

City of Duluth Budget Meeting



April 28, 2008



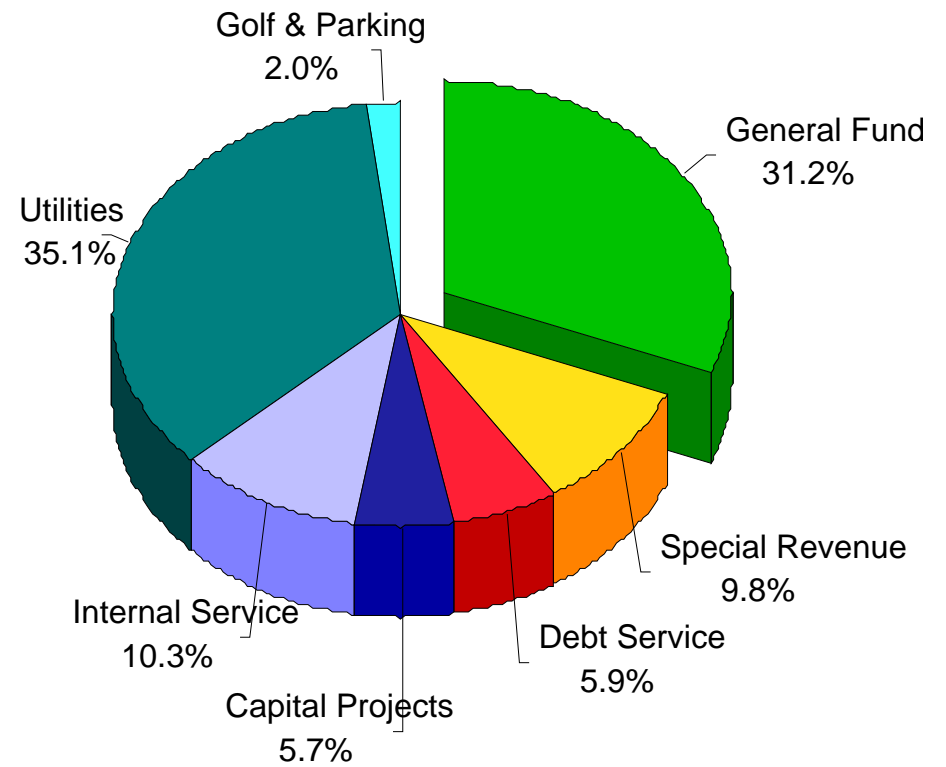
Agenda for Meeting

- Introductory remarks from Mayor Ness
 - overview of our objective
- Presentation of General Fund financial picture
 - current expenditure and revenue information
 - target number for 2008
 - trends for 2009 and beyond
- Discussion of process to be used going forward

Total 2008 City of Duluth Budget - All Funds

2008 Expense Budget

General Fund	\$80,993,300
Special Revenue Funds	\$25,461,100
Debt Service Funds	\$15,187,300
Capital Projects Funds	\$14,837,100
Internal Service Funds	\$26,629,000
Utility Funds	\$91,027,700
Golf & Parking Funds	\$5,096,800
Total 2008 City Budget	\$259,232,300



2008 General Fund Revenue Breakdown

Revenues We Control

Property Tax	\$7.761
Other Taxes/Franchise	\$2.005
Licenses & Permits	\$1.114
Fees, Charges & Fines	\$7.789
Total	\$18.669

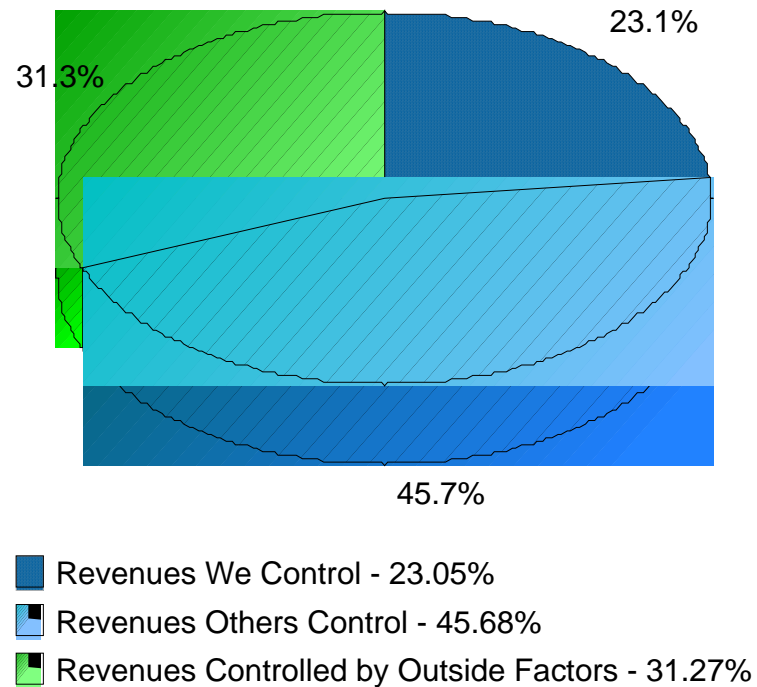
Revenues Others Control

Local Government Aid	\$29.062
All Other Intergov'tl	\$2.135
Amort Aid/Ins Premium	\$5.798
Total	\$36.995

Revenues Outside Factors Influence

Payment in Lieu of Tax	\$3.376
City Sales Tax	\$11.878
Earnings on Investments	\$2.650
Misc. Revenues & Cash	\$7.425
Total	\$25.329

TOTAL 2008 REVENUES (in millions) \$80.993





General Fund Trends

■ Cost Drivers

- Labor
- Insurance & Benefits
- OPEB/Retiree Insurance
- Other non-discretionary spending
- Motor fuel, utilities
- Crisis management

■ Revenue Pressure Points

- Local Economy
- State Economy
- Actions of the State
 - Potential of “unallotment”
 - Change aid formula
 - Exert more control
 - Takeover revenue collection
- Cost of providing services versus ability to charge

General Fund Spending Trends in millions

2003 – 2007 Actuals; 2008 Approved Budget; 2009 – 2013 Projected

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Labor	Total	43.453	43.865	46.184	47.727	47.541	50.333	53.009	54.120	55.143	57.093	59.099
Discretionary Spending												
	Operating Costs	3.880	4.001	4.027	4.416	5.346	4.408	4.496	4.586	4.678	4.771	4.866
	Motor Fuel and Utilities	2.041	2.098	2.214	2.582	2.565	2.744	3.019	3.321	3.653	4.018	4.419
	Library Books	0.285	0.285	0.322	0.308	0.305	0.323	0.330	0.336	0.343	0.350	0.357
	Capital	0.670	1.385	0.950	0.413	0.777	0.700	0.875	1.000	1.150	1.300	1.450
	Total	6.876	7.769	7.513	7.719	8.993	8.175	8.720	9.243	9.824	10.439	11.092
Non-discretionary Spending												
	Retiree Insurance	4.518	4.943	5.145	5.711	6.697	8.000	8.843	9.526	10.325	11.020	11.700
	Police/Fire Pension	3.824	3.824	3.824	3.824	3.824	3.824	3.824				
	Operating Costs	3.880	4.002	4.026	4.417	6.589	4.408	4.496	4.586	4.677	4.771	4.867
	Self Insurance	1.300	1.500	1.200	1.300	1.300	1.300	1.500	1.600	1.700	1.800	1.900
	Debt Service	4.387	3.991	4.669	5.408	4.995	4.953	4.953	4.953	4.953	4.953	4.953
	Total	17.909	18.260	18.864	20.660	23.405	22.485	23.616	20.665	21.655	22.544	23.420
GRAND TOTAL		68.238	69.894	72.561	76.106	79.939	80.993	85.345	84.028	86.622	90.076	93.611

General Fund Revenue Trends in millions

2003 – 2007 Actuals; 2008 Approved Budget; 2009 – 2013 Projected

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues We Control											
Property Tax	4.146	5.168	6.468	6.754	7.149	7.761	7.761	7.761	7.761	7.761	7.761
Other Taxes/Franchise	1.962	1.928	1.961	1.961	2.067	2.005	2.005	2.005	2.005	2.005	2.005
Licenses & Permits	0.658	0.681	0.854	0.987	1.112	1.114	1.137	1.159	1.182	1.206	1.230
Fees, Charges & Fines	7.295	7.856	7.579	8.115	6.679	7.789	7.867	7.867	7.946	8.026	8.106
Total	14.061	15.633	16.862	17.817	17.007	18.669	18.770	18.792	18.894	18.998	19.102
Revenues Others Control											
Local Government Aid	26.674	26.674	25.654	26.729	27.840	29.062	28.562	28.562	28.562	28.562	28.562
All Other Intergov't	2.510	2.513	1.893	2.032	2.200	2.135	2.135	2.135	2.135	2.135	2.135
Amort Aid/Ins Premium	5.430	5.675	5.631	5.798	3.761	5.798	3.000	1.970	1.970	1.970	1.970
Total	34.614	34.862	33.178	34.559	33.801	36.995	33.697	32.667	32.667	32.667	32.667
Revenues Outside Factors Influence											
Payment in Lieu of Tax	2.729	3.045	3.231	3.865	3.548	3.376	3.477	3.581	3.689	3.799	3.913
City Sales Tax	10.054	10.537	10.937	11.074	11.606	11.878	12.116	12.358	12.605	12.857	13.243
Earnings on Investments	0.431	1.018	1.742	2.760	2.816	2.650	1.500	2.000	2.500	2.750	2.850
Misc. Revenues & Cash	5.060	5.877	5.470	6.450	10.702	7.425	7.425	7.573	7.725	7.879	8.037
Total	18.274	20.477	21.380	24.149	28.672	25.329	24.518	25.512	26.519	27.285	28.043
GRAND TOTAL	66.949	70.972	71.420	76.525	79.480	80.993	76.985	76.971	78.080	78.950	79.812

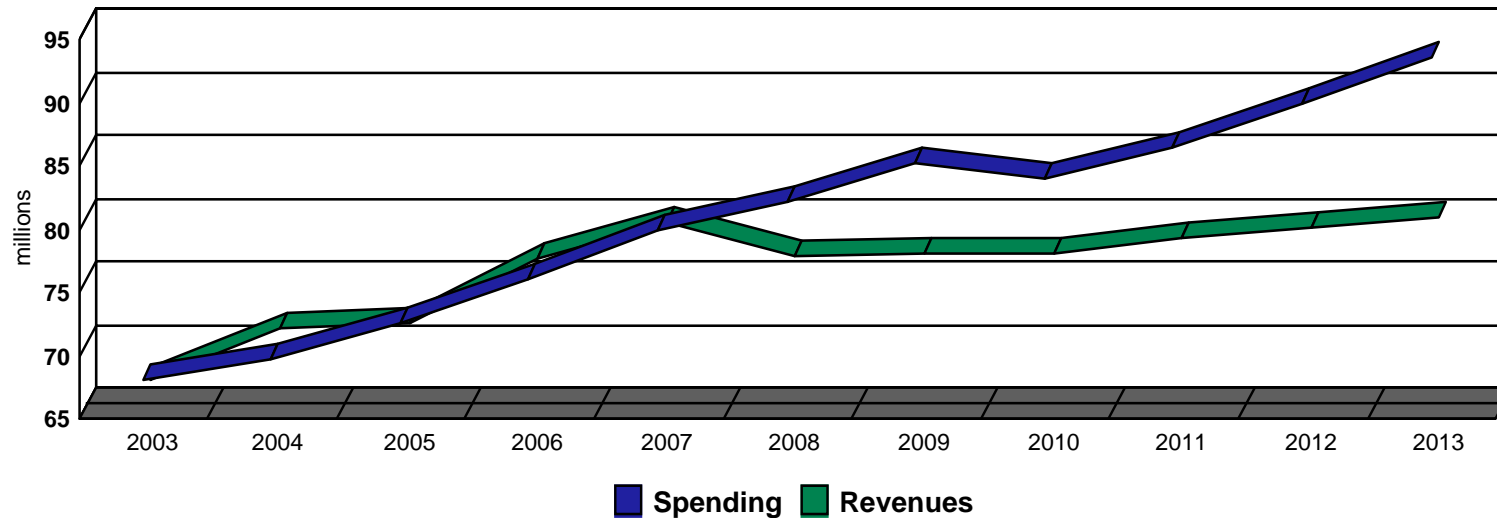


Impact on 2008 Budget

■ Beginning Fund Balance	\$3,016,000
■ Current Budget Issues	
□ State aid for police/fire pension	(\$2,800,000)
□ Investment earnings	(\$1,370,000)
□ Motor fuel shortfalls	(\$250,000)
□ Fund balance restoration	(\$1,000,000)
■ 2008 Target Budget Recovery	\$5,420,000
■ Estimated Ending Fund Balance	\$4,016,000

The Budget Gap

(in millions)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Spending	68.238	69.894	72.561	76.106	79.939	82.243	85.345	84.028	86.622	90.076	93.611
Revenues	66.949	70.972	71.420	76.525	79.480	76.823	76.985	76.971	78.080	78.950	79.812
GAP	(1.289)	1.078	(1.141)	0.419	(0.459)	(5.420)	(8.360)	(7.057)	(8.542)	(11.126)	(13.799)



Our Challenge

- **Current 2008 Gap - \$5.42 million**

comprised of \$4.17 million in estimated revenue shortfalls; \$250,000 in increased motor fuel costs; and \$1.0 million for fund balance restoration

- **Estimated 2009 Gap - \$8.36 million**

if fixes in 2008 are permanent, the gap would be reduced in a like amount

- **2010 and Beyond - \$7 to \$13.8 million**



Areas affected by past budget challenges

- Staffing citywide – both level of and type
- Capital improvements/facilities maintenance
- Technology and other equipment
- Doing “more with less” and/or “less with less”
- Lack of innovation, new services, or improvements in the way we do business
- Training and staff development is only as required by licensing/certification or safety standards
- Service to our customers – internal and external
- Employee stress and burnout



Conclusions:

- We can no longer continue to do business as usual because the current path is not sustainable.
- We need to implement structural change to control our future – the old methods will no longer work.
- We must adopt a forward thinking, multi-year solution by developing policies based on sound budget principles and propose solutions which reflect those principles.