



FORWARD TOGETHER

**Proposed 2019 Levy and
General Fund Budget**

**City of Duluth
Emily Larson, Mayor**

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2019 Preliminary Levy and 2019 General Fund Budget

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City of Duluth
Emily Larson, Mayor

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Presentation of Proposed 2019 City of Duluth General Fund

Mayor Emily Larson to Duluth City Council

10 September 2018

City Councilors, Thank you for your service to our community.

In my time as Mayor, I have become a budget geek. I am drawn to the hard work that goes into getting the annual budget right.

Identifying values, needs and priorities for the organization isn't really a fine art. But funding them is. And where we get the funding necessary to operationalize all that we need to do as a city for 86,000 residents, 35,000 daily commuters and 6.7 million tourists truly matters.

In my first budget as Mayor, we focused primarily on setting a foundation for fair taxation. We made the large ask of our community to shift the one-size-fits-all flat monthly fee structure previously implemented to pay for streets, over to the more equitable and proportional property tax. We also adjusted the long-stagnant franchise fee structure. Budget One was simply called "Budget." Straight-up, and to the point.

My second budget was focused on shared sacrifice across all divisions. We cut 20 positions and increased, by more than a one third, funding for streets. It was painful. And necessary. Annually, and left unchecked, our spending outpaces our revenue, in large part because of flat Local Government Aid and annual double-digit health care costs.

Maintaining core city services residents rely on comes at an increased cost every year – 84% of our General Fund budget goes to people. People who drive snowplows, shelve library books, respond to 911 calls and process building permits. Decreasing services isn't an option many residents get excited about, and politically it certainly isn't easy. But last year we needed to do it, to get ahead of the disproportionate outpacing of spending we were facing. Budget Two was called "Shared Sacrifice for the Common Good."

At the same time, in my second budget, we placed heavy emphasis on infrastructure and streets and delivered an honest portrayal of what it means to scrape year to year for infrastructure funds from existing resources. As a result, that fall, a referendum for dedicated sales tax funding for streets passed in every single precinct across the city, with a 77% approval rating. We remain deeply committed to getting this sales tax ratified at the Minnesota Legislature this coming year. Doing so will triple our investment in streets.

Which brings us to year three. When the hard work we've done, the difficult decisions we've implemented, the many sacrifices our staff and residents have made, start arching towards a shared purpose. This budget I am calling "Forward Together."

For the first time as Mayor, I am excited about our city budget.

Forward Together is focused on alignment. This budget fully reflects the values and vision I campaigned on with that same Forward Together theme for Mayor during 2015. It does so not just because I think these are the right decisions for Duluth. But because our public does, too.

In this budget we are pairing the strategies and policy recommendations from Imagine Duluth 2035, our recently adopted Comprehensive Plan, with the time intensive staff-driven and community-influenced process called Priority Based Budgeting. Duluth is the first city in the State of Minnesota to implement Priority Based Budgeting. My prediction: we won't be the last.

Imagine Duluth 2035 was led by our city staff rather than contracted to an outside entity. In a period of 18 months, we engaged residents through 175 public meetings, 5,500 public surveys and a Vision Committee of 50 community leaders. It yielded 28 policies and 245 strategies across five areas (Housing, Economic Development, Transportation, Energy and Open Space) and was adopted earlier this year.

Priority Based Budgeting is an inclusive process that started in-house with staff during December of 2017, has involved input from our entire Director and Manger team of 60+ people and engaged the feedback of 533 residents at downtown Sidewalk Days events and City Hall in the City.

This budget is straightforward, low drama and effective. It harnesses the economic growth we've experienced, prioritizes the feedback we've received through our extensive community engagement efforts, limits overall spending and focuses our staffing and financial investment into the core areas we've embraced through Imagine Duluth and Priority Based Budgeting.

To cut to the chase, I am proposing a city levy tax increase impact of 3.96% for 2019. Residents who own a home valued at \$100,000 will pay \$9 more for the values and priorities of Forward Together. Residents who own a home valued at \$175,000 will pay \$20 more.

This is what you'll get for that. Here is what Forward Together achieves:

Housing:

I am proposing a single family home renovation fund focused on the Lincoln Park and Central Hillside neighborhoods through a commitment of \$2 Million from the Community Investment Trust Fund. This would leverage other funders through a partnership I intend to build with St. Louis County, local banks, Duluth LISC, Duluth HRA, One Roof and others to acquire and rehabilitate tax forfeit and condemned properties in order to create redevelopment momentum in these neighborhoods and preserve naturally occurring affordable housing.

This builds on Imagine Duluth 2035, Priority Based Budgeting community input and my participation and learning as a Greater Minnesota Housing Finance Agency Board Member, and as an appointed member of the Governor's Housing Task Force.

This action will require a vote of 7 members of council at the end of the calendar year. A separate Committee of the Whole will be scheduled in November or December to review a more fully formed plan. This is the first time I have made a request from the CIT, and I believe ensuring affordability is worth its consideration.

Economic Development:

The City of Duluth has an important opportunity to provide clarity for our business and employer community. I am proposing a staff person to come on-line mid-year to engage in outreach and education activities for the Earned Sick and Safe Time policy the City Council passed during May of this year. We now have a responsibility to implement this new initiative by 2020. This will require additional staff and dedicated outreach funding.

In addition, I propose that we fill the voter-approved Policy and Communications position I have held open for three years. With over \$1 billion of anticipated private investment from our health care sector in the next few years, the potential \$184 million public infrastructure ask we have prepared for the MN Legislature to support that private investment, newly created Opportunity Zones across the City which are expected to garner multi-million dollar investments and the need to successfully get the sales tax over the finish line this year, we simply need more bodies doing the work. We need to keep certain that growth taking hold in Duluth continues to meet the needs of our residents.

Transportation:

We have set aside and protected a \$500,000 increase to the streets budget over the flat investment of \$2.8 million made in most previous years (net of street debt). We are able to do this because of our diligence in paying down bond debt as fast as we can, and by adding more through this proposed levy. As we await ratification of the dedicated sales tax, I am committed to continuing progress in this area. Even if it's incremental.

I am proposing a Transportation Planner for the City of Duluth. A new position that will be focused on providing alignment with the values embedded in our Imagine Duluth 2035 Comprehensive Plan, connecting projects and funding sources, leading public engagement and providing project efficiency. Our streets program is currently implemented on a street by street basis. This is effective for stretching dollars on the surface, and our staff does incredible work with what we provide for resources, but generally our current process ends with mixed messages to the public, frustrated residents & staff and street by street discussions pitting sidewalks vs bike lanes vs accessibility vs parking. It simply doesn't work, and we can do better. This mid-year start date aligns with planning for projects scheduled for 2020.

Additionally, our sidewalk snow removal efforts need more attention. We currently have a four-tier system for sidewalk snow clearing; we are understaffed and lack enough equipment to get through it after one snowfall and before the next. At the same time, we have a policy that requires us to clear sidewalk snow which our plows place on private property in the normal course of plowing. In our

research, we have found no other cities in the US who hold this promise. Likely because it is an unsustainable, unfulfilled and unfunded.

I am proposing we remove the clause which requires the city to clear sidewalks after routine plowing, and increase our attention to the four tiers, which were created in partnership with the school district, St. Louis County Public Health, disability advocates and core investment area groups. We achieve increased staffing for snow removal with minimal financial impact due to savings in other areas and the scheduled purchase of equipment through the CIP request which will come before council later this year.

Energy:

Last year the council supported my proposal to invest \$895,000 from our reserves into the MN Power solar garden, with the projected payback of \$2M over the 20-year contact term. A few quarters into the agreement, we are on track to yield our projected savings of \$80,000 and 641,400 kWh in year one. We have placed significant financial focus on Energy in the past two years and we are reaping those benefits of investments. This year we will work to advance our efforts in the energy arena in ways that will not impact our budget for 2019. I anticipate activating a Commission to work in support of our energy plan in the coming year. This is a promise I made early on and I intend to fulfill it.

Open Space:

Several years ago the City made the important financial decision to end staffing for in-house youth programming within our parks. I'm sure that was a difficult decision. I know it's been difficult for our community. And I am certain it's having an impact now on kids and families who could have benefitted from consistent, free youth programming in the past decade.

Through a series of fortunate events, we have an opportunity to resume youth programming at a scale of affordability that can actually work, while meeting the high demand for youth programming from the community.

The City is partnering with the Duluth Family YMCA, the Northland Foundation, and the Minnesota Land Trust to expand City-wide, year-round recreation programming for youth and families. I am proposing an additional \$280,000 investment to fund two full-time year-round City recreation staff and up to 8 year-round AmeriCorps members who will provide recreation programming in partnership with the City's many youth-serving organizations and agencies. The investment will support the goals of Youth Outdoors Duluth, the Duluth Children's Outdoor Charter and Imagine Duluth 2035 to ensure that all youth have access to the array of outdoor, adult supervised and park-based experiences available in Duluth.

There are other exciting elements to Forward Together that you'll hear about in the coming months through Director presentations of departmental budgets. Many won't have levy or increased budget impact, but the influence of these choices will resonate throughout the community. The addition of a custodian within public spaces made available through in-house cost savings. The virtual library cards being provided to all students of ISD 709. The new Tower Truck for our Fire Department, which received

your council approval. The expansion of the Community Service Officer program within the Duluth Police Department to meet the non-emergency needs that are important to our residents.

Our team, through Priority Based Budgeting, has worked magic. Our community, through Imagine Duluth 2035 have embraced a forward-focused vision. This budget reflects both.

Earlier this year, I asked my friend, former St. Paul Mayor Chris Coleman, if he ever met a budget year he liked. Of his twelve years, he had one. "If that happens for you," he told me, "enjoy it."

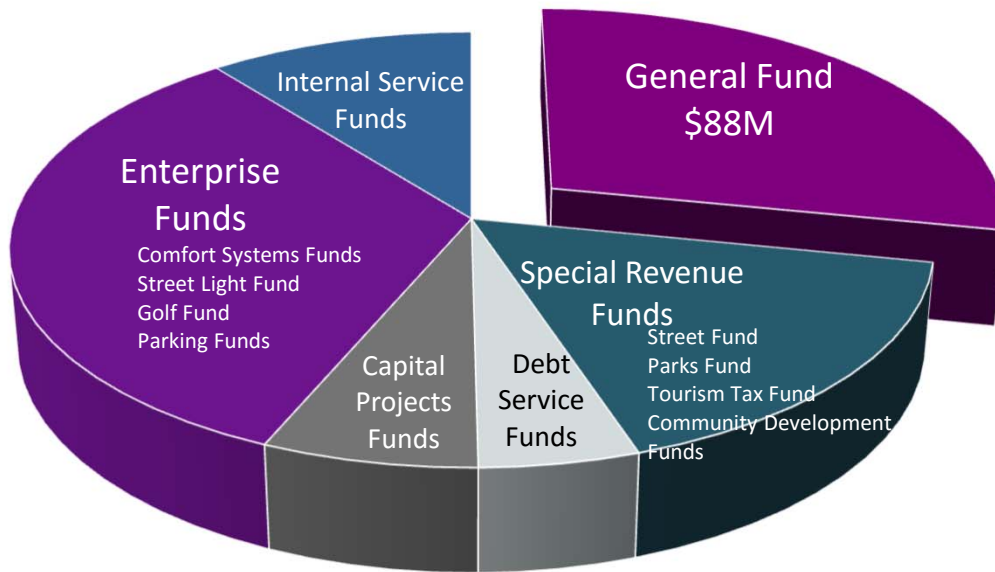
I am.

I hope you do, too.

Let's Move Forward. Together!

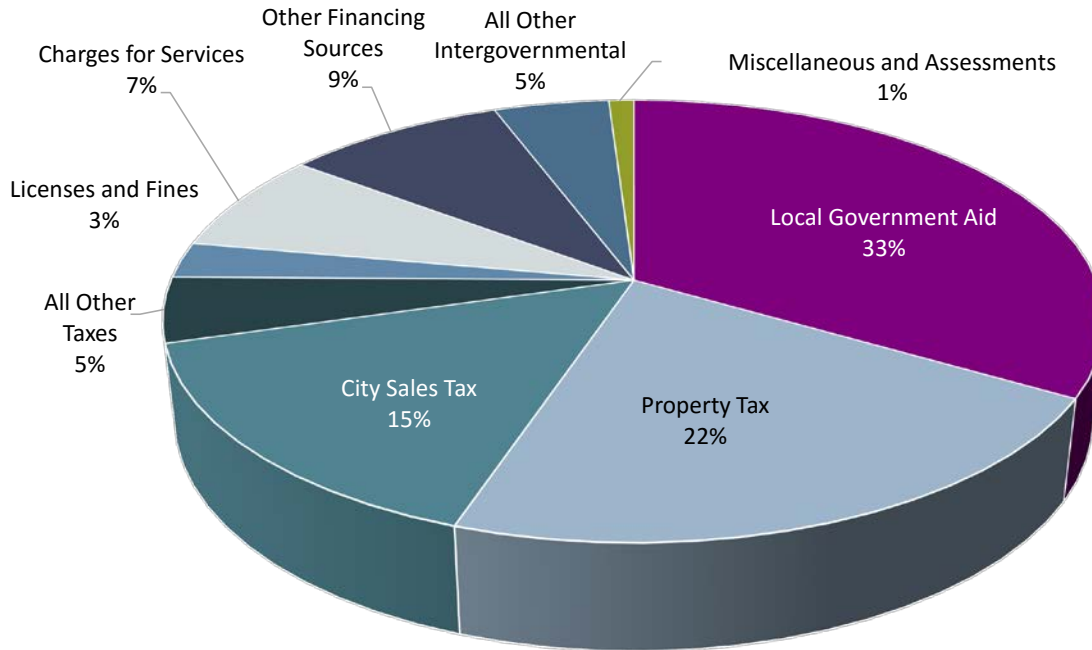
~ Emily

2019 Proposed Budget by Fund Type



The City's total budget is approximately \$300 million and encompasses a variety of funds that account for city services. The General Fund is an important part of that budget, and the one which is directly impacted by property tax, but does not represent all the services and work that is done.

2019 General Fund Proposed Revenues

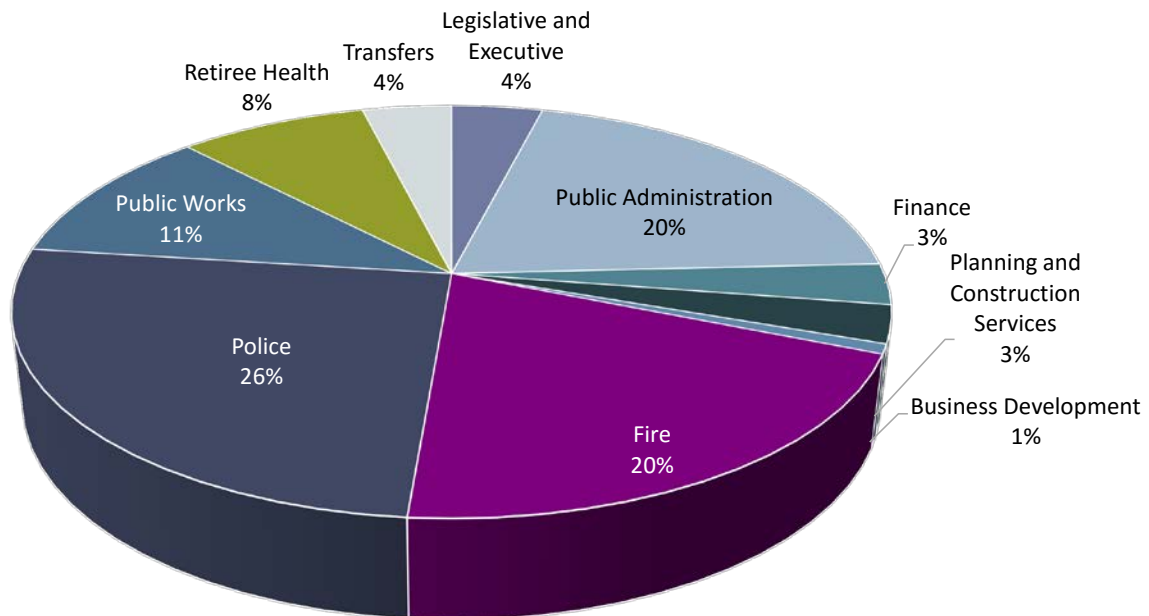


Local Government Aid	\$ 29,668,600
Property Tax	\$ 19,345,600
City Sales Tax	\$ 13,586,600
All Other Taxes	\$ 4,229,500
Licensures and Fines	\$ 2,317,200
Charges for Services	\$ 6,584,000
Other Financing Sources	\$ 7,994,500
All Other Intergovernmental	\$ 4,192,200
Miscellaneous and Assessments	\$ 918,900
TOTAL 2019 Revenues	\$ 88,837,100

This graph shows the major categories of revenues expressed as a percent of total General Fund revenues estimated for budget fiscal year 2019. The City's policy of maintaining a diverse revenue base is reflected in the categories of revenues listed above, with almost 200 separate budgeted sources of revenue. Although the City does have a wide variety of revenues, the reader will note the City's relative dependence on Local Government Aid, which constitutes 33% of all General Fund revenues and does not adjust for inflation. For this reason, we closely monitor Local Government Aid every session at the State Legislature.

2019 General Fund Proposed Expenditures

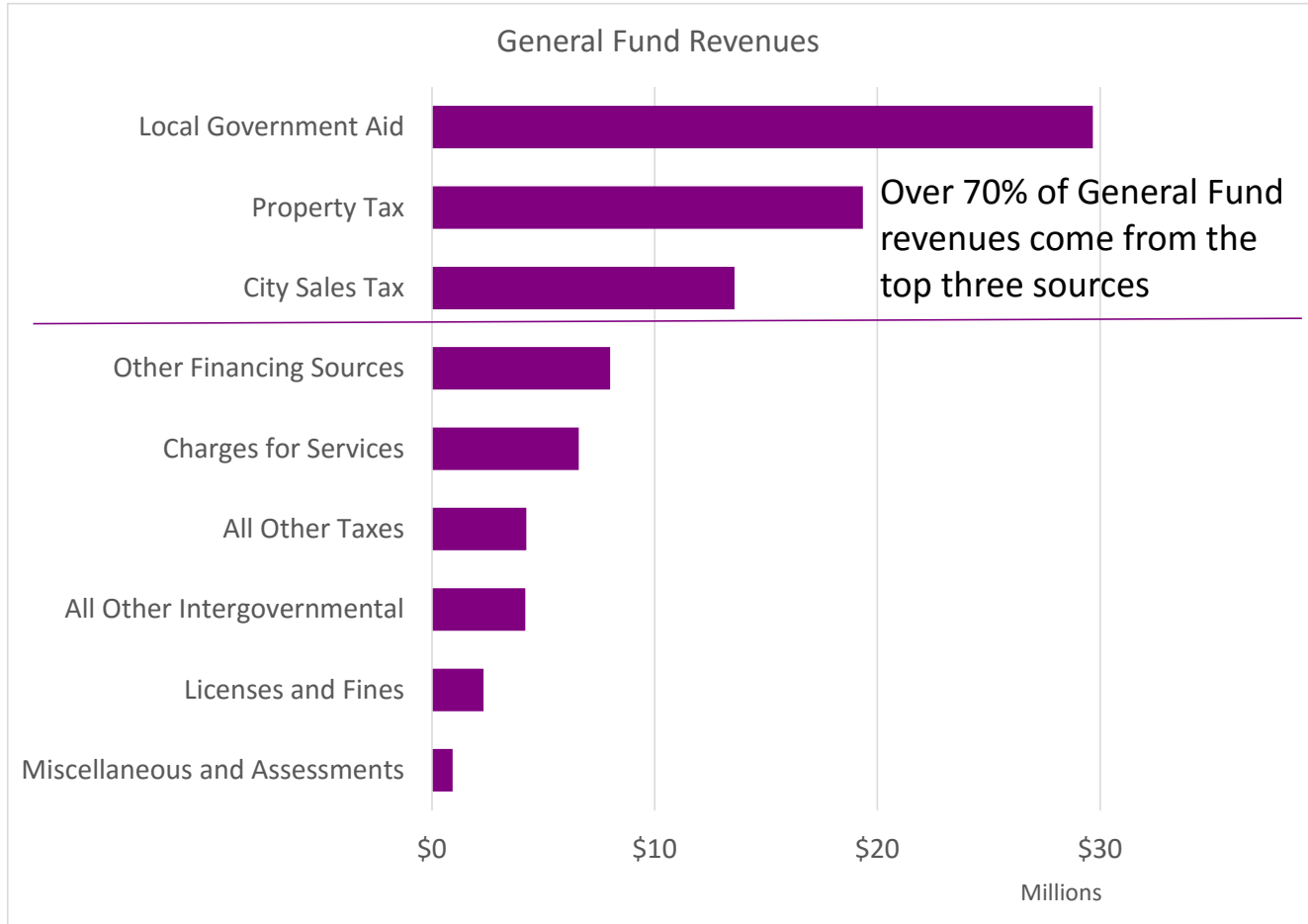
percent of total by department



Legislative and Executive	\$ 3,548,300
Public Administration	\$ 17,966,700
Finance	\$ 2,850,700
Planning and Construction Services	\$ 2,625,100
Business Development	\$ 672,500
Fire	\$ 17,940,600
Police	\$ 22,794,800
Public Works	\$ 9,608,100
Retiree Health	\$ 7,349,100
Transfers	\$ 3,481,200
TOTAL 2019 EXPENDITURES	\$ 88,837,100

This graph shows the General Fund departmental budgets as a percent of the total General Fund expenditures for budget fiscal year 2019. The largest category of expense is public safety with the Police and Fire departments comprising 46% of the total; followed by the Public Administration department which includes Human Resources, Information Technology, City Clerk, Park Maintenance, Library, and Facilities at 20%. The General Fund portion of the Public Works department comprises 11% of the total. Retiree health care comprises 8% of the total. The remaining five departments totaled together are 15%, with no department exceeding 4%.

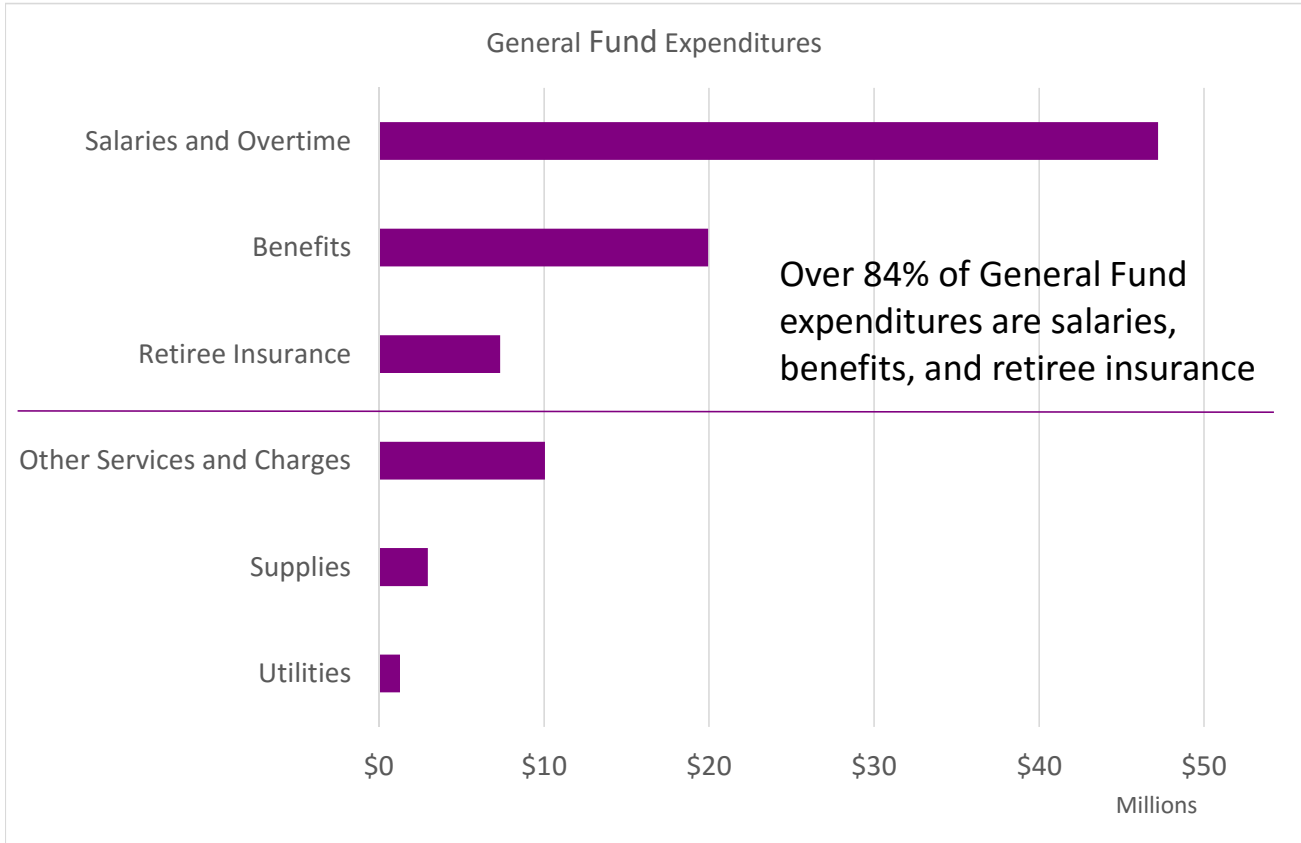
2019 Proposed General Fund Revenues by Source



General Fund revenues are comprised of three revenue sources that provide in excess of 70% of the resources needed for operations. Of these three revenues, only property tax is under the direct control of the City. Growth in Local Government Aid does not kept pace with the rate of inflation. Sales and use tax has been fairly consistent in recent years, but is an industry that is impacted by e-commerce. These factors can put additional pressure on the property tax portion of revenue.

Property tax makes up 21% of our 2019 budget but is the only variable we can adjust – and we can only adjust it upon itself. Meaning that when we raise the property tax levy 1% we do so only on that 21% of the budget, not the entire budget. For that reason, raising property taxes 1% yields far less than what people expect – roughly \$280,000, give or take.

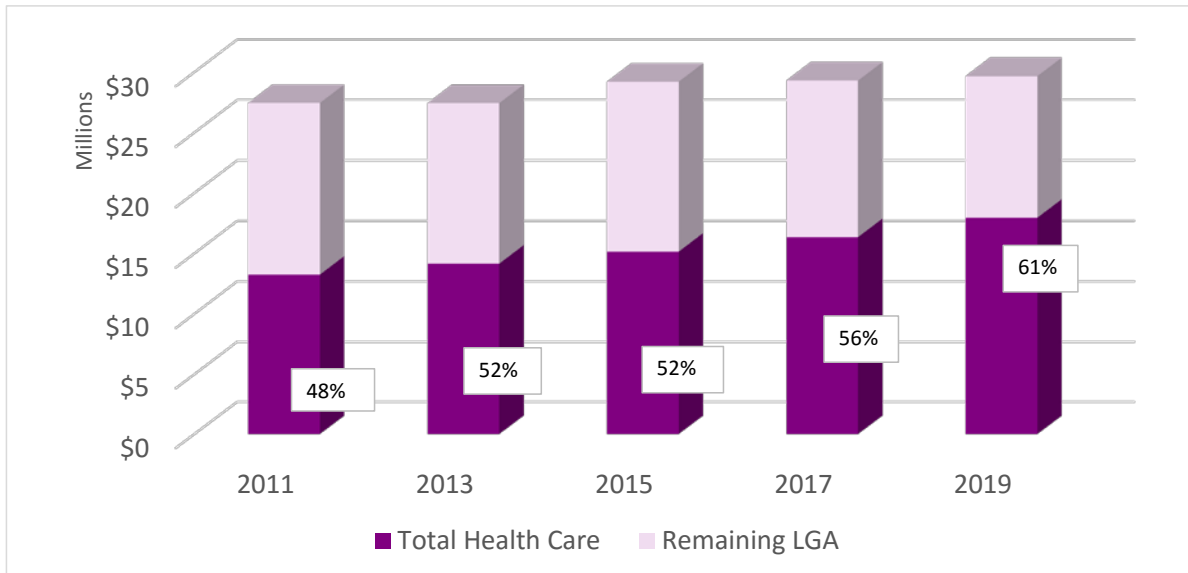
2019 Proposed General Fund Expenditures by Source



We are in a service industry and our primary “cost” are the hard working people who provide these important services. Because of collective bargaining agreements and contract negotiations, wages are known, agreed upon and predictable. Health insurance is the single most volatile factor that we cannot predict, and it has real impact; annual health care cost increases have averaged eight percent since 2012. For 2019, premium rates are expected to increase ten percent.

Since 2010, salary wage increases have averaged less than two percent and FTE counts have been reduced. We are mindful of spending in this area and so are our employees. If we had the ability to better isolate or contain health care costs, this would be of huge benefit to the City and our taxpayers.

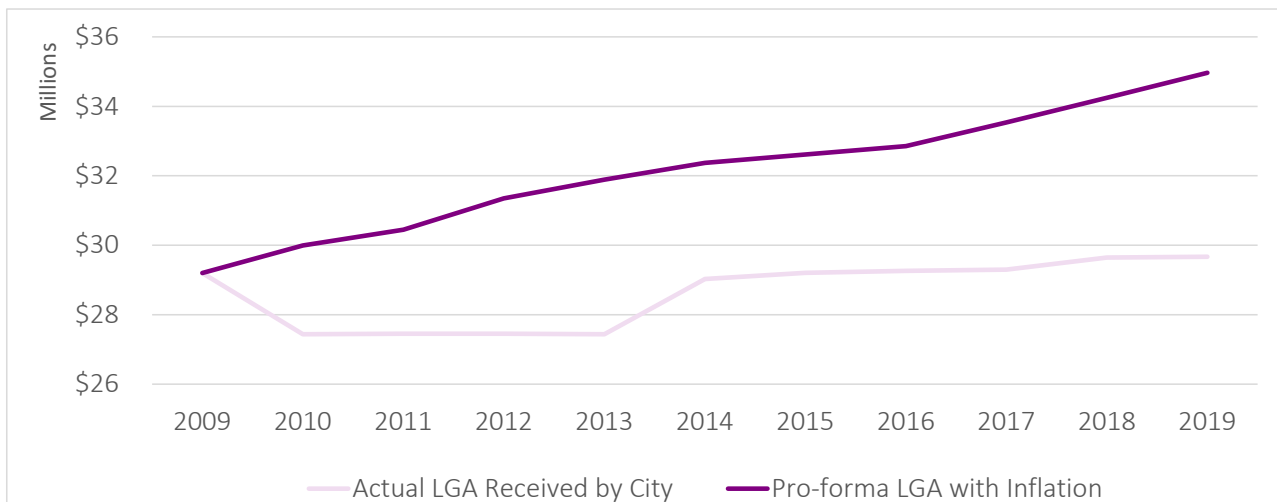
Increased Health Care Costs Compared to LGA



These graphs compare our most volatile cost driver (health care) with our largest revenue source (Local Government Aid, LGA) and is another example of a structural budget issue. While health care consumes a larger majority of the budget each year, LGA does not grow with inflation to help absorb these costs. This places additional pressure on other budget areas.

Local government aid (LGA) is the largest funding source for general fund operations and accounts for 33% of total general fund revenues. Since 2009, LGA has not kept pace with the rate of inflation. If LGA had kept pace with the rate of inflation, our aid would be approximately \$35 million for 2019 as compared to the certified aid amount of \$29.66 million. Structural budget issue: solved.

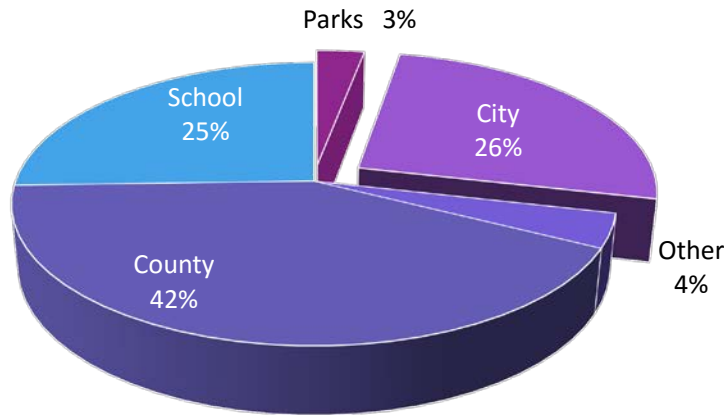
Local Government Aid Inflation Gap



City of Duluth Minnesota - 2019 Budget

	2018 Approved Budget	2019 Proposed Budget	Variance 2018 Approved Budget vs 2019 Proposed Budget	
			\$	%
REVENUES				
Local Government Aid	29.65	29.67	0.02	0.1%
City Sales and Use Tax	13.59	13.59	-	0.0%
Property Tax	16.37	19.34	2.97	18.1%
Charges for Services	5.58	6.59	1.01	18.1%
Other Financing Sources	4.94	5.36	0.42	8.5%
Intergovernmental	4.02	4.19	0.17	4.2%
Minnesota Power Franchise Tax	3.15	3.15	-	0.0%
Gas Utility in Lieu of Taxes	2.41	2.64	0.23	9.5%
Licenses and Permits	1.64	1.80	0.16	9.8%
All Other Taxes	1.08	1.08	(0.00)	0.0%
Miscellaneous	0.94	0.48	(0.46)	-48.9%
Fines and Forfeits	0.52	0.52	-	0.0%
Special Assessments	0.44	0.43	(0.01)	-2.3%
Fund Balance Reserves - Fire Dept	0.73	-	(0.73)	N/A
Fund Balance Reserves - Community Solar Program	0.89	-	(0.89)	N/A
Revenue Totals	85.95	88.84	2.89	3.36%
EXPENDITURES				
Department				
Legislative and Executive	3.19	3.55	0.36	11.29%
Public Administration	17.09	17.97	0.88	5.15%
Finance	2.74	2.85	0.11	4.01%
Planning and Construction Services	2.48	2.62	0.14	5.65%
Business Development	0.65	0.67	0.02	3.08%
Fire	17.18	17.94	0.76	4.42%
Police	21.90	22.79	0.89	4.06%
Public Works	9.43	9.61	0.18	1.91%
Transfers and Other Functions	10.40	10.84	0.44	4.23%
Expenditure Totals	85.06	88.84	3.78	4.44%
Fund Balance Reserves - Community Solar Program	0.89	-	(0.89)	N/A
Total Budget	85.95	88.84	2.89	3.36%

Breakdown of Average Property Tax Bill by Taxing Entity



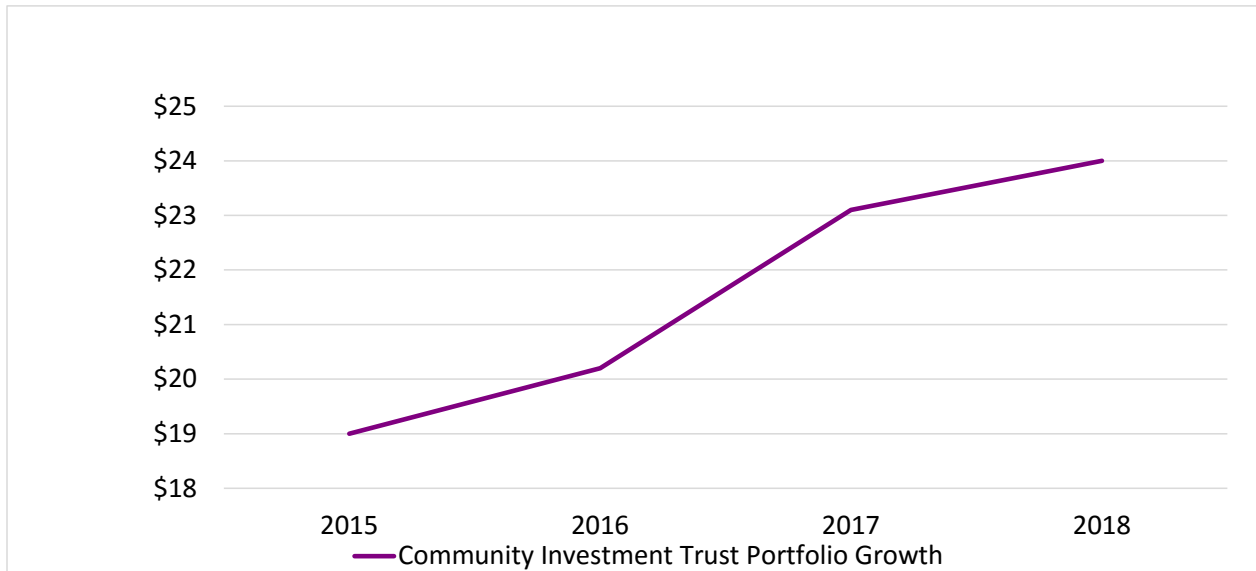
2019 Proposed Property Tax Levy

	2018 Approved Levy	2019 Proposed Levy	Change In Levy	
General Operations Levy				
General Operations	\$ 16,220,400	\$ 19,195,600	\$ 2,975,200	
Provision for Tax Delinquency	\$ 150,000	\$ 150,000	\$ -	
Total General Operations Levy	\$ 16,370,400	\$ 19,345,600	\$ 2,975,200	
Supplemental Parks Levy	\$ -	\$ 280,000	\$ 280,000	
Capital Projects Levy				
Debt Service	\$ 6,832,600	\$ 6,982,600	\$ 150,000	
Infrastructure Permanent Improvements	\$ 280,000	\$ 280,000	\$ -	
Street Light Levy	\$ 757,592	\$ 757,592	\$ -	
Street Maintenance Utility Levy				
Street Maintenance	\$ 2,703,300	\$ 2,264,300	\$ (439,000)	
Street Maintenance Debt	\$ 1,096,700	\$ 735,700	\$ (361,000)	
Total City Property Tax Levy	\$ 28,040,592	\$ 30,645,792	\$ 2,605,200	
Parks Referendum Levy	\$ 2,600,000	\$ 2,600,000	\$ -	
Property Tax Value Growth			\$ 1,495,600	5.33%
Proposed City Levy Tax Impact			\$ 1,109,600	3.96%

Proposed 2019 City Tax Levy Increase- Estimated Annual Impact to Property Owners

\$100,000 Residential	\$ 9
\$175,000 Residential	\$ 20
\$225,000 Residential	\$ 27
\$250,000 Commercial	\$ 59
\$500,000 Commercial	\$ 129
\$750,000 Commercial	\$ 199

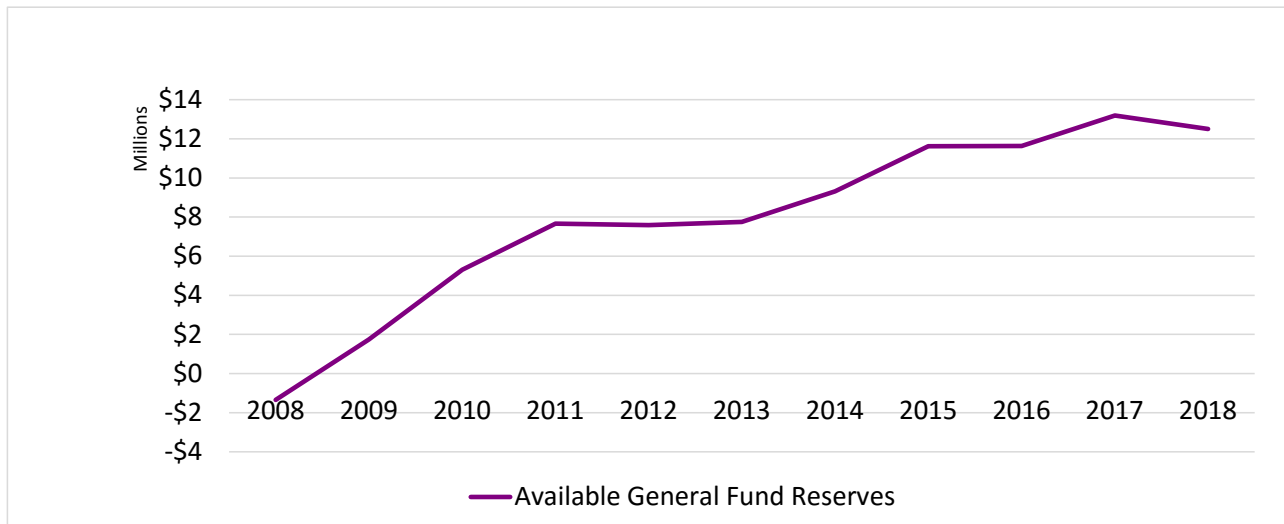
Community Investment Trust (CIT) Portfolio Growth



Effective in 2015, the CIT portfolio was invested with the State Board of Investment and has grown 26 percent since 2015. Monies in this fund shall only be spent by authority of a resolution approved by at least seven members of the Council.

General Fund Reserves are, literally, the reserves of the City and exist to mitigate future risks including unplanned reductions in aids and unforeseen events. Credit rating authorities carefully monitor fund balance reserves in evaluating a government’s creditworthiness. Since 2008, fund balance reserves have increased from a \$1 million deficit to in excess of \$12 million today. General Fund reserves exceed the City’s fiscal policy of maintaining an optimum level equal to ten percent of General Fund expenditures.

Available General Fund Reserves



Budget Review Process

MAYOR'S BUDGET PRESENTATION TO COUNCIL

September 10 2019 Proposed General Fund budget and tax levy presentation to Council

September 24 Council sets preliminary budget and maximum property tax levy

COUNCIL BUDGET REVIEW

Sept-Nov Department and Authority budget presentations

December 10 Capital Improvement presentation to City Council

PROPOSED TRUTH IN TAXATION MEETINGS

December 10 Truth in Taxation hearing

December 17 Council approves final budget and levy