



Emily Larson
Mayor

Room 422
411 West First Street
Duluth, Minnesota 55802



218-730-5230



elarson@duluthmn.gov

2022 Budget Narrative Larson

President Van Nett, Vice President Forsman and the Duluth City Council,

The past 18 months have been challenging and wrenching in every way. Since the start of the pandemic and continuing through a busy intersection of very real economic, social, political and relational challenges, on both local and national levels, we have all been stretched close to our breaking point.

We have all seen and experienced enough uncertainty or grief for a lifetime.

We have worried about our loved ones and our neighbors.

We have wondered how or if we will make it to the next paycheck, or through the next crisis.

But here we are. Still standing and shining.

This isn't a state of the city speech – this is not when I am going to outline big new projects or a shift of direction. This budget presentation IS, however, about shared community values – because city budgets attach money to what is considered to be valuable and what is considered to be true. Here's what's true for our community:

- Residents need clean drinking water, reliable utilities and a comprehensive streets program
- Voters need to trust the integrity of our election and governance systems
- Students need safe routes to school and learning supports made available through libraries
- Neighbors need reliable, trusted public safety response when they call 911
- Families and people of all ages need parks that are clean and safely activated
- Businesses need clarity around planning, zoning and permitting
- Workers and jobseekers need careers pathways and support from our Workforce Development
- Staff need to know we have their back for fair compensation and a safe work environment

I have always believed that budgets are moral documents. Every single Duluthian needs to know that, in some way that is meaningful to them, we are in their corner. There is no more important way to show this, and to show up, than through our budget.

Last year we showed up through our ability to safely provide as many services as we possibly could while keeping taxes artificially low. The City passed a 2.98% property tax levy increase of which 0.96% was fully dedicated to the city's portion of lakewalk restoration and the remaining 2.02% was the transition from street light fee to inclusion into the property tax. Rather than adding further to the tax levy to cover routine step increases and general increased costs of city operations, we proposed drawing down up to \$4 million dollars in General Fund reserves. I don't like to cover or subsidize city general operations through our savings – it kicks the can down the road. But in the case of a global pandemic, and the uncertain associated impacts at this time last year, it was just the right thing to do.

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My proposed 2022 General Fund Budget for the City of Duluth is for \$97.1 million dollars. This includes a 6% property tax levy increase. Because we anticipate property tax value growth and new construction growth to be a combined 4.94%, and because we are proposing utilizing a modest amount of ARP funding from under the “Revenue Loss” recommendation area, the net property tax impact after growth is 1.06%. This math’s out to homeowners as: \$1 more annually for a property valued at \$100,000; \$3 more annually for a property valued at \$175,000 and; \$5 more annually for a property valued at \$225,000.

In my proposed 2022 General Fund Budget, by taxing entity, the City represents just 26% of the entire property tax bill, with ISD 709 at 28% and St. Louis County at 40%. The dedicated Parks Fund, approved by Duluth voters via referendum, makes up 3%.

Through this steady, honest, straight forward proposed budget the City can show up for our community by providing: Fire; Police; Property Parks & Libraries; Streets & Engineering; Administrative Services; Finance; Planning & Economic Development; Legislative & Executive services; some city-wide programming, and; Retiree Medical & Life Insurance. While all departments are able to articulate the need for greater numbers of staff, this proposed budget does not increase staff numbers.

Equally important, however, especially given the financial realities of the past year, is that we are not proposing staff cuts. This proposed budget expects to keep our year round staff numbers at around 870, give or take, with seasonal workers adding to that number. More than ever, we need all hands on deck to help our community recover.

We are able to maintain staffing levels and continue to be a steady, resilient organization serving as the quiet foundation upon which residents build their lives for two specific reasons: CARES Act and the American Rescue Plan (ARP).

Together, these two Federal bills provided Duluth with \$64.6 million dollars of support. The CARES Act provided real-time investments that helped cover costs associated with responding to the pandemic. ARP funds will allow us to invest in strategies and programs which specifically targeting community pandemic recovery and future property tax savings to residents. That dollar figure doesn’t include: the additional federal CDBG and Workforce Funds that went right into circulation to meet the community based needs of our non-profits and the incredibly intense needs of the increasing number of job seekers of the past year; the financial support provided to St. Louis County which our community also benefitted from; the Paycheck Protection Program which was critical to businesses across the city, or; the \$2 million the city provided directly to business owners through DEDA and the 1200 Fund.

As you’ll see further into the presentation, while our General Fund Reserves and Community Investment Trust are in incredibly strong positions thanks to our prudent choices in the past five years, even added up together and completely spent down, would never have been able to come close to providing this level of pandemic recovery and financial security. Funding supports from the Federal government also meant that we didn’t need to utilize our General Fund Reserves to meet operational needs last year. This is incredibly good news because, also as you’ll also see later in the presentation, we have a significant financial cliff coming at us in the next 5 years based mostly on the cost of health care.

As I walk through this today, keep in mind that this budget presentation – for purposes that relate to setting the maximum property tax levy for the City of Duluth – represents the General Fund only. Between now and December, council and the public will receive specific budget presentations on all program areas, from the many I listed as being part of the \$97.1 million dollar proposed General Fund to the \$232 million dollars allocated in other fully dedicated budgets. Examples of these include our Enterprise or Special Revenue Funds that are fully dedicated and legislatively dictated - Tourism Tax, Comfort Systems, Streets Sales Tax, etc. These budget areas are funded entirely through their dedicated revenues so are not subject to property tax levying and are not being discussed in any great detail tonight.

It's been a tremendously busy year for us financially and I am grateful for Finance Director Jen Carlson, Budget Manager Jessica Kasper, and their entire team, for monitoring and adapting to our constantly changing financial environment. Putting together our General Fund Budget of \$97.1 million dollars takes our team months. Director Carlson and Manager Kasper kept this budget process moving ahead as scheduled while also tracking our CARES Act and ARP allocation utilization plans. They are a finance power team.

It's been a long eighteen months. This City staff, and this City, have shown incredible tenacity and stamina. To keep getting up and providing the services residents needed to survive. To keep showing up to work when others were able to work from home. To keep going, and to keep hoping.

Thank you to our staff at every level, in every department, for who you are and how you have shown up for this community and each other over the past 18 months.

I often quote this line from Anne Lamott in our staff Leadership Team meetings:

"Lighthouses don't go running all over an island looking for boats to save; they just stand there shining."

My proposed 2022 City of Duluth General Fund Budget doesn't chase shiny things. It's not boastful or fancy. It's not seeking a headline, adding programs, expanding staff or funding a legacy project. Instead, it is a budget for who we are right now: resilient, determined to show up for each other. And in it for the long haul.

Because together, we stand steady and we shine.

