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City of Duluth - Communications Office

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SUBJECT: Mayor Larson's First Budget Seeks Stable and Predictable Street Funding, Replaces street fee with levy money in revenue neutral swap

BY: Pakou Ly, Communications Office

Mayor Larson's First Budget Seeks Stable and Predictable Street Funding

Replaces street fee with levy money in revenue neutral swap

[Duluth, MN] - Mayor Emily Larson will ask for City Council approval to replace Duluth's current street fee with a revenue neutral property tax increase to create more stable and predictable funding for street improvements.

"In this budget we're asking for a revenue neutral swap – eliminate the existing fee assessment and raise the same amount of money through the levy. This swap signals my commitment to improving our streets and lays a solid foundation for long term and reliable investment," Mayor Larson said. Mayor Larson wants to put this money into a dedicated street fund, which ensures it will not be allowed to be used for anything other than their intended purpose.

The City currently pays for streets through a flat fee assessment, which shows up on Duluth utility bills – about \$60 per year for the average Duluth homeowner.

"Our aim is to be revenue neutral – the increase in the levy will be directly offset by the elimination of the existing fee," said Larson.

Duluth property taxes will increase under the Mayor's proposed budget, but these increases will be offset by eliminating the street fee. Most Duluth homeowners will not pay more in what they pay overall in taxes and fees. Some will experience a modest net decrease.

For example, the average Duluth homeowner, living in a \$160,000 house, can expect to save about \$18 per year. Owners of a \$225,000 home you can expect to pay about \$3 more, annually.

Mayor Larson pledged in her State of the City address to face the long-term challenge of improving Duluth's 400 miles of streets front-on. Earlier this year she announced \$800,000 in additional revenue for street improvements.

"Our streets need work, but repairing them requires stable, dependable, long-term investment. This budget looks long-term and fixes Duluth's precarious reliance on fees to pay for our streets," said Larson.

A recent Minnesota Supreme Court ruling puts increased pressure on Duluth to examine its reliance on street fees. The Court was unambiguous in their belief that St. Paul's use of right-of-way fees to pay for its streets acted as a tax, and could be subject to restrictions on the City's taxing power.

"While Duluth's street fee has differences from St Paul, this ruling puts our current street funding at risk, and if continued, exposes Duluth taxpayers to potential liability," said Dave Montgomery, Duluth's Chief Administrative Officer.

"It might be politically easier for the Mayor to wait for final court decisions before responding, but that wouldn't be the prudent and

responsible path to long term investment,” Montgomery said.

Larson believes dependability, fairness and transparency are additional reasons it makes sense to swap fees for property taxes.

“Every year the street fee must go before the city council for approval. If the fee is not proactively approved each year, it disappears along with our street program, and the work and preparation of our staff in planning the year ahead,” said Larson. “Fees are also less equitable since they assess a flat fee regardless of income or value of property.”

The rest of the 2017 budget will be hold even, according to Duluth’s Chief Financial Officer Wayne Parson.

“This is a modest and fiscally responsible budget. We were able to balance increased costs for higher insurance premiums and normal wage increases with additional revenues from Duluth’s growing economy, cutting general costs, and increasing MN Power’s franchise fee to be more in line with state averages,” Parson said. “Excluding the swap, the general fund operations tax levy will increase less than 1%.”

“I’d love to say my first budget is brimming with exciting new programs and initiatives, but it’s not that glamorous. It’s Minnesota plaid and practical – solid – problem solving – and forward looking,” said Larson.

She went on, “It may not be an exciting or flashy budget, but to me, it’s an important, foundational and forward looking reset. It continues to provide for the critical core services residents rely on, but it also says that we’re ready to dig in and get things done.”

The proposed 2017 budget is available on the City of Duluth Finance webpage at,

<http://www.duluthmn.gov/finance/budget/>

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