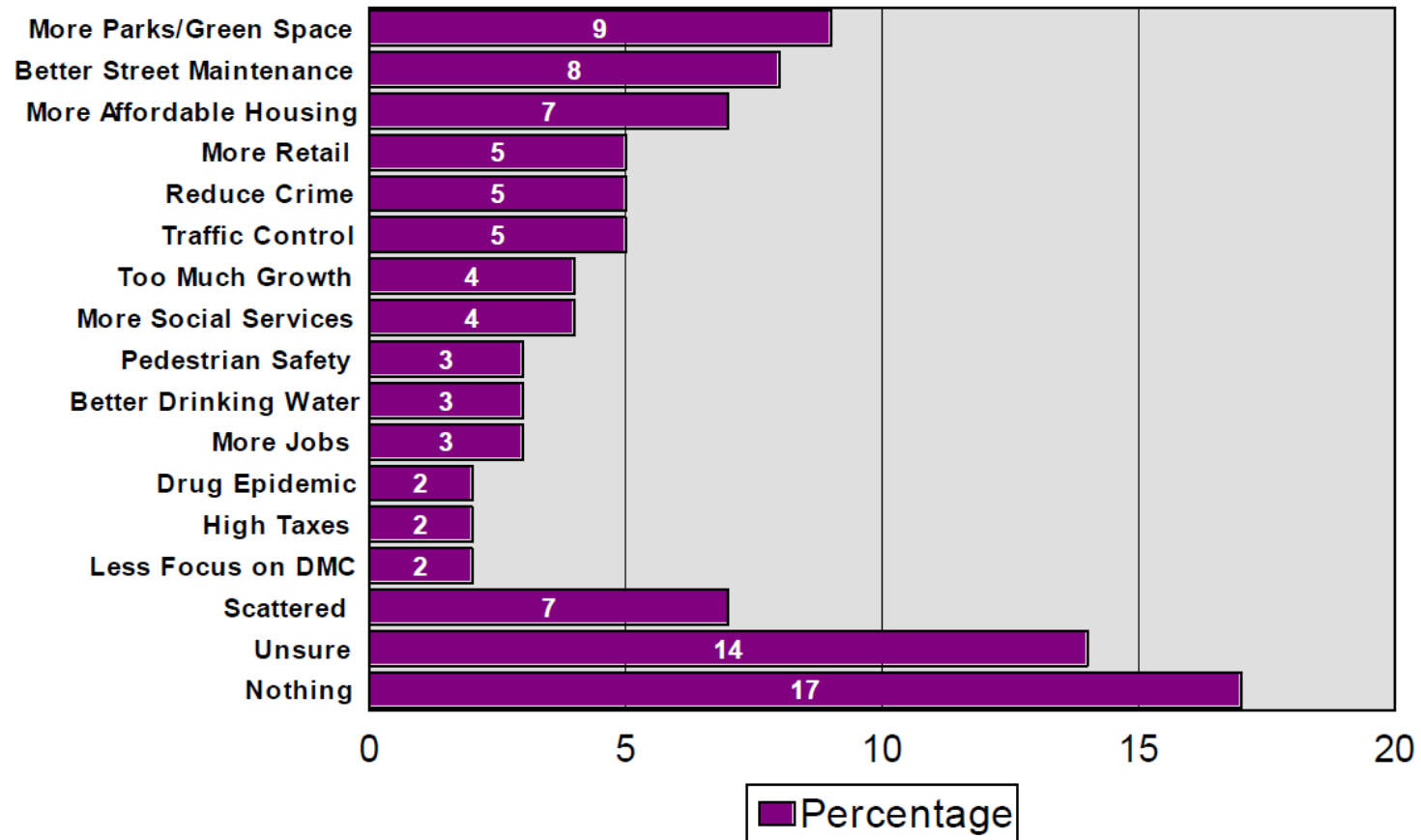
2018 City of Rochester





# Fixed or Improved for Future

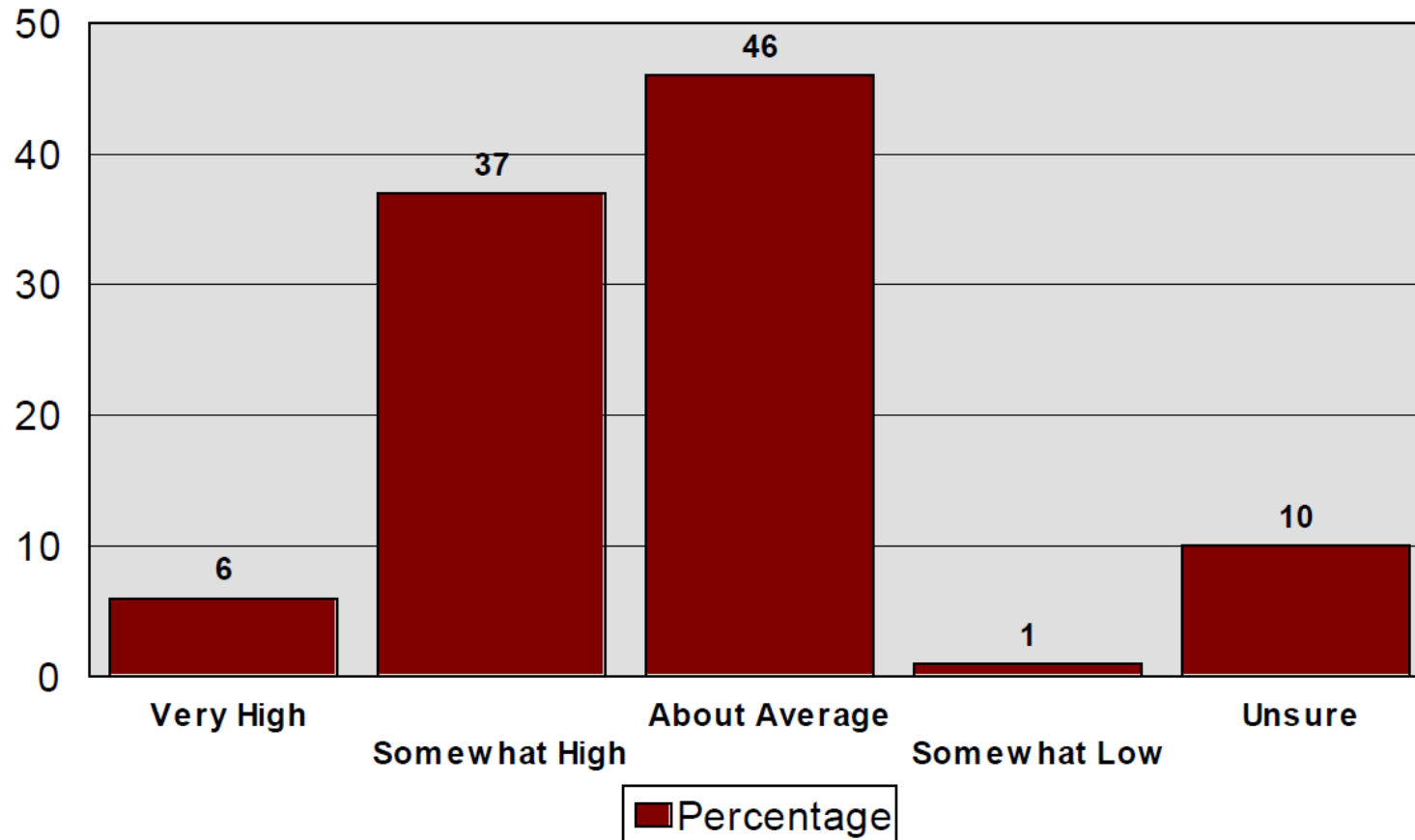
2018 City of Rochester





# Perception of Property Taxes

2018 City of Rochester





## Organizational Vision

A vibrant, compassionate,  
innovative team

## Foundational Principles

- Compassion
- Environmental Stewardship
- Fiscal Responsibility & Sustainability
- Public Safety
- Social Equity



## Strategic Priorities

### Enhance quality of life

- Increase neighborhood connectivity.
- Increase affordable housing options.
- Maintain and increase neighborhood vitality and livability.
- Secure a funding stream for sustained parks and recreation improvements and community amenities.

### Foster a team-oriented culture

- Use High Performance Organization practices to create operational efficiencies.
- Develop recruitment strategies to diversify and achieve a high-quality workforce.
- Create employee development plans.
- Use technology to share resources and communicate effectively.

### Manage growth and development

- Balance downtown/DMC and community-wide development efforts.
- Incorporate P2S infrastructure planning into development decisions.
- Implement the recommendations of P2S, the Parks and Recreation Master Plan and the Library Strategic Plan.

### Balance public infrastructure investment

- Improve transportation and related facilities.
- Develop an asset management plan and use life-cycle cost considerations during decision making.
- Develop a policy and practice of assessing new infrastructure investment based on current assets and maintenance costs.