



**2016 Proposed General Fund Budget  
Mayor Ness Executive Summary  
September 10, 2015**

The 2016 Proposed General Fund Budget (the “Budget”) could be largely characterized as a status quo budget compared to 2015’s budget, with two primary exceptions. Increases in expenditures are provided for employee wages under our newly negotiated collective bargaining agreements and maintenance for our streets, trails and parks.

Wages for City employees were held flat or nominally increased over the past five years as the City was struggling with reductions in LGA and an economy slowly coming out of severe recession. In response to these financial difficulties, average wage increases across all bargaining units were held to less than 1% annually over the past five years while City employees continued to provide top quality services to Duluth’s citizens despite working with limitations on staffing levels and continued increases in customer demands for services. This Budget’s wage increases for City employees run slightly above statewide averages for new contracts.

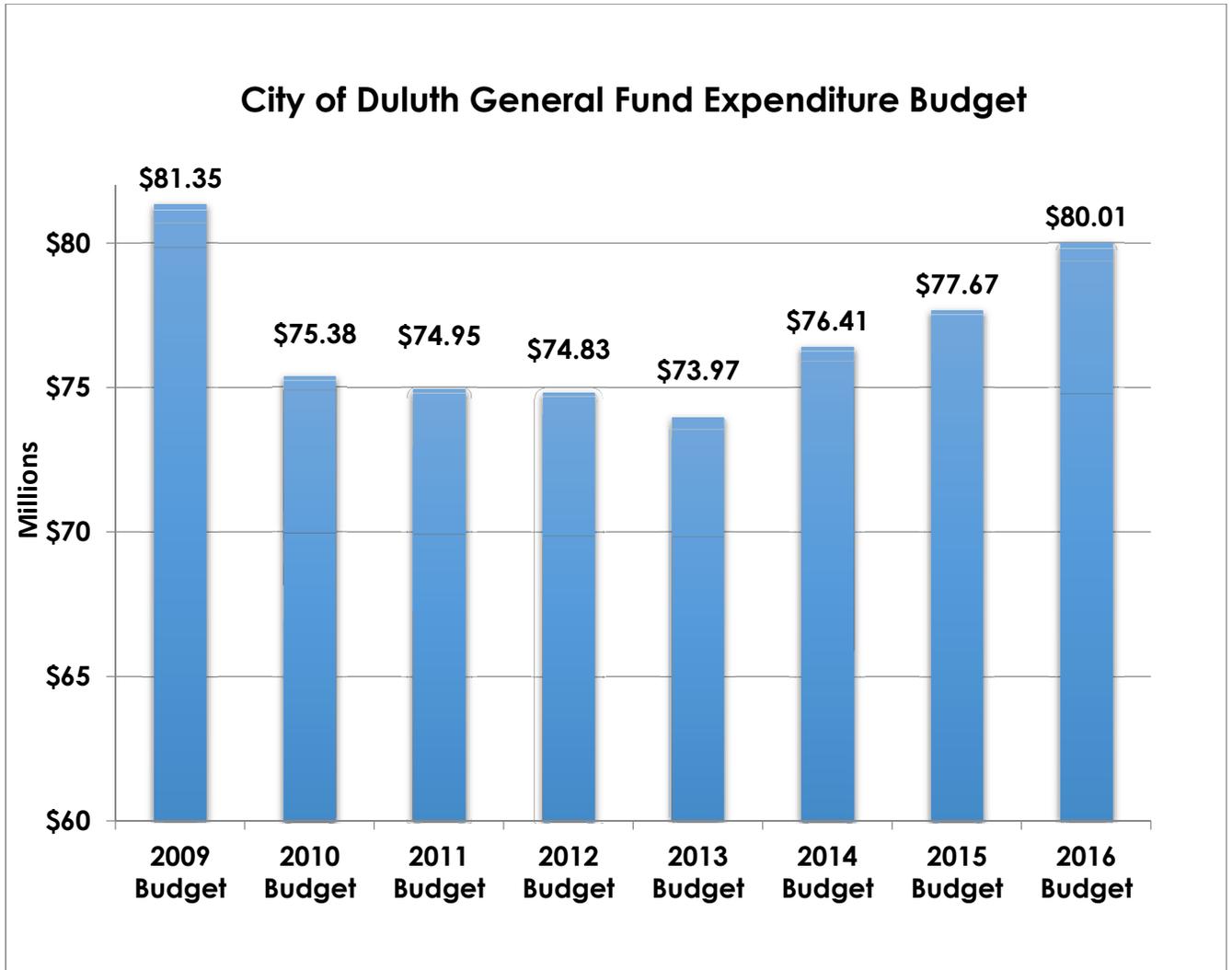
Over the last few years the City has invested in developing and upgrading its trail systems for all users, from hikers to mountain bikers, along with many of its signature and neighborhood parks. Duluth is rapidly becoming known as one of the premier outdoor and trails cities in the country, a designation that is attracting new visitors and generating additional economic development opportunities. The Budget provides for an additional \$500 thousand in parks and trails maintenance funds over last year’s levels to help assure users that these parks and trails will remain attractive outdoor recreation assets for years to come.

The condition of Duluth’s street and road system remains one of the biggest unmet challenges over the past eight years. Given the resource limitations we face, we are focusing on maintenance. Duluth taxpayers gain a much greater benefit per dollar expended through maintenance measured by total miles of improved road surface than by expending the limited resources available on full resurfacing or reconstruction. Over the past two years we have identified newly available resources from positive budget performance and asked Council for one-off additional budget appropriations to apply these funds to enhanced street maintenance. This year we are providing for that level of maintenance resources from the street fee in the initial budget for the Street Maintenance Fund.

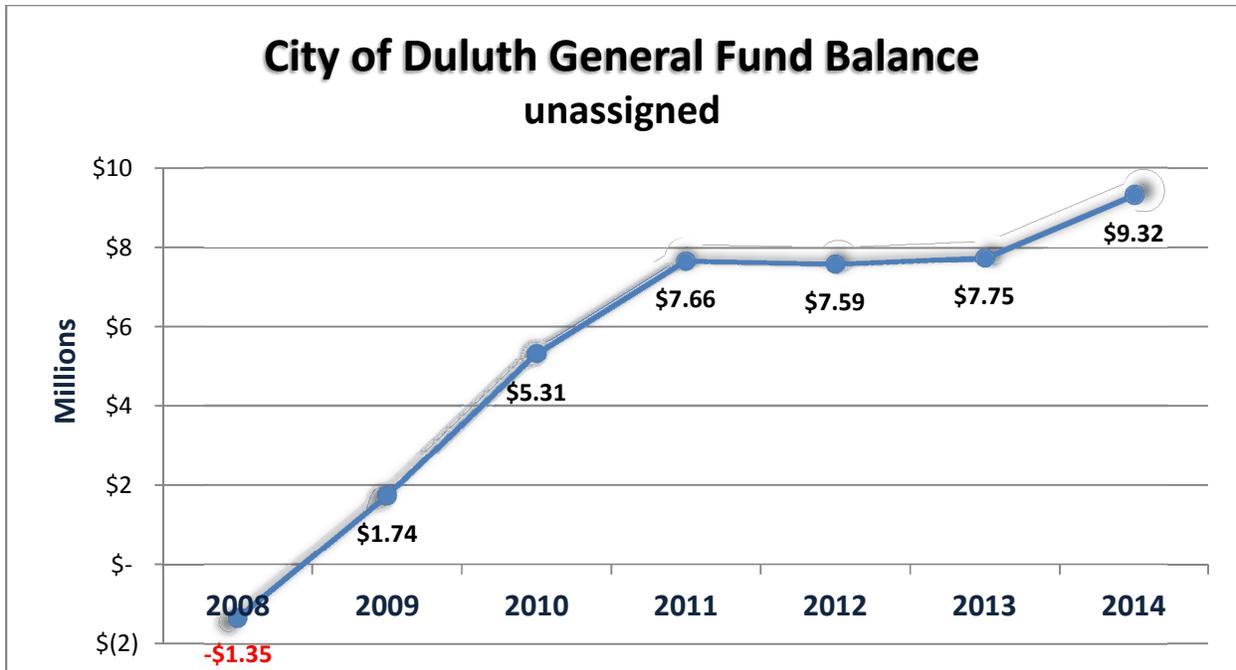
Overall Budget expenditures of \$80 million are 3% higher than 2015’s budget, due primarily to the new CBA wage increases and additional maintenance funding. Absent those increases, all other operating costs declined \$317 thousand or 1.5% from 2015 levels. The decline in other costs is driven primarily by the continued favorable impact of the conversion of our retiree healthcare insurance to a Medicare supplement plan. Savings arise as pre-65 retirees transfer off

of our active employee plan paid for with a combination of City and employee cost share funds, to the Medicare supplement plan which is significantly funded with Federal Medicare dollars.

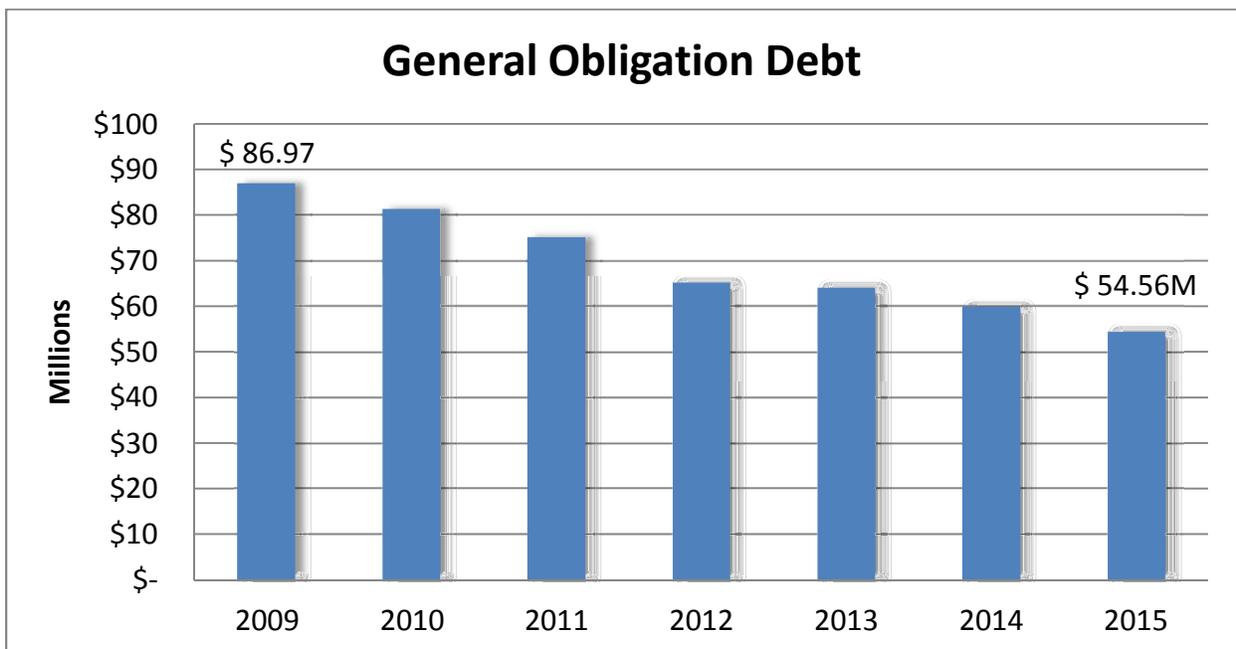
The 2016 Budget continues the application of strong and consistent financial principles that have been utilized to improve and strengthen the City's financial health and create budget stability over the past eight years.



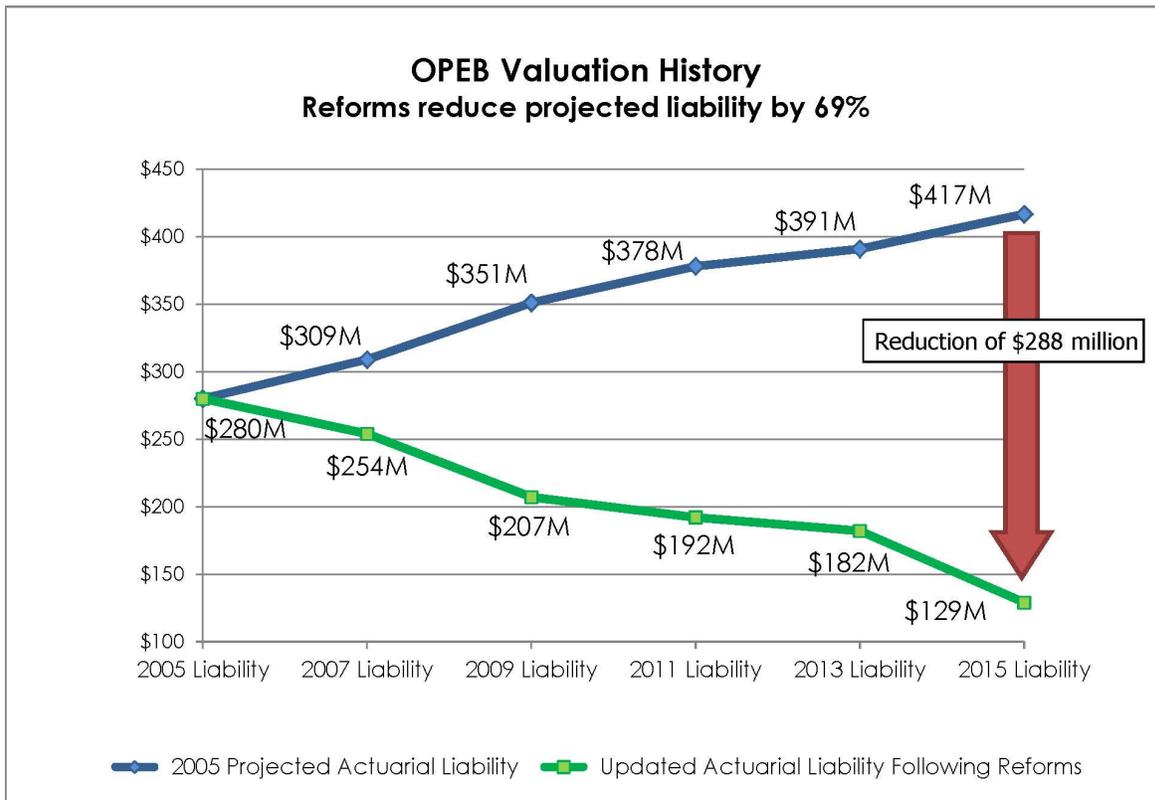
General Fund expenditures have grown at a moderate pace since 2010 increasing at an average annual rate of less than one percent.



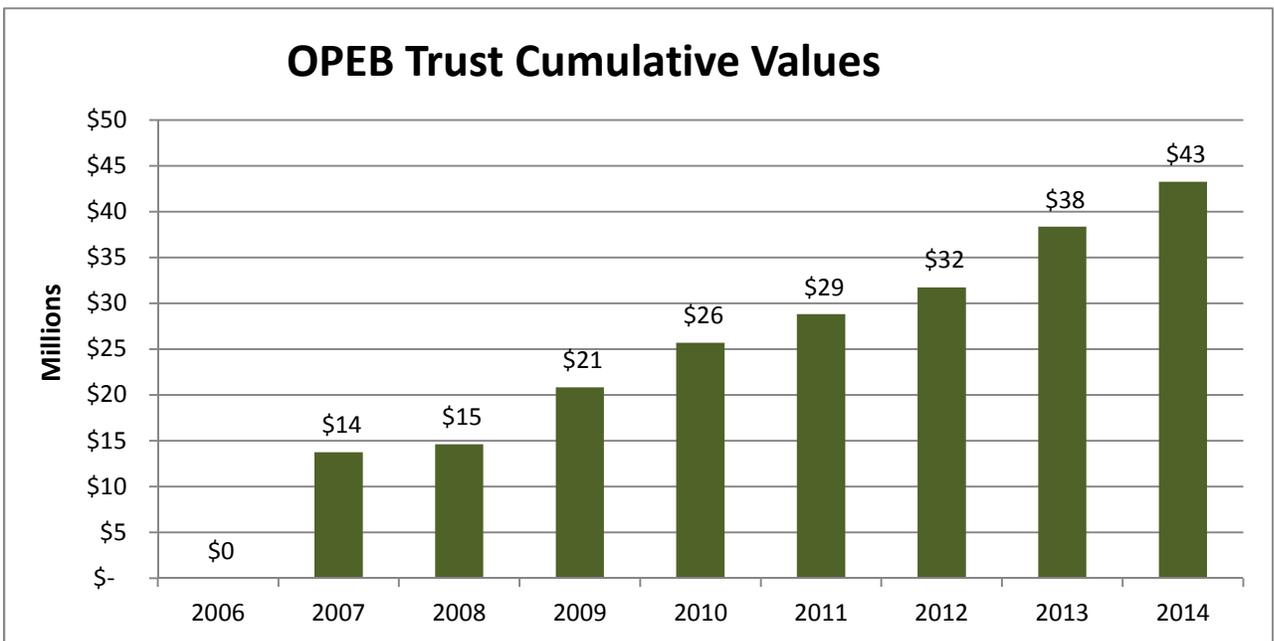
General Fund unassigned fund balance provides a level of protection against the need to reduce service levels because of revenue shortfalls or unpredicted expenditures. The City has a fiscal policy of maintaining as a percentage of general fund expenditures the following levels; minimum scenario of five percent, a moderate scenario of seven percent and an optimum level of ten percent. Since 2013 unassigned fund balance has exceeded fiscal policy.



General obligation debt repaid primarily by tax levies has decreased dramatically since 2009 to \$54.56 million due mainly to the payoff of street improvement debt.



In 2005 an actuarial study projected the City’s OPEB liability would exceed \$400 million by the end of 2015. Benefit reforms since 2005 have reduced that liability to \$129 million.



The OPEB Trust was created in 2008 to finance retiree health care costs. City contributions are invested through the State Board of Investment. Assets have grown significantly since 2008 and are now in excess of \$43 million.

These principles have provided the foundation to our short and long-term financial planning and have helped the City dramatically improve its financial health during a very turbulent and challenging period. These principles include:

- **Budget Discipline** – that discipline encompasses several ideas including conservative revenue expectations, making difficult spending prioritization decisions, applying zero based budget concepts, aggressively challenging existing budget assumptions and emphasizing the need for spending rationales or ROI analysis, tightly managing staffing level fluctuations and individual hiring decisions and creating a culture of budget accountability.
- **Organizational and Process Reengineering** – striving toward a culture of every employee thinking, “How can I do things better and more efficiently today?” This culture focuses on identifying the organization’s core competencies and seeks out improvements in operational efficiency and effectiveness by the constant reassessment of processes and procedures, the targeted application of technology and appropriate optimization of attrition opportunities.
- **Willingness to Seek Strategic Solutions to Financial Opportunities** – look for opportunities to bring about change to major assumptions, programs or structural impediments to improve or secure long-term financial security. Examples include the restructuring of our retiree health care program, creative conversion of the over-65 plan to a Medicare supplement, creation and funding of an OPEB trust to finance long-term retiree costs, reduction of general fund revenue volatility and professionalizing the management of our enterprise fund operations.
- **Focus on Debt Management** – through judicious use of borrowing, attention to interest rate opportunities, taking a rainy day approach to the use of windfalls or other significant proceeds realizations and jealously protect the City’s bond rating.
- **Seek Out the Best Employees** – both internally and externally. Be willing to look out of the box in the search for new talent with unusual or non-standard backgrounds. Provide opportunities for internal staff to move up or across existing job channels to realize their full potential. Utilize attrition to improve the team’s capabilities and capacity whether from external or internal talent.