



2021 Operating Budget 2021-2026 CIP



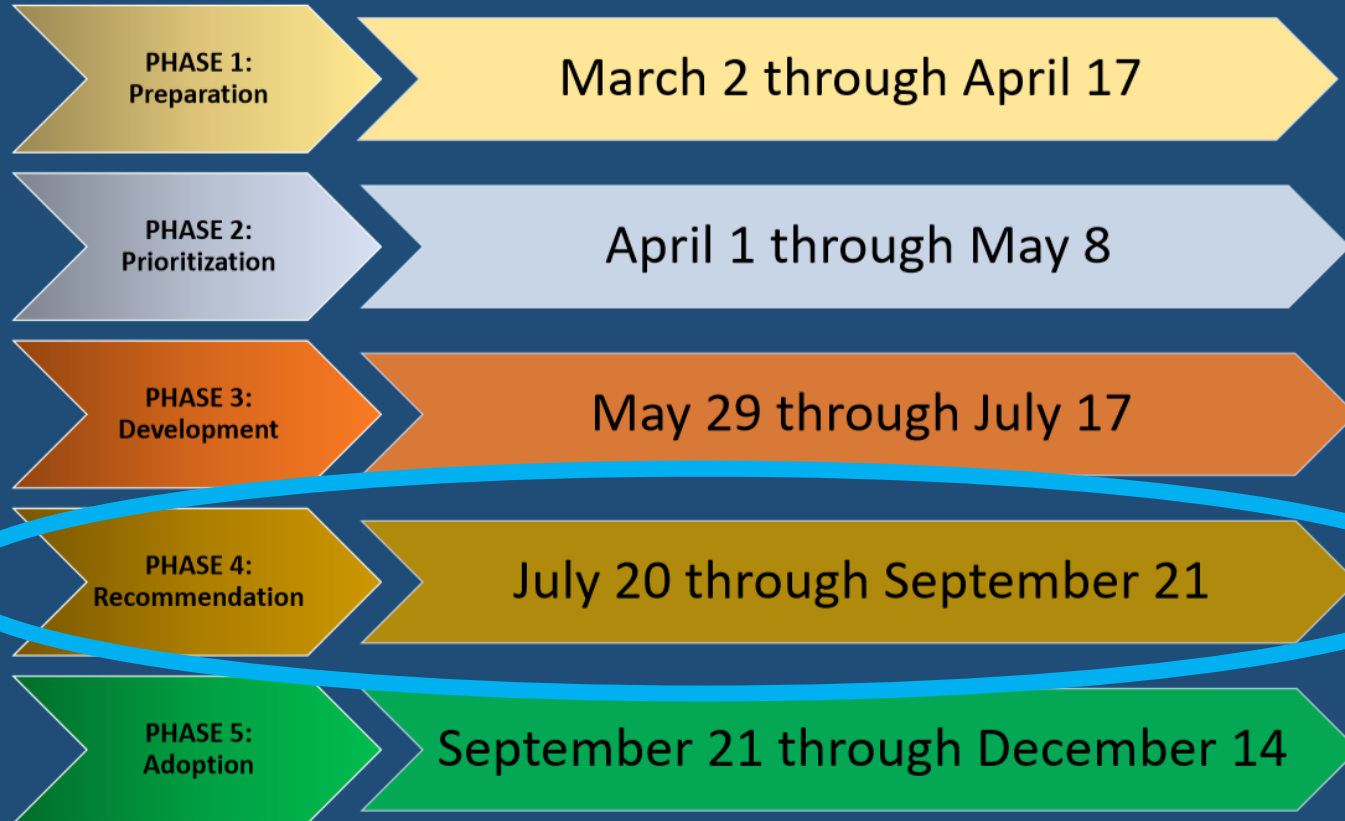
City Council Study Session
Budget Meeting #2
September 14, 2020



Team Rochester

Original: 2/27/2020
Revised: 3/3/2020

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





September 14 Discussion Goals

Provide 2021 recommended budget overview

Discuss General Fund recommended budget

Discuss Rochester Public Utilities recommended budget



- **September 21 Budget Meeting #3**
 - Teammates Wellness Program
 - Outside Agency Funding
 - Short Term Online Rental Marketplace
- **September 21 City Council Meeting**
 - Adopt maximum 2021 property tax levy
 - Adopt 2021 preliminary budget
- **September 28 Budget Meeting #4**
 - Discuss 2021-2026 Capital Improvement Plan (CIP)
 - Follow up on items from previous budget meetings

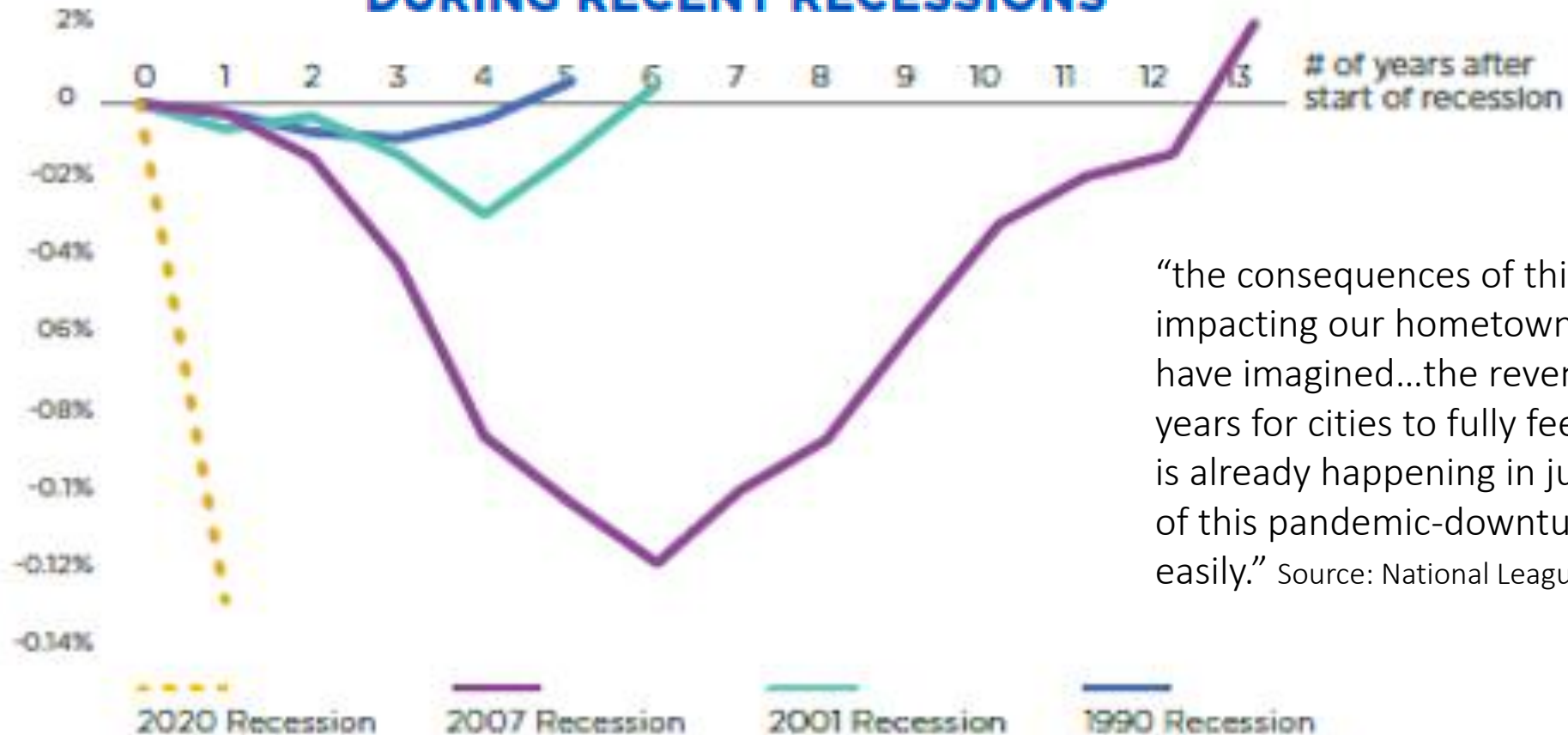
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Economic Outlook



COMPARATIVE REVENUE TRENDS DURING RECENT RECESSIONS

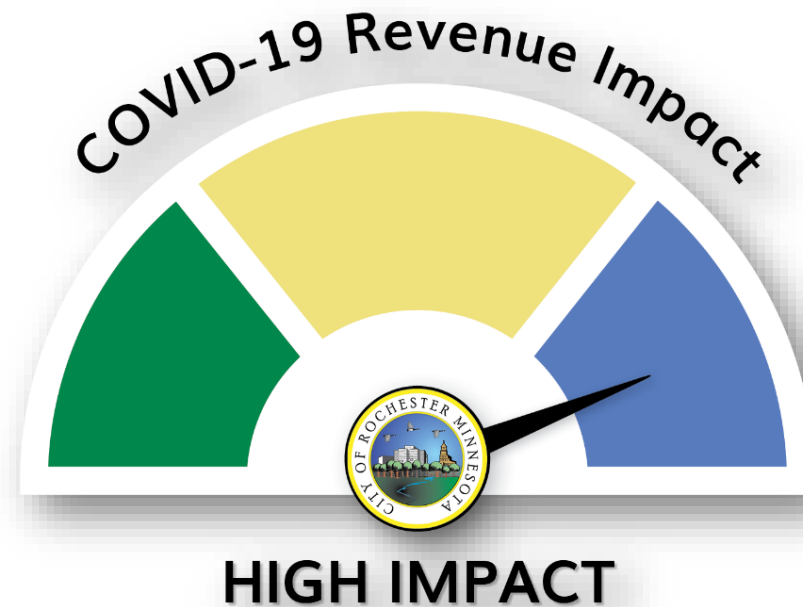


“the consequences of this economic fallout are impacting our hometowns faster than we could have imagined...the revenue decline that took 6 years for cities to fully feel in the Great Recession is already happening in just the few short months of this pandemic-downturn and it won’t go away easily.” Source: National League of Cities



May 2020

\$26.6 million 2020 budget adjustments





CARES Funding - \$18.5 million

- **City COVID-19 response and community support**
 - \$8.8 million (2020 only)
- **Public Transit**
 - \$7.2 million (2020 and 2021)
- **Rochester International Airport**
 - \$2.5 million (2020 and 2021)



**ROCHESTER
READY**



Questions – 2021 (and beyond)

- How long will our once vibrant and successful hospitality and tourism sector take to recover?
- Will remote work and consumer safety perceptions have long-term consequences for our public transit, airport, and parking operations?
- Will property valuations be impacted in future years compounding the financial effects on City revenues?
- Will financial impacts at the state and federal levels lead to reductions in intergovernmental aid that have historically supported City operations and public infrastructure projects?



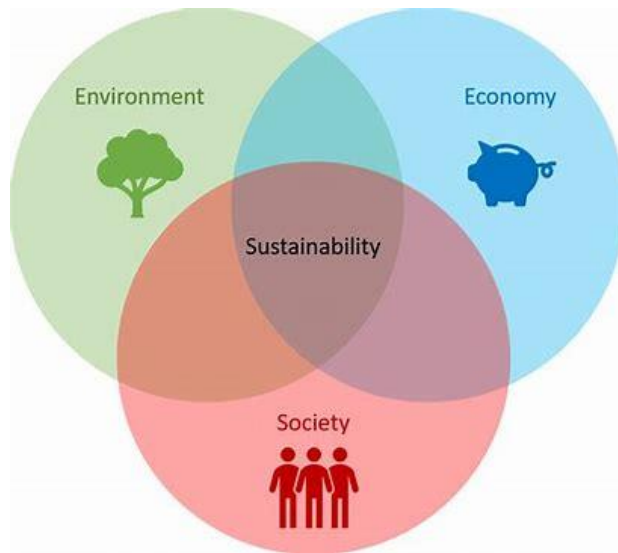
Recommended Budget Overview

-All Funds Combined-



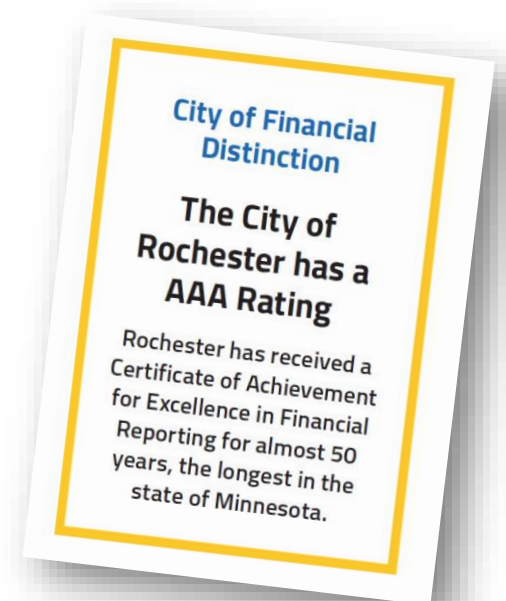
Organizational Vision

A vibrant, compassionate,
innovative team



Foundational Principles

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





City of Rochester Budget 2021, inclusive of RPU

\$476 Million Budget All Funds Combined

- **No** tax levy increase
- **No** electric or water rate increases
- **No** parking ramp or transit rate increases
- **\$97.8 million reduction** from 2020





Where Does the Money Come From?

- Miscellaneous Revenue 22.76%
- Taxes Ad Valorem 16.70%
- Charges for Service 45.86%
- Intergovernmental Revenue 11.58%
- Other Taxes 1.25%
- Licenses and Permits 0.97%
- Special Assessments 0.25%
- Prior Year Revenues/Fund Balance 0.63%

2021 Total Operating Revenue, inclusive of RPU

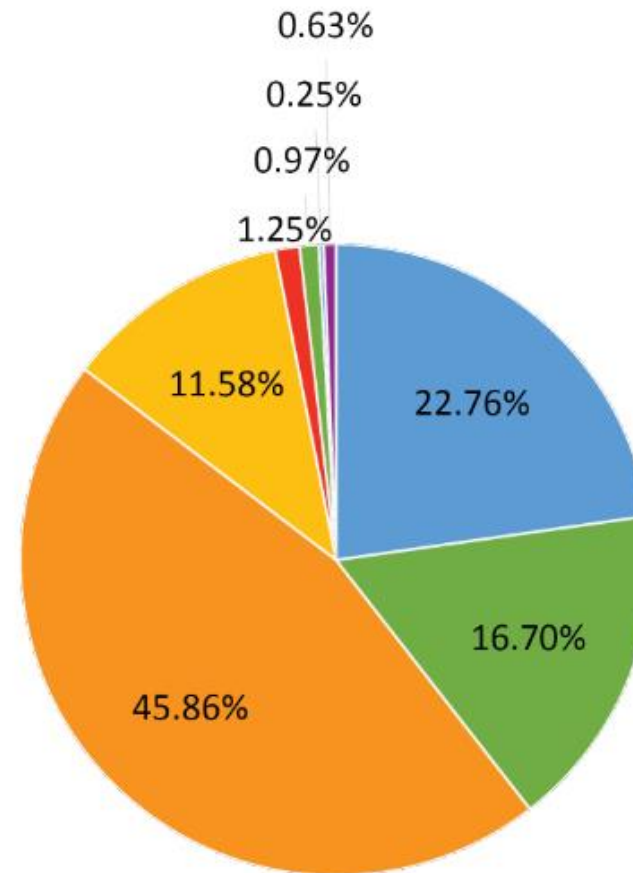




Table 1
2021 MAJOR REVENUES VS 2020 INCLUSIVE of RPU

	2020 Adopted Budget	2021 Recommended Budget	Increase/(Decrease)	Percent of Change
Tax Levy & Tax Abatements	79,524,771	79,524,771	0	0.00%
Local Government Aid	7,509,361	6,372,634	(1,136,727)	-15.14%
Hotel/Motel Tax	6,275,000	4,580,000	(1,695,000)	-27.01%
Cable TV Franchise Fee	1,440,000	1,350,000	(90,000)	-6.25%
Inspection Permits	3,795,000	3,325,000	(470,000)	-12.38%
In Lieu of Tax	12,884,858	12,884,858	0	0.00%
Sewer Utility Charge	28,500,000	28,100,000	(400,000)	-1.40%
Storm Water Utility Fee	8,572,000	8,572,000	0	0.00%
Library Fund				
City Share-Levy	7,158,871	7,127,713	(31,158)	-0.44%
County Share	1,047,209	1,092,097	44,888	4.29%
Municipal Recreation Fund				
Fee Revenues	4,294,872	4,317,072	22,200	0.52%
Non-Fee Revenues	8,341,017	8,285,916	(55,101)	-0.66%
Parking Fund				
Parking Fines	370,000	370,000	0	0.00%
Parking Ramps	7,418,756	4,618,275	(2,800,481)	-37.75%
Street Meters	1,075,000	1,175,000	100,000	9.30%
Parking Lots	574,000	401,800	(172,200)	-30.00%
RPU				
Charges for Services	175,246,000	163,275,000	(11,971,000)	-6.83%
Private Funds	6,976,000	10,023,000	3,047,000	43.68%





PROPERTY TAX

Average Residential Home



34.2%	35.7%	28.9%	1.2%
Olmsted County	City of Rochester	School District (535)	Olmsted County HRA

Commercial/Industrial Property



29.2%	30.5%	21.5%	17.9%	1.0%
Olmsted County	City of Rochester	State of MN	School District (535)	Olmsted County HRA



Property Taxes

2021 Estimated Market Value

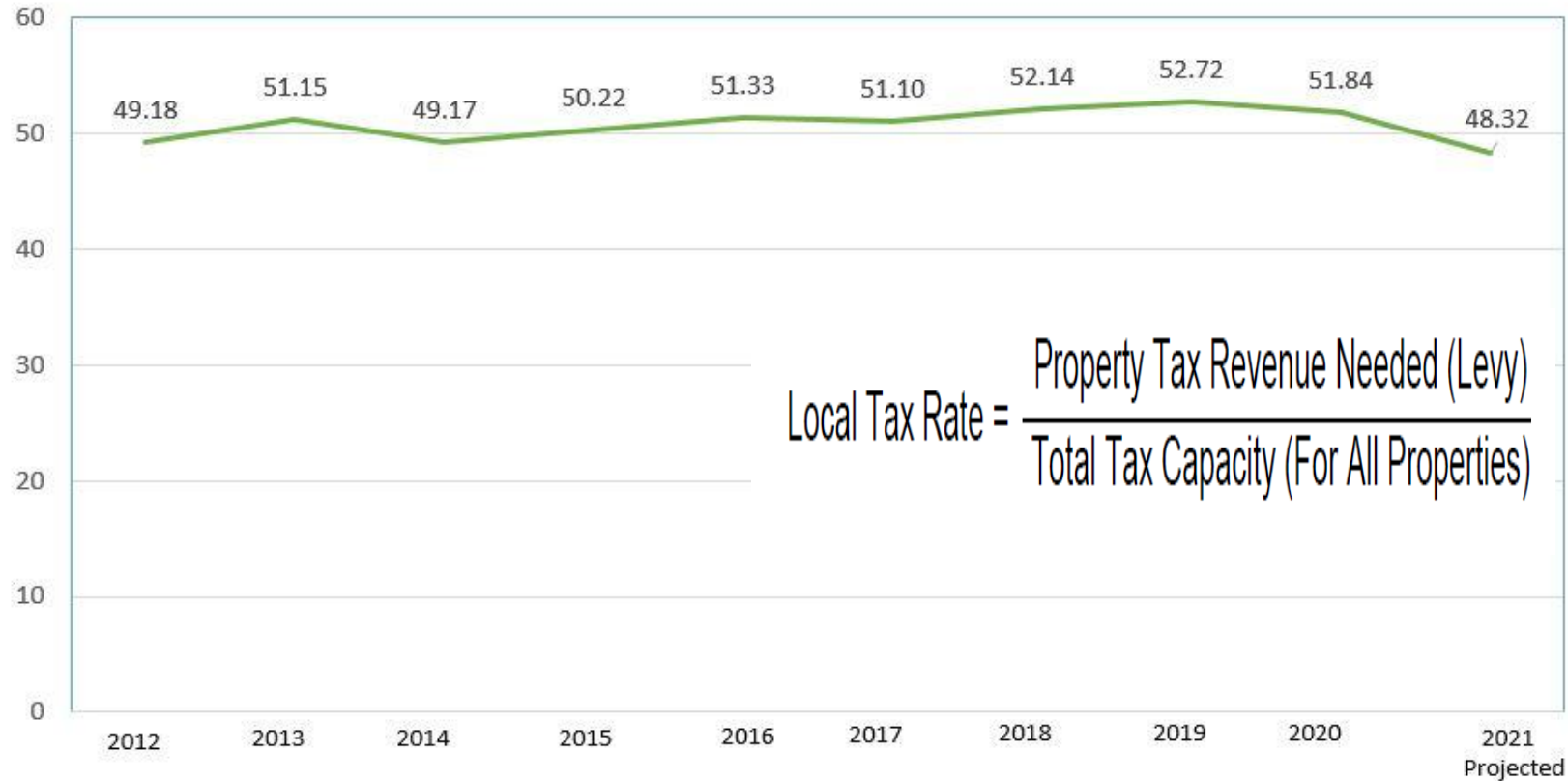
New construction	+2.4%
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<u>Existing base appreciation</u>	<u>+4.9%</u>
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Estimate	+7.3%
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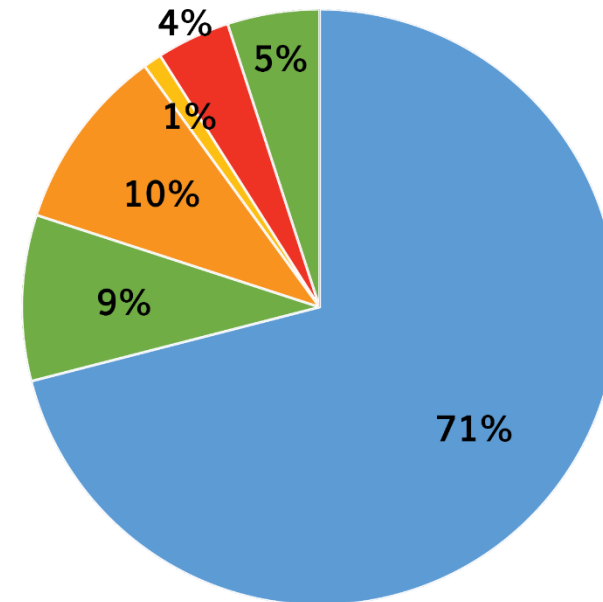


City of Rochester Property Tax Rates since 2012





2021 Property Tax Distribution

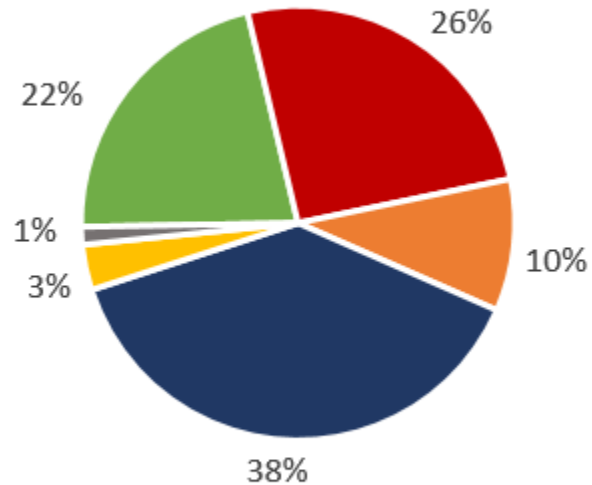


- General Fund 71%
- Rochester Public Library 9%
- Parks and Recreation 10%
- Airport 1%
- Debt/Internal Service 4%
- CIP 5%



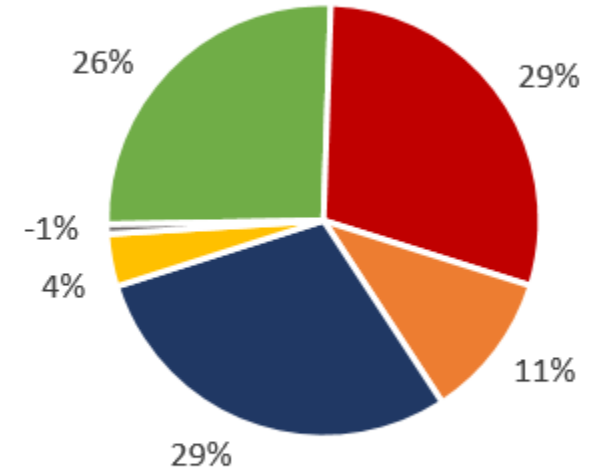
Expenditure Categories

2020 Adopted Budget



- Employee Services
- Contractual Services
- Other Charges
- CIP
- Debt Service
- Miscellaneous

2021 Recommended Budget



- Employee Services
- Contractual Services
- Other Charges
- CIP
- Debt Service
- Miscellaneous



Teammate Expenses

- \$1.1 million increase for all funds
 - General Fund: \$0.5 million
 - Other funds: \$0.6 million
- Salaries net increase: 2.47%
 - 19 bargaining units
 - Majority of agreements through 2022
 - Vacant position savings



- Health and dental decrease: 3.4%
 - Eliminated two tier system
 - Teammates paying an additional 1.25%

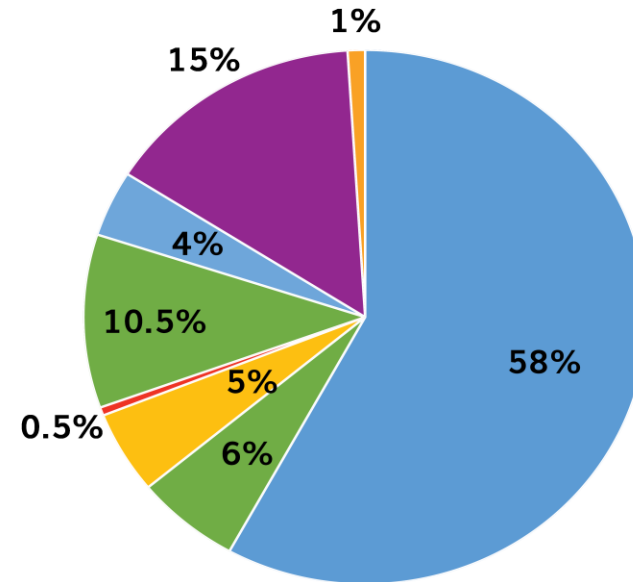


General Fund



Where Does the Money Come From?

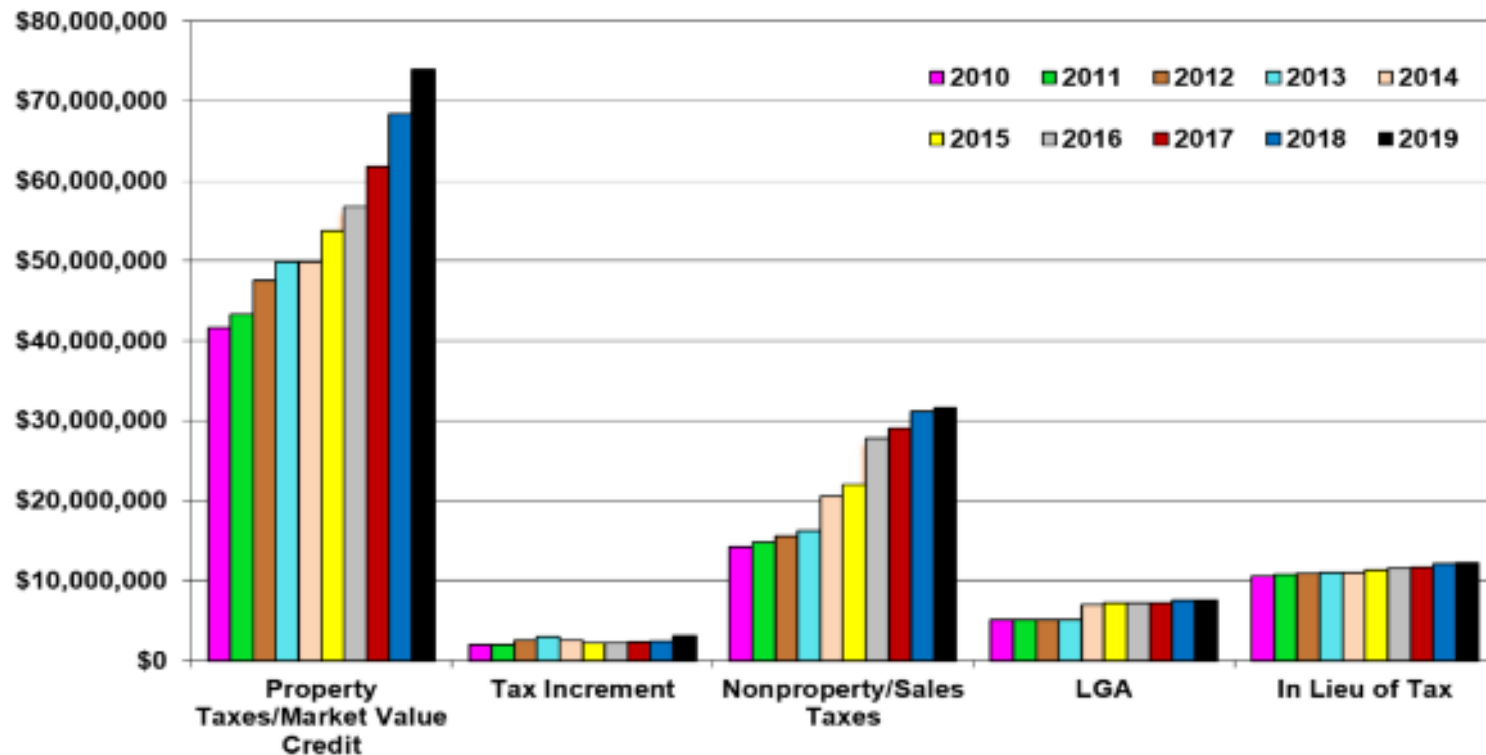
2021 General Fund Revenue
\$96.8 million



- Tax Levy 58%
- Licenses and Permits 5%
- Charges for Services 4%
- Other Taxes 6%
- Fines, Forfeits and Penalties .5%
- Misc Revenue 15%
- Special Assessments 0%
- Intergovernmental Revenue 10.5%
- Prior Year Revenue 1%



Governmental Funds – All Revenues



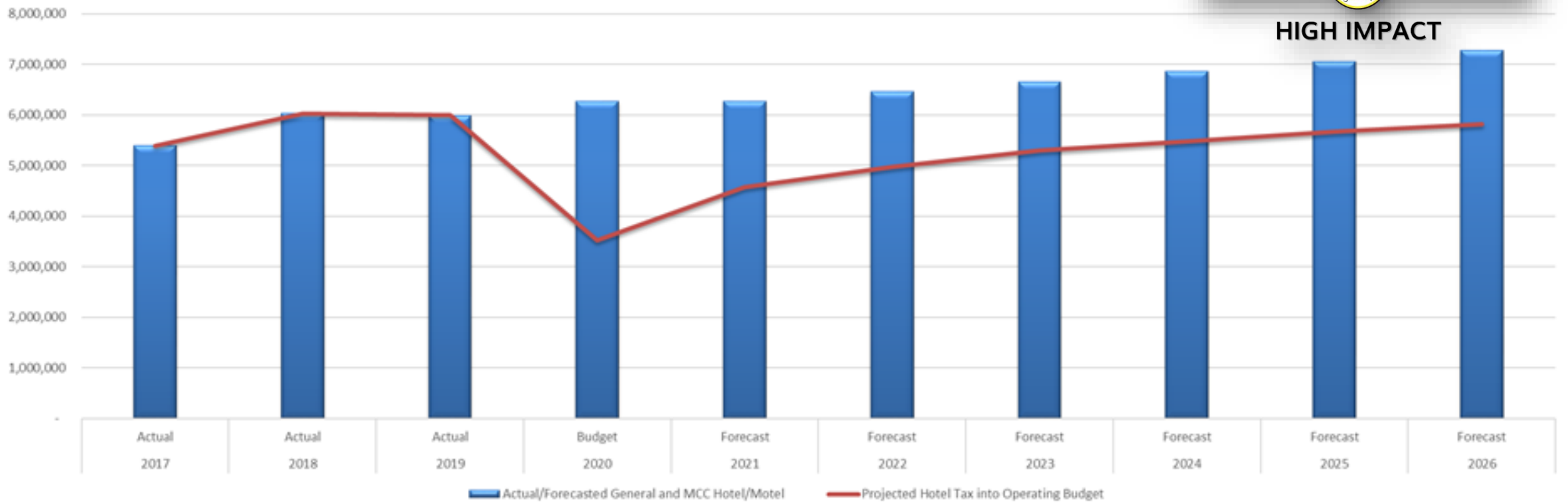


Significant Revenue Impacts

- Hotel/Motel Tax: (\$1.7 million)
- Local Government Aid: (\$1.14 million)
- Licenses and Permits: (\$0.466 million)



Operating Hotel/Motel Tax: Forecast vs. Projection





Other Revenue in Recommended Budget

Payment In Lieu of Taxes (PILOT)

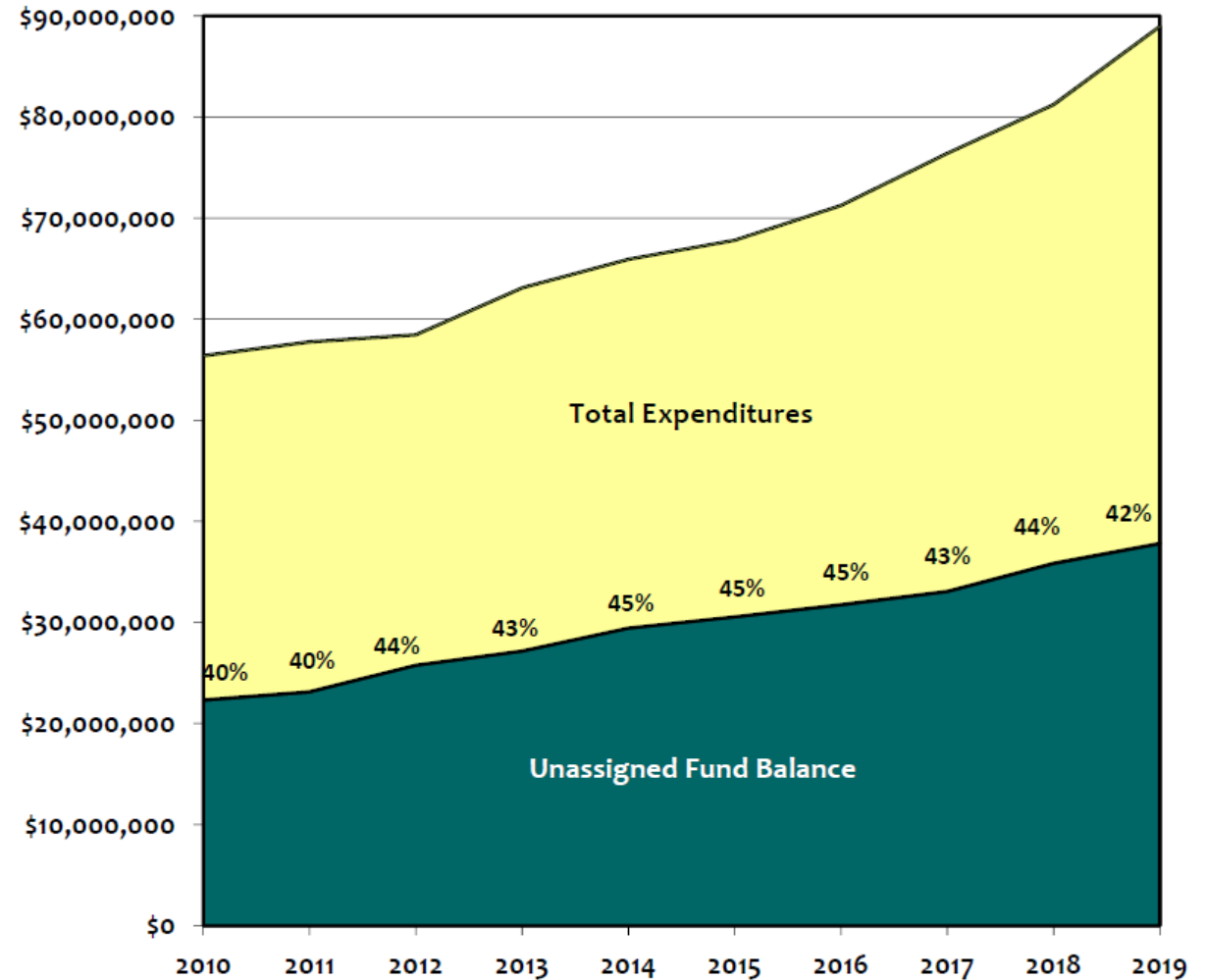
- Maintain 2020 amount of \$12.89 million rather than formula
- Formula would reduce revenue by an additional \$286,000

Use of Fund Balance: \$722,000



General fund unassigned fund balance was **\$37,808,279** at 12/31/19 -

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





Where Does the Money Go?

2021 General Fund expenses **\$887K** less than 2020





General Fund Expense Savings

- \$860,000 vacant position savings
- \$457,000 overtime reductions
- \$280,000 travel/training reductions
- \$200,000 legal consultant services reduction
- \$200,000 Experience Rochester payment reduction
- \$100,000 Rochester Sports payment reduction
- \$85,000 Outside Agency funding reduction
- \$75,000 temporary employee reductions



Outside Agency Funding – 3 Categories

- City-owned facility expense
 - Same amount as 2020
 - Not directly allocated due to assessments underway

- Allocations to specific organizations
 - 10% less than 2020 amounts
 - Discuss in detail on September 21

- Discretionary funds
 - 10% less than 2020 amounts
 - Not directly allocated to organizations
 - Discuss in detail on September 21

	2018 <u>Actual</u>	2019 <u>Actual</u>	2020 <u>Estimated</u>	2021 <u>Projected</u>
1. Diversity Council.	\$75,000	\$75,000	\$75,000	\$67,500
2. Intercultural City Initiative.	\$0	\$2,000	\$2,000	\$2,000
3. Greater Rochester Advocates for Universities & Colleges.	\$20,000	\$20,000	\$20,000	
4. Human Rights Commission.*	\$0	\$6,000	\$6,000	
5. Youth Commission.*	\$0	\$29,000	\$29,000	\$26,100
6. RNeighbors.	\$113,000	\$113,000	\$113,000	\$101,700
7. History Center of Olmsted County.	\$30,000	\$30,000	\$30,000	
8. Celebration of a City.**	\$25,000	\$25,000	\$0	\$0
9. SE MN Initiative Fund.	\$20,000	\$20,000	\$20,000	
10. Rochester Downtown Alliance.	\$100,000	\$100,000	\$100,000	\$90,000
11. 4th of July.**	\$0	\$35,000	\$0	\$0
Total.	\$383,000	\$455,000	\$395,000	\$287,300



Contingency includes additional \$250,000

- Diversity+Equity+Inclusion Director: \$160,000
- Teammate Wellness Program: \$65,000
- City Council Discretion: \$25,000



Diversity+Equity+Inclusion Director

- Create an organization wide Equity Plan
- Lead Government Alliance on Race and Equity (GARE) cohort that includes at least one representative from each department
- Assist Human Resources in identifying opportunities for teammate recruitment, hiring, and retention
- Develop, strengthen, and maintain relationships with organizations, community leaders and residents to advance diversity, equity, and inclusion efforts throughout the community



Special Revenue Funds



Rochester International Airport

Special Revenue Fund



	2020 Adopted	2021 Recommended	Difference
Expenses	\$5.03 million	\$4.77 million	(\$0.26 million)

- \$1.2 million of CARES Act funding carried over from 2020



Rochester International Airport

Special Revenue Fund

- Flight volume will remain depressed throughout 2021
- RST anticipates 7 flights daily compared to 13 flights daily pre-COVID19
- Anticipate passenger volume of 21% of pre-COVID19 levels
- Combined this would result in a significant reduction in activity-based revenue for the airport





Transit

Special Revenue Fund



	2020 Adopted	2021 Recommended	Difference
Expenses	\$14.81 million	\$14.26 million	(\$0.55 million)

- \$2 million of CARES Act funding carried over from 2020
- Reduction in fuel and maintenance
- Closely monitor ridership during recovery and adjust services if necessary



Recreation

Special Revenue Fund

	2020 Adopted	2021 Recommended	Difference
Expenses	\$12.67 million	\$12.64 million	(\$0.03 million)

- Tax levy support reduced by \$60,000
- Facilities, programs and activities return to 2019 levels of service
- Assumes majority of fee based programs will resume in 2021



Recreation

Special Revenue Fund

- Close aging Silver Lake Pool and work to implement changes outlined in Parks and Recreation System Plan
- Restoration of Park and Forestry operations that were reduced in 2020
- Facility and program participation may continue to be impacted by COVID
- Monitor program participation and adjust expense accordingly



Library

Special Revenue Fund



	2020 Adopted	2021 Recommended	Difference
Expenses	\$8.53 million	\$8.39 million	(\$0.14 million)

- Tax levy support reduced by \$31,000
- 4.3% increase in County support from prior year based on County Funding formula
- Fine Free to improve equity
- Frozen positions (3 FT)
- Increased expenses due to IT Integration



Enterprise Funds



Parking

Enterprise Fund

	2020 Adopted	2021 Recommended	Difference
Expenses	\$6.83 million	\$5.92 million	(\$0.91 million)

- **No parking ramp rate increase**
- Need to closely monitor parking occupancy during recovery
- Assumes occupancy 70% of pre-COVID levels.
- Continue operational changes implemented in 2020 to reduce expenses
- New online adjudication software to replace in-person parking ticket court



Wastewater

Enterprise Fund

	2020 Adopted	2021 Recommended	Difference
Revenue	\$26.6 million	\$22.3 million	(\$4.3 million)

- Impacted by Seneca, AMPI, and Kemps South closures
- 5% rate adjustment in 2021
- Reduced Contracted Services and Training
- Electricity and chemical budgets decreased because of fewer industries and efficiency gains



RPU Financial Strategy

Rates

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

Bond Rating

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



Water Utility

	2020 Adopted	2021 Recommended	Difference
Revenue	\$11.9 million	\$12.4 million	\$0.5 million
Water Supply Cost	(\$1.9 million)	(\$1.8 million)	(\$0.1 million)
Gross Margin	\$10.0 million	\$10.6 million	\$0.6 million

- **No rate increase**
- 0.8% Customer Growth
- 1.1% Consumption Growth



Water Utility

	2020 Adopted	2021 Recommended	Difference
Baseline Expenses	\$7.8 million	\$8.1 million	\$0.3 million

- No additional teammates
- Depreciation
- Water Tower Maintenance and Well Sealing
- PILOT



Water Utility

	2020 Adopted	2021 Recommended	Difference
Change in Net Position	\$2.2 million	\$2.5 million	\$0.3 million
Depr & Amortization	\$2.9 million	\$2.9 million	-
Capital Additions	(\$6.9 million)	(\$6.5 million)	(\$0.4 million)
Debt Principal Payments	-	-	-
Non-Cash Accruals	\$0.7 million	(\$0.1 million)	(\$0.8 million)
Net Change in Cash	(\$1.1 million)	(\$1.2 million)	(\$0.1 million)
Fund Balance, Beginning	\$9.6 million	\$10.1 million	\$0.5 million
Fund Balance, Ending	\$8.5 million	\$8.9 million	\$0.4 million



Electric Utility

	2020 Adopted	2021 Recommended	Difference
Revenue	\$170.3 million	\$162.9 million	(\$7.4 million)
Cost of Power	(\$96.8 million)	(\$93.6 million)	(\$3.2 million)
Gross Margin	\$73.5 million	\$69.3 million	(\$4.2 million)

- **No rate increase**
- Reduction in consumption, Pandemic Economic Impact
- No Increase in Wholesale Power Cost



Electric Utility

	2020 Adopted	2021 Recommended	Difference
Baseline Expenses	\$56.5 million	\$46.6 million	(\$9.9 million)

- Conversion of contract employee to City Teammate – cost neutral
- (\$10.3M) due to Accrual Adjustments
 - Contribution in Aid of Construction
 - Decrease in Accrued PERA Unfunded Liability
 - Increase in Capitalized Labor



Electric Utility

	2020 Adopted	2021 Recommended	Difference
Change in Net Position	\$17.0 million	\$22.6 million	\$5.6 million
Depr & Amortization	\$14.5 million	\$15.0 million	\$0.5 million
Capital Additions	(\$23.1 million)	(\$30.9 million)	(\$7.8 million)
Debt Principal Payments	(\$6.0 million)	(\$6.3 million)	(\$0.3 million)
Non-Cash Accruals	\$0.8 million	(\$1.5 million)	(\$2.3 million)
Net Change in Cash	\$3.1 million	(\$1.1 million)	(\$4.2 million)
Fund Balance, Beginning	\$76.8 million	\$85.0 million	\$8.2 million
Fund Balance, Ending	\$79.9 million	\$83.9 million	\$4.0 million



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