

Welcome to the 2012 State of the City Address. Thank you for joining us this evening.

President Hartman and Vice President Boyle, Councilors... Thank you all for being here and for your commitment to our community.

My wife Laura is here, and since the kids are not here, this is technically a date night for us.

Many other officials, friends, and community members are here – thank you all for attending.

The State of the City is strong and improving. Tonight, we will focus on the contributions of private sector business leaders, community-based partnerships, and the vital role of City Councilors.

But first, let's revisit one of the most important narratives in our city's history that culminated with a decision by the Minnesota Supreme Court last November. It was a decision that saved our city from bankruptcy and saved the taxpayers of Duluth over \$180 million dollars.

The story starts back in 1983 when the City promised free health care for life to city employees. From that point forward, the problem grew larger and more complex. In 2005, the City was managing over 100 variations of retiree health care plans (several with plan designs over 20 years old and 50 cent co-pays on name brand drugs) and a liability at \$280 million and projected to grow to \$378 million by 2012. The benefit was unsustainable – the threat of bankruptcy was real and growing.

In 2005, I initiated a citizens task force led by Sandy Sandbulte which created a report of 15 recommendations. In my estimation, that task force was the most important volunteer effort in our city's history. Their report would serve as the foundation for the City's efforts to cut the projected liability in half.

In 2008, a group of retirees brought suit against the city based upon my 2007 campaign promise to move retirees from 100 different health care plans to a single plan. After prevailing in District Court, we did just that on January 1, 2010. In that first year, we saw a \$2.7 million cost savings. Through modern plan design and higher co-pays, we were able to achieve incredible cost savings while still providing a very generous health benefit to our retirees.

The Minnesota Supreme Court ruling in our favor last November saved the City of Duluth from bankruptcy in the long term, provided much needed budgetary relief in the short term, and

most importantly, these changes have increased the sustainability and viability of this benefit for years to come.

Duluth now serves as the most prominent example of a city that has addressed the runaway cost of retiree health care. Cities across the nation are looking to our example as they struggle to come to terms with unfunded liabilities that threaten bankruptcy in their own communities.

Thanks to members of the task force, Mayor Bergson, Gunnar Johnson, Mac LaFerve, Kim Hall, and City Councilors who supported our efforts, even when it looked bleak. Please join me in thanking those who played a role in this important reform.

I want to stress the importance of Council support in addressing issues like Retiree Health Care. We could not have prevailed without the support of the majority of Councilors. With only a couple of exceptions, we enjoyed tremendous support from the Council which allowed us to proceed with an aggressive strategy that ultimately prevailed.

Having spent eight years on the Council, I know it can be a difficult and thankless job.

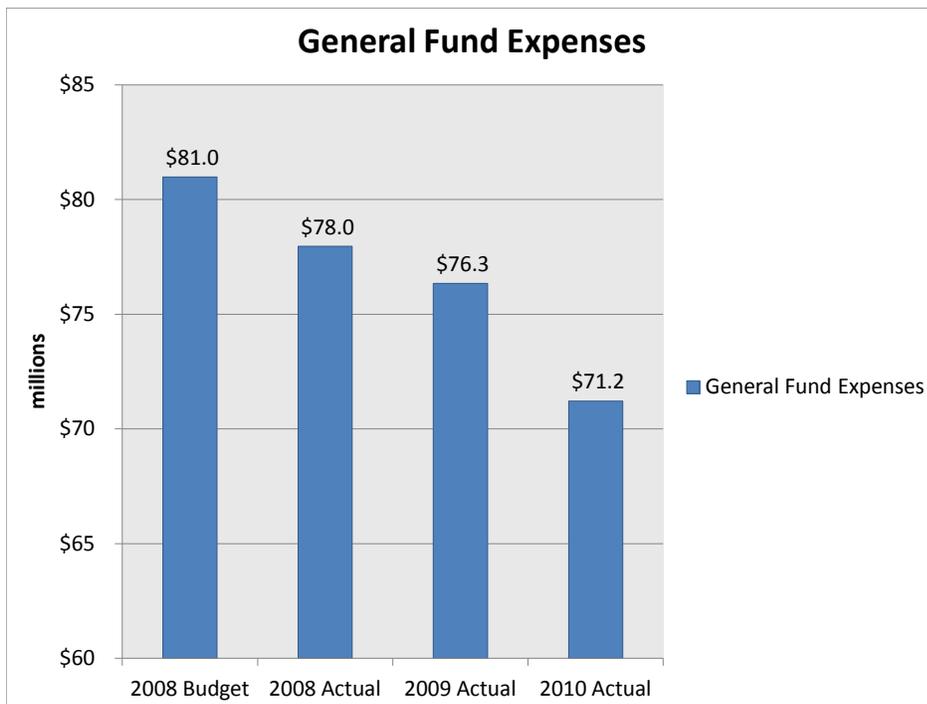
Over the past five years, Duluth has been very fortunate to have a majority of Councilors who have been willing to make the tough decisions, who are solution minded, and who put the long term interests of the community ahead of short term political considerations. It's easy to be the critic and play politics, but we needed leadership from the Council. More times than not, the Councilors delivered the tough votes that our city needed.

To really appreciate the importance of that leadership, we should consider where we were in 2008...

- Halfway through the fiscal year we had a \$6.5 million budget deficit and no reserve
- Being sued by the Environmental Protection Agency and Department of Justice – facing tens of millions in fines and severe development restrictions across most of the city
- Retiree Health care costs had grown from \$2 million to \$10 million in just a decade
- Zoo had lost accreditation and was in danger of closing
- We learned that our \$3 million Wall Street Investment Bank security was backed by subprime mortgages and were now essentially worthless.
- Most concerning, the public had lost confidence in their city government and our ability to solve these problems.

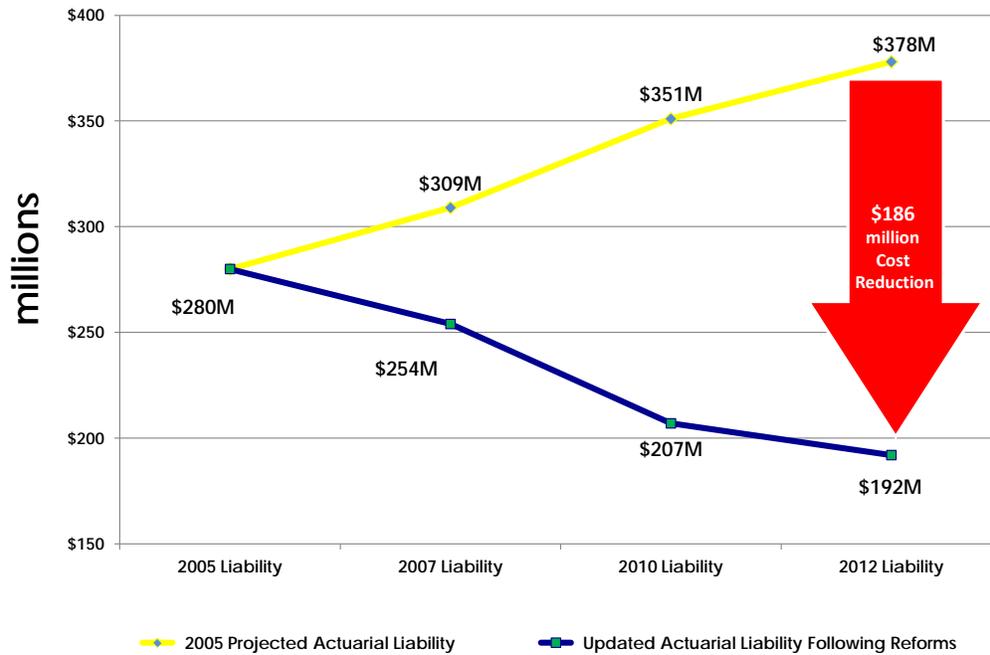
To solve these problems, there had to be a willingness to challenge the status quo, which is not usually an easy or welcomed task – especially in government. It is often easier, and politically safer, to do and risk nothing and make do with a broken system that we are familiar with— rather than facing the fears of the unknown. This only passes the burden of inefficiency on to our constituents in the form of lesser service. Duluthians deserve better, and I believe the majority on the Council has delivered the sort of leadership that Duluthians want and deserve.

The results of this leadership made by those Councilors speak for themselves:

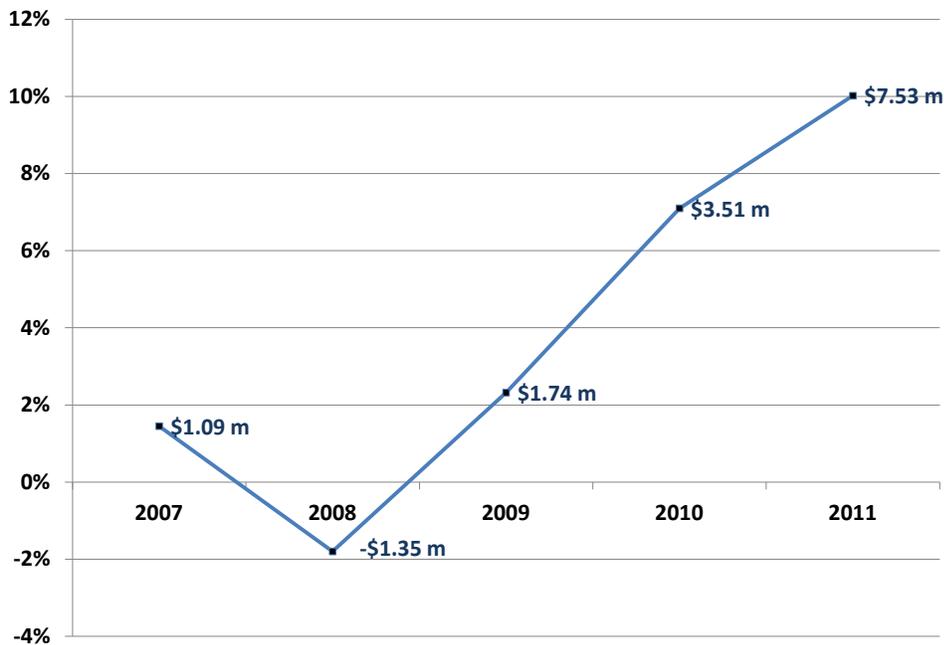


Retiree Health Care

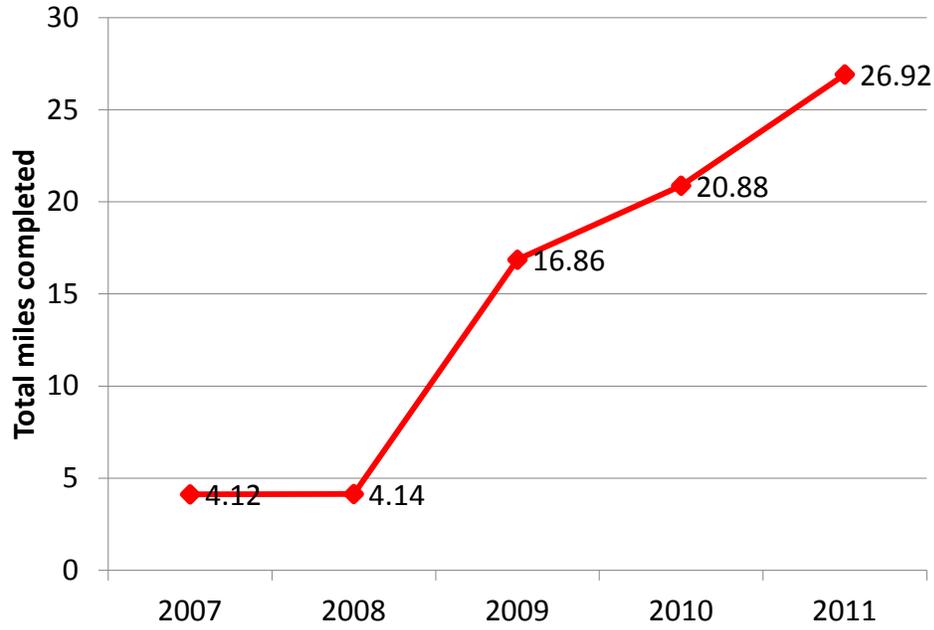
OPEB Valuation History Reforms reduce projected liability by \$186 million



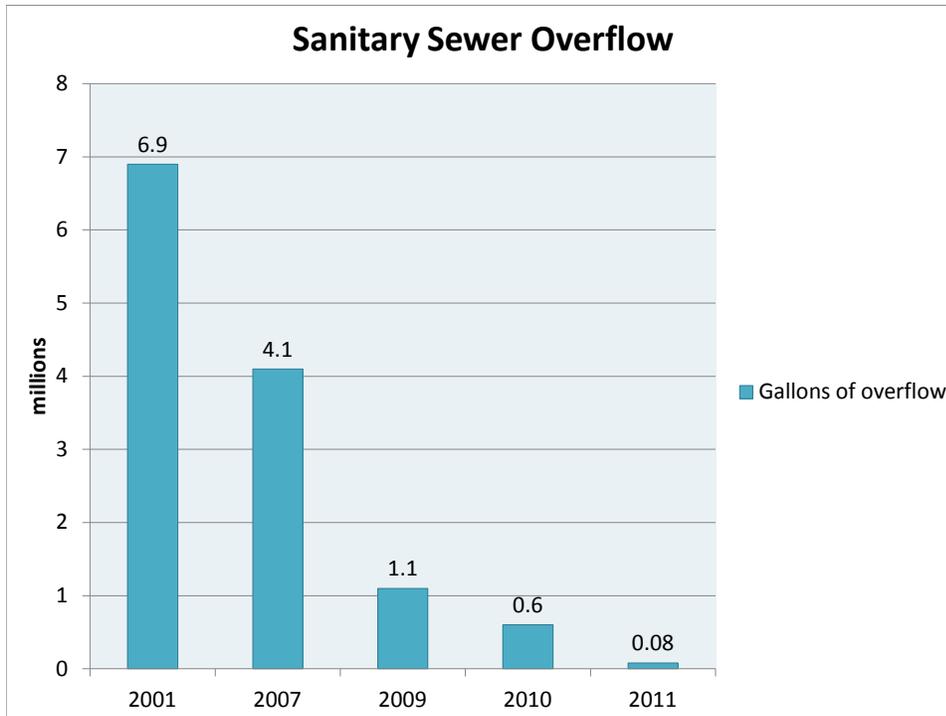
Undesignated Fund Balance



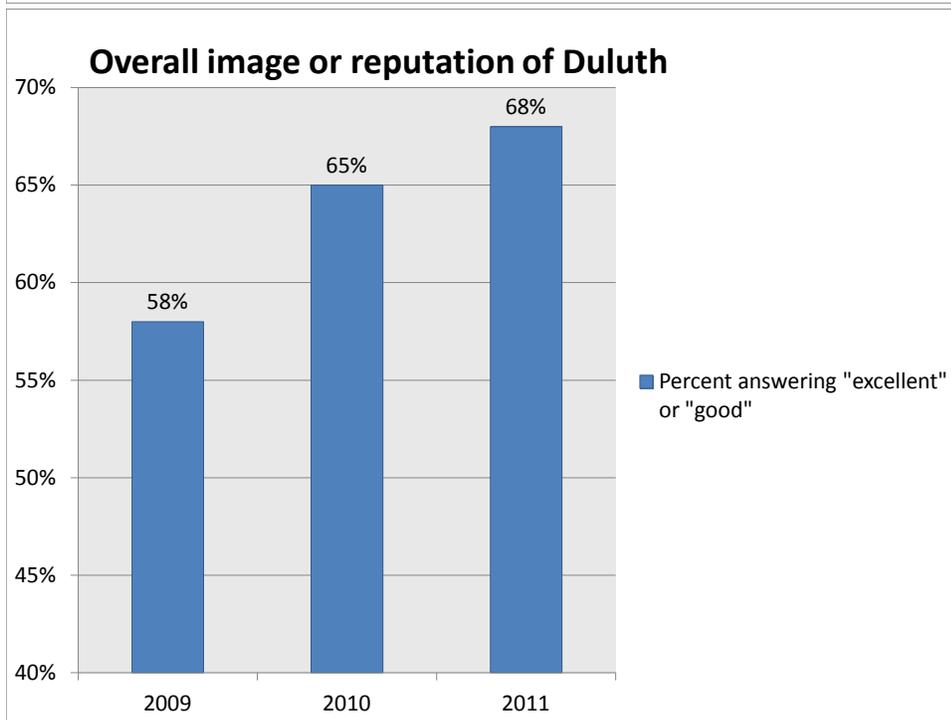
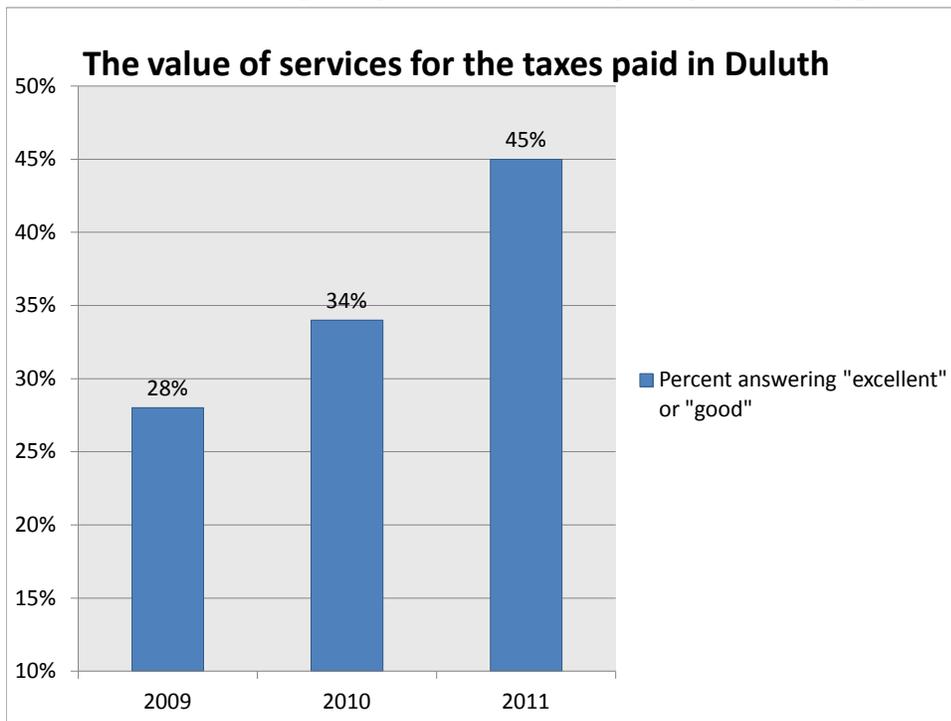
Street Improvement

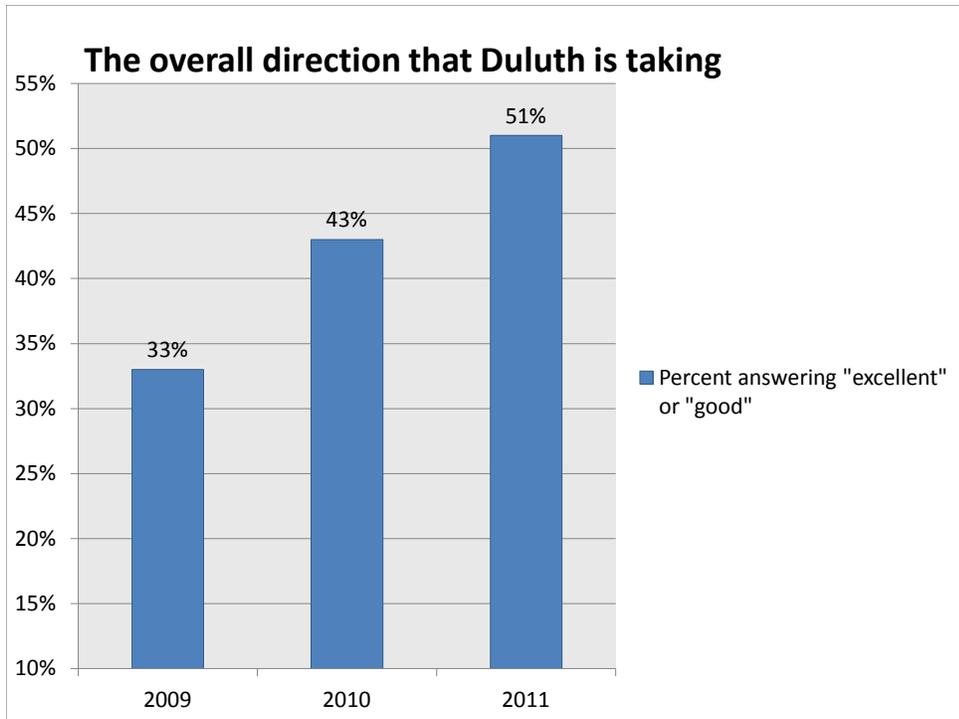


Sanitary Sewer Overflow

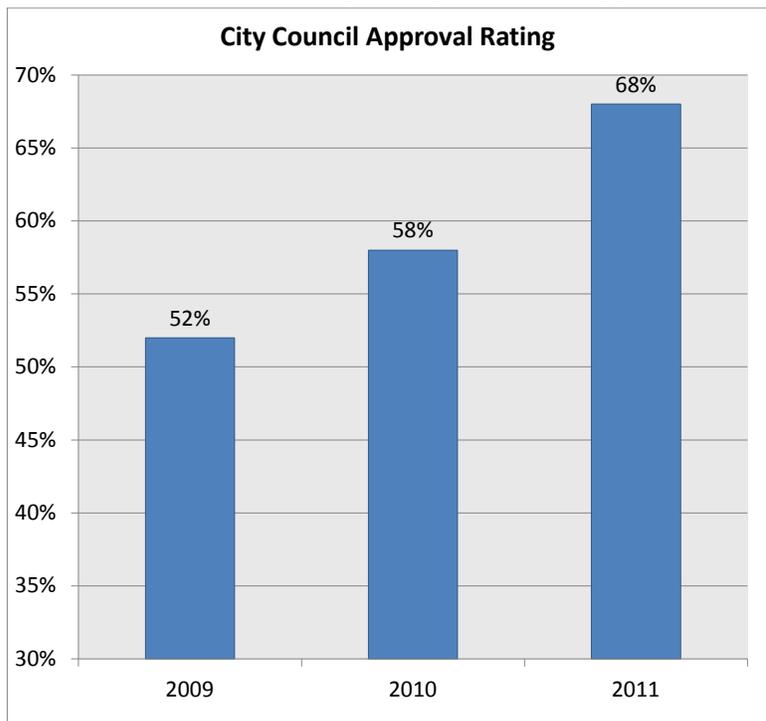


National Citizen Survey – improvement in the perception of city government...





During every tough vote, inevitably someone will make political threats to Councilors who are willing to support necessary change. But the wonderful thing about Democracy is the people decide – let's look at the reality. People see and appreciate real leadership...



President Hartman has coined the term the “Council of hard decisions” – it’s a reputation that has been earned by this generation of councilors over the past five years.

Councilors, thank you for your commitment to our city. Please join me in thanking our City Council for all they do for Duluth.

Recently the Council took another tough vote on Civil Service reform. It was an important decision to modernize our hiring process and continue to make city government more efficient and effective. With this issue, as with many controversial issues before the Council, during debate and deliberations emotions run high, fears of the unknown seem larger than life, and relationships struggle under the strain of disagreement. But once the changes have been put in place, the benefits of the reform become clear and the fears often never materialize.

To illustrate, let’s talk about another recent example of reform in city government – a classic case of entrenched interests and political conflict that frustrated many attempts to come up with a comprehensive solution.

Over a year ago, the administration brought forward a comprehensive reform package after a year of internal debate. The proposal sought to strike the balance between deeply entrenched interests. When it came to the Council it became an incredibly controversial issue – both sides dug in, unwilling to compromise – and some Councilors worried about the political fallout of their vote. (Sound familiar?)

Here we are a year later – in my mind, Rental Reform has been a success. We’ve eliminated the 300’ rule, we’ve imposed higher standards for property management, and created the new Life Safety office that allows for collaborative work of fire prevention, housing inspectors, solid waste compliance, and the police. The legal challenges to the ordinance have been defeated and we are seeing new student housing projects ready to break ground, which will even further reduce density pressure on our traditional neighborhoods and encourage single-tenant rentals.

It’s the perfect example of a change that was painful to implement, but with the benefit of time we can see how effective the reforms have been in addressing this controversial issue.

In the City of Duluth we will continue to press for reform, we will put an emphasis on service to our customers, challenge the status quo and strive for efficiency, effectiveness, and cost-savings. Because, quite frankly, there’s a lot of progress yet to be made.

Here is a sampling of the issues and reforms that we will implement in the coming year:

- We will implement the recommendations of the Tri-data Fire Study. Chief Strongitharm and the Fire Department undertook a data-driven independent evaluation of the Department operations designed to deliver the best possible fire service to the public as determined by analysis of our service runs and by national best practices.
- We will consolidate our parking function under a single managerial structure, with professional parking management and an independent citizen parking commission.
- We have established a Citywide Labor Management Committee to foster open dialogue, collaboration, and understanding by addressing issues of common concern. After years of confrontational relations, this committee will allow us to be more proactive in addressing issues before they become distractions. Special thank you to ASFCME for their involvement and leadership in the establishment of this committee.
- Even small reforms make a difference. We have concluded an assessment of our internal printing function and we will now reduce the number of printers in city government from 278 to just 110 printers. This will result in a 40% cost savings or \$280,000 over the next five years.

Community Successes based upon partnerships / innovation – City as a Partner

The 148th continued their incredible string of success from the Raytheon Trophy to the new block 50s f-16s, and now being one of the first guard units in the nation to be designated an Active Association which will mean 50-100 active duty Air Force members will be based here in Duluth. It's yet another reflection of the tremendous success of the 148th and a boost to our local economy. I want to recognize the efforts of the Chamber – David Ross and Pat Mullen in particular – and give special recognition to the brave men and women of the 148th Fighter Wing. We are all exceptionally proud and grateful for your outstanding service to our community and nation.

A pressing issue for the City and our Downtown is the problem of synthetic drugs. Fortunately, important progress is being made. Thanks in large part to Chief Ramsay, Kristi Stokes from Greater Downtown Council, Representative Kerry Gauthier and Senator Roger Reinert, a bill will soon be reaching the Governor's desk for signature that would make sales a felony with penalties up to 5 years in prison.

In 2008, I asked Nathan Bentley if he would consider moving his light show down to Bayfront. Not only did he take on the challenge, but he far exceeded any expectations. An amazing 200k people went through Bentleyville this winter – the word is getting out that Duluth has THE best lights display in the Midwest. More importantly, thousands of children see the spirit of the season through hot chocolate, marshmallows, and the thrill of a light show that gets bigger and better every year. Thank you, Nathan and all of the contributors and volunteers.

I've spoken frequently about our goal to make Duluth the premier trail city in North America and we are well on our way. This fall, we will extend the Lakewalk over the Lester River and under Highway 61 connecting to the scenic highway up the shore. This year we will also begin our 4-year construction to connect the Munger Trail to the Lakewalk. There are already 42 miles of Superior Hiking Trail in Duluth and this year we will begin construction of the Duluth Traverse – a 100-mile multi-purpose natural surface trail built by our local mountain biking group, COGGS.

Last fall voters in Duluth sent a message about how much they value parks, area youth and libraries by passing the Parks Fund referendum with a convincing 57% of the vote. Thanks to the support of voters in Duluth, in addition to improvements in our parks, we have been able to increase hours at the Main Library downtown and to restore 5 day per week service at the Mount Royal and West Duluth branch libraries.

I am especially excited about the positive impact the Parks Fund will have on our neighborhood youth programming, with an emphasis on academic achievement and partnership with our schools. We will provide direct support to members of the Duluth Youth Agency Coalition, including the Boys and Girls Club and Valley Youth Center, who are providing important out of school programming in our low income neighborhoods.

I'm also pleased to announce that through this fund, we will be initiating out of school youth programming for our western river neighborhoods, based in Morgan Park. This new program will fill a current void in youth programming not currently being met in that neighborhood.

We are also excited to announce a brand new partnership with the True North AmeriCorps program. Park funds will be used to leverage over \$1 million from the Corporation for National and Community Service resulting in 81 AmeriCorps members providing 140,000 hours of direct interaction with kids in Duluth!

These AmeriCorps members will work with kids both in school and in our neighborhood parks for out of school programming – we have dual goals of getting kids active and engaged in our city parks, but also to address on-time graduation, the achievement gap, and providing those critical connections between a child’s life in school, after school programs, and home life.

More details of this exciting new initiative will be forthcoming – I want to take a moment to recognize and thank those who dedicate themselves to improving the lives of our kids. If you are a teacher, an AmeriCorps member, or work or volunteer with a youth-serving organization, please stand and accept our appreciation.

We are also announcing today that we will make \$50,000 available for neighborhood Parks & Recreation projects and initiatives. There are dozens of wonderful neighborhood-based programs run by volunteers and neighborhood activists like the Keene Creek Youth Organization, Chester Bowl Improvement Club, and many others who are able to leverage hundreds of hours of volunteer time and passion to provide incredible programs in our parks. These neighborhood grants will provide up to \$5,000 of support for these initiatives.

We know that \$1,000 in the hands of an active neighborhood group can result in ten or twenty times that much value. This grant program is designed to support and reward the initiative of those neighborhood heroes who do so much good with so little resources.

There is no doubt that courageous City Councilors and innovative community partnerships are important, and tonight we have heard just a few examples of how Duluth benefits from their leadership. But, we all know that the health of Duluth today and into the future is based squarely on the health of our local economy and the jobs in our area.

Unlike previous recessions, Duluth’s unemployment rate has consistently been on par or better than the state average and significantly better than the national average in spite of the fact that Duluth’s public sector employment has fallen significantly—21.7% since the start of the recession.

The reason? Private sector leaders and entrepreneurs are creating jobs, investing aggressively in their Duluth-based businesses, and competing nationally and internationally from Duluth.

Just to name a few...

maurices has created 100 new corporate positions in Duluth over the past two years and invested \$3.5 million in renovations to their downtown headquarters to accommodate the growth.

ME Global foundry recently invested \$22 million into their foundry and added 65 new jobs at an average wage of \$50k to 60k.

Involta is investing \$13.2 million to build two new collocation data centers in Duluth, employing several highly skilled IT professionals.

And as we emerge from this recession, so too do the prospects of the general aviation sector. With new ownership, growing market share, and growing pre-orders for the Vision Jet, I'm enthusiastic about the future of Cirrus in Duluth. We are also thrilled with the announcement that Kestrel Aviation chose Superior over New England for their manufacturing. Kestrel has already created jobs in Duluth – they currently have an engineering office in Lincoln Park.

Private sector business leaders are demonstrating their confidence and optimism in Duluth's future. In the next two years we will see a tremendous boom in private investment and job growth in the city of Duluth. There are dozens of projects in the development and pre-construction stages that will be coming on line in the coming months.

I was recently re-reading the Will and the Way – stories of tremendous accomplishments in our city – often against great odds.

In recent years, we have lost leaders who have helped shape Duluth's history over the past 50 years - Jenö and Lois Paulucci; Jim Malosky; Mike Colalillo; Judge Gerald Heaney; Patrick Plys; Bill Meierhoff, Monny Goldfine... and others.

Leaders who loved this city – invested their time and attention to making Duluth a better place.

Think about these leaders and think about their accomplishments – their impact, their legacy, and the times in which they gave to Duluth.

The best way to honor them is to build upon their legacy, to carry on the pride and commitment they demonstrated, and to believe in Duluth as wholeheartedly as they did.

This is our moment to change the history of our community – to embrace a more confident, optimistic, and aggressive posture towards our future. A goal of maintaining the status quo is not good enough – we need a pro-growth, pro-reform, pro-Duluth orientation.

We can – those of us in this room – and in our community, CHOOSE to redefine Duluth’s future. Let’s commit ourselves to creating an era of optimism and prosperity in Duluth.

Thank you for being here tonight.
