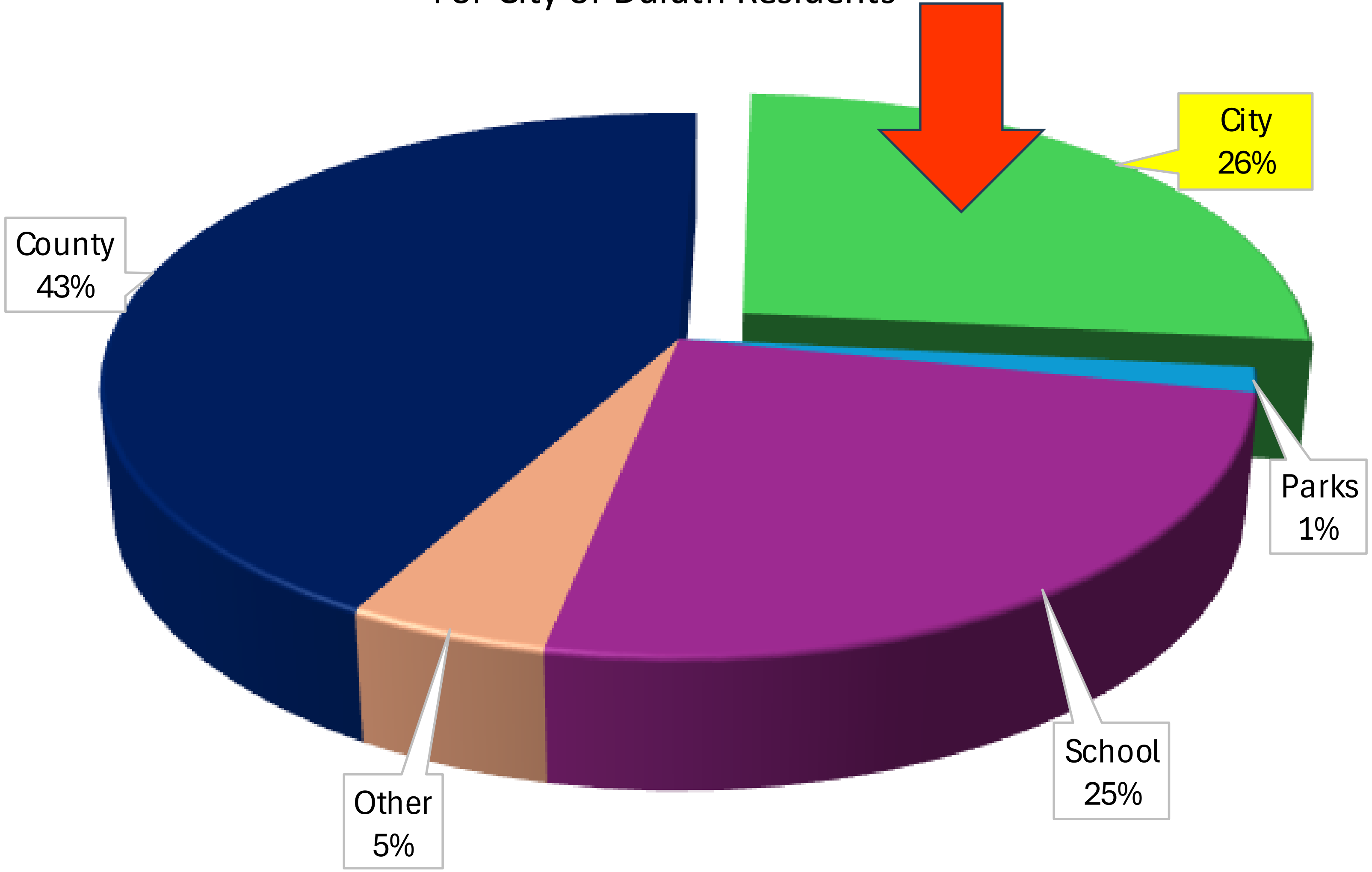
2027 Proposed
Maximum Property Tax Levy

Breakdown of Average Homestead Property Tax Bill by Taxing Entity

For City of Duluth Residents



2027 Revenue from 1% Levy Increase

Structural Budget Deficits

Average Revenue Growth

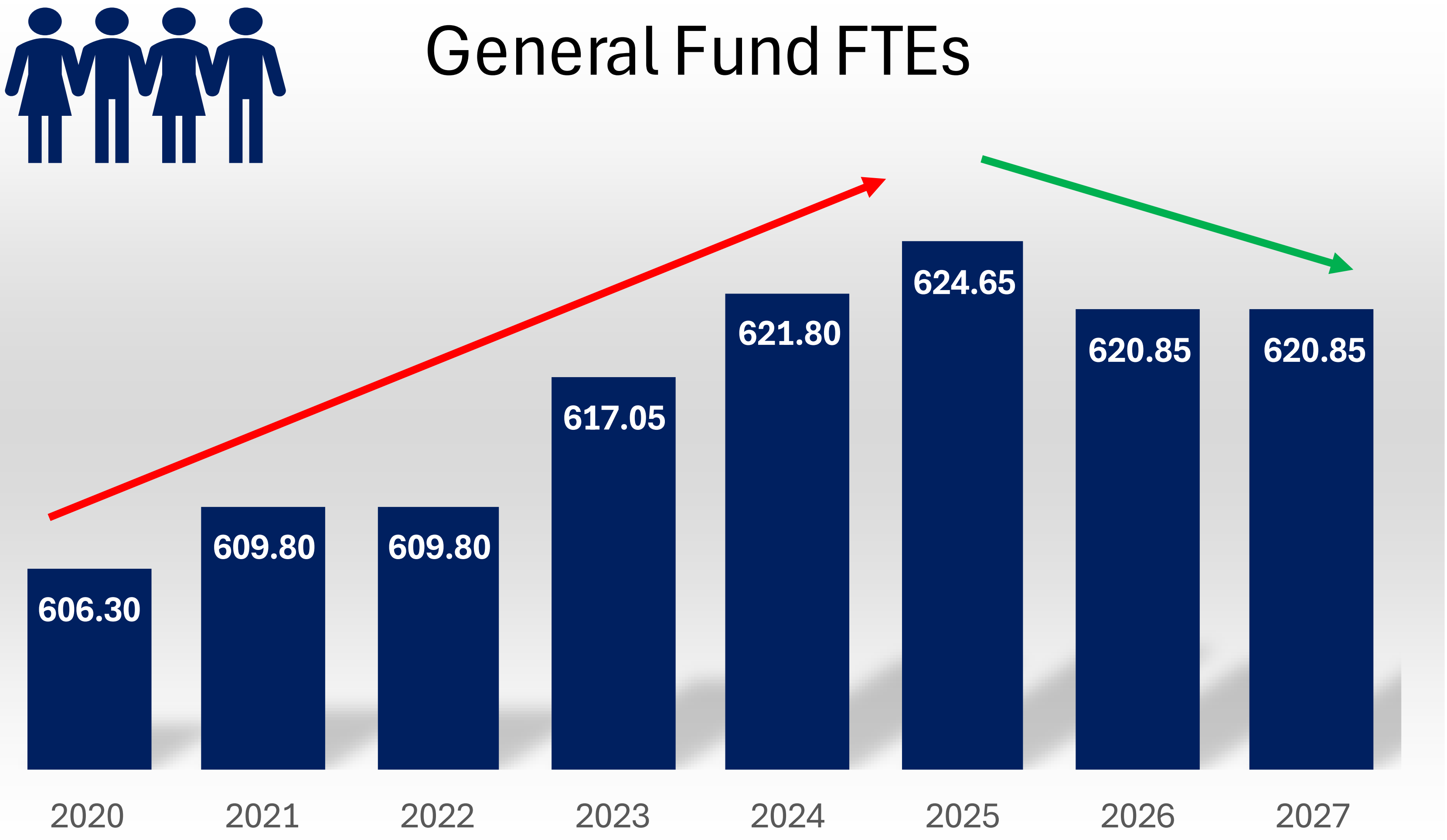
1.5% ↑

Average Expense Growth

↑ **6.0%**

NOTE: Salary, benefits, and workers comp make up **<u>85% of general fund expenses</u>**

General Fund FTEs



2026
Reduced 6.8
FTEs but
added 3.0
firefighters

Economic Headwinds Impacting City of Duluth

- War in Ukraine
- War in Iran
- Tariffs (especially with Canada)
- Sustained high inflation
  - 2025: 2.7%; 2026 3.4%
- Flat LGA
  - $35M in 2023 should be $38M in 2027 just to keep up with inflation

Beginning 2027 Deficit: $ 5,517,725

Budget Planning Parameters

One: COD property tax levy needs to be *affordable* and *sustainable*

Two: Reasonable to capture *new growth* and consider *inflation*

Three: Use of every dollar with which we have already been entrusted

Four: No increase in overall FTEs

Proposed 2027 Property Tax Levy:

3.4% (CPI*)

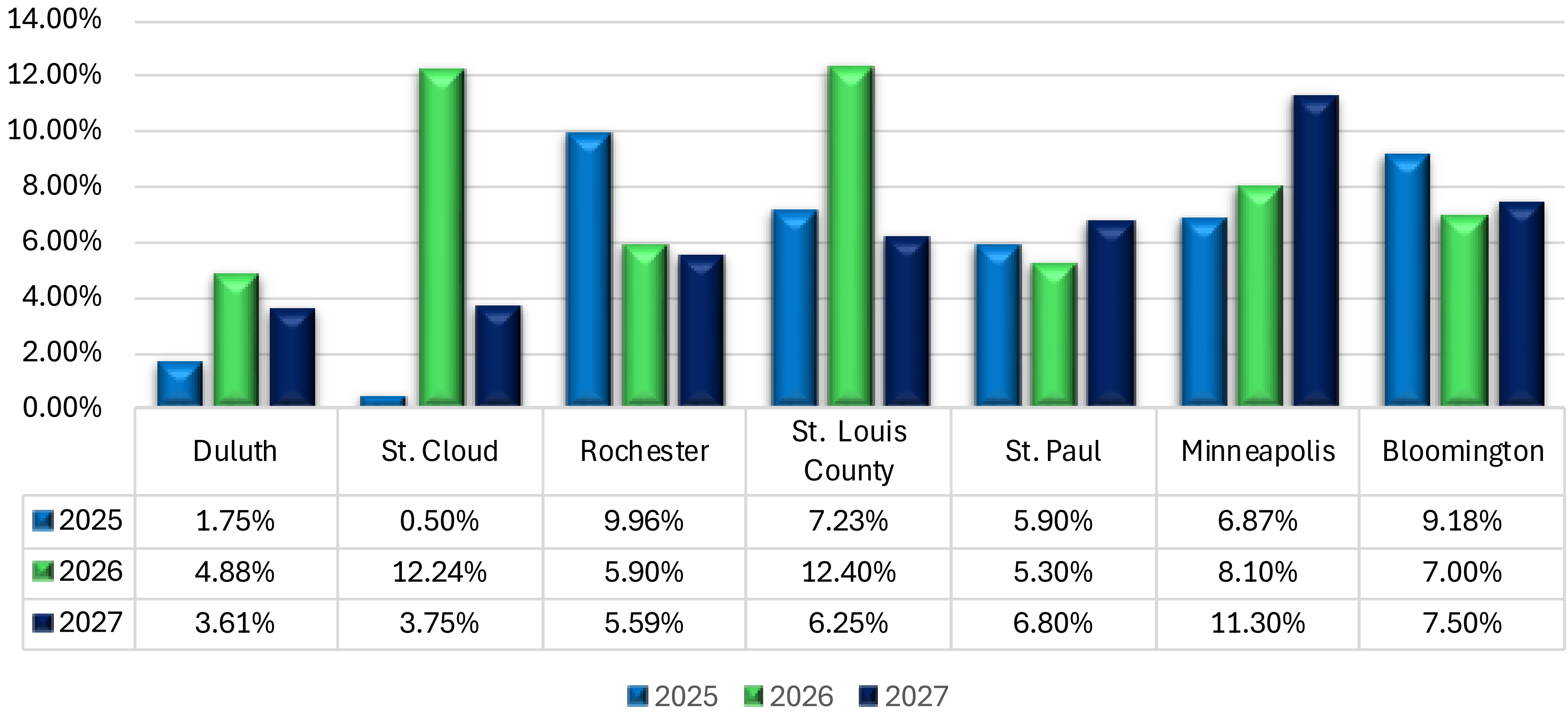
+ .96% New Growth

(-) .75% 2026 Council Addition

= $1,641,043 (3.61%)

*Past 12-month average through July 2026

Comparable Cities



	Duluth	St. Cloud	Rochester	St. Louis County	St. Paul	Minneapolis	Bloomington
2025	1.75%	0.50%	9.96%	7.23%	5.90%	6.87%	9.18%
2026	4.88%	12.24%	5.90%	12.40%	5.30%	8.10%	7.00%
2027	3.61%	3.75%	5.59%	6.25%	6.80%	11.30%	7.50%

General Fund Budget Strategy

2026 Budget Strategy Successes

- On track reduce Fire Department overtime 60% by hiring 3 additional firefighters

- Expense review and contingency fund reduced other cost budget by $469,000
  - To date 20% of the contingency fund has been used

- Reduced FTEs in unfilled positions through CA committee review of all new hiring

General Fund Budget Strategy

2027 Budget Strategies

- Evaluating every revenue and expense lines to ensure accurate budgeting
  - Versus budgeting for worst case scenarios
- Evaluating employee vacancy savings and adjusting payroll/benefit budgets
- Reallocating unused existing funds
- No increase in overall FTEs

Remaining 2027 Deficit after levy: $3,876,725

2027 Deficit Solutions

➢ Levy	1,641,000	
➢ Broadband	1,826,800	
➢ Vacancy Savings	1,200,000	$3,876,725
➢ Misc.	849,925	
TOTAL	5,517,725	

Warning lights!

Concerning budget factors:

- Flat LGA for five years
- Sustained high inflation
- Rising fuel costs
- Tariffs impacting material costs and Canadian visitors
- Compensation/benefits exceeding revenues 4.5% year over year

Goal: Rethink city service delivery

- Make better use of technology (COD and parking app examples)
- Redesign service delivery
- Partner with our neighbors on services they use but do not pay for
- Grow our tax base (especially commercial)

Budget Guidelines for Directors

One: **Focus on core city services**

Those things only we do and no one else is going to do for us

Two: **Are there things COD can stop doing?**

Ex: Legacy programs. Nice to dos. Low return.

Three: **How do invite others to partner in what we do?**

Non-profits, businesses, civic and faith organizations, our residents

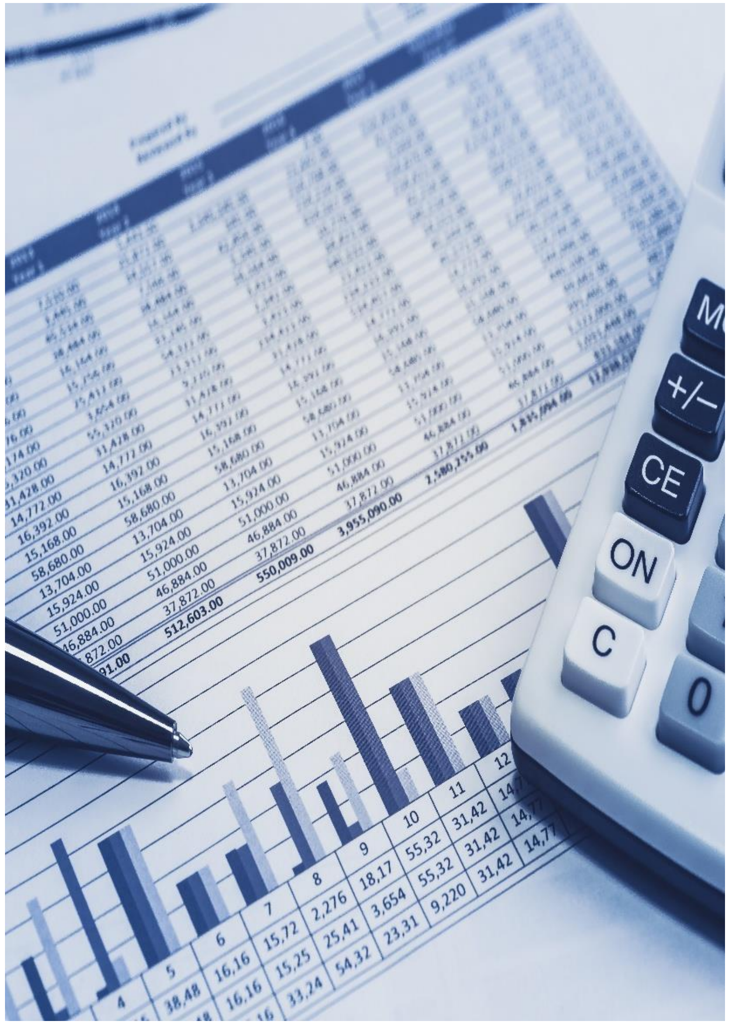
Four: **Deliver Differently**

We cannot continue doing what we have always done

Five Strategic Priorities:

- Housing at All Income Levels
- Growing the Commercial Tax Base Growth
- Investing in Streets and Utilities
- Revitalizing Downtown
- Affordable Property Taxes

2027 General Fund Budget Strategies



Revenue

- Reviewed all revenue sources and are finalizing revenue assumptions
- Used realistic, appropriate revenue assumptions
- Explored opportunities to allocate unused funds

Expense

- No reductions in core city services
- Continued to review expenditures using historical averages vs worst-case scenarios
- Adjusted payroll budget to reflect anticipated vacancy savings

Projected 2027 Deficit

$5,517,725

2027 Deficit Solution Summary

Total Deficit	**5,517,725**	
	Revenue	**Expense**
Property Tax Increase (3.61%)	1,641,000	
Broadband Funds (one time funding)	1,826,800	
Proposed MN Power Franchise Fee Increase (commercial only)	988,100	
Dedicate Franchise Fee Revenue to Sustainability Projects	(250,000)	
Anticipated Employee Vacancy Savings		(1,200,000)
Shift seasonal park maintenance expenses from Parks Fund to General Fund		419,700
Contingency Fund Expense Reductions/Miscellaneous Adjustments		(531,525)

Projected 2027 Deficit

$5,517,725

2027 Deficit Solution Summary

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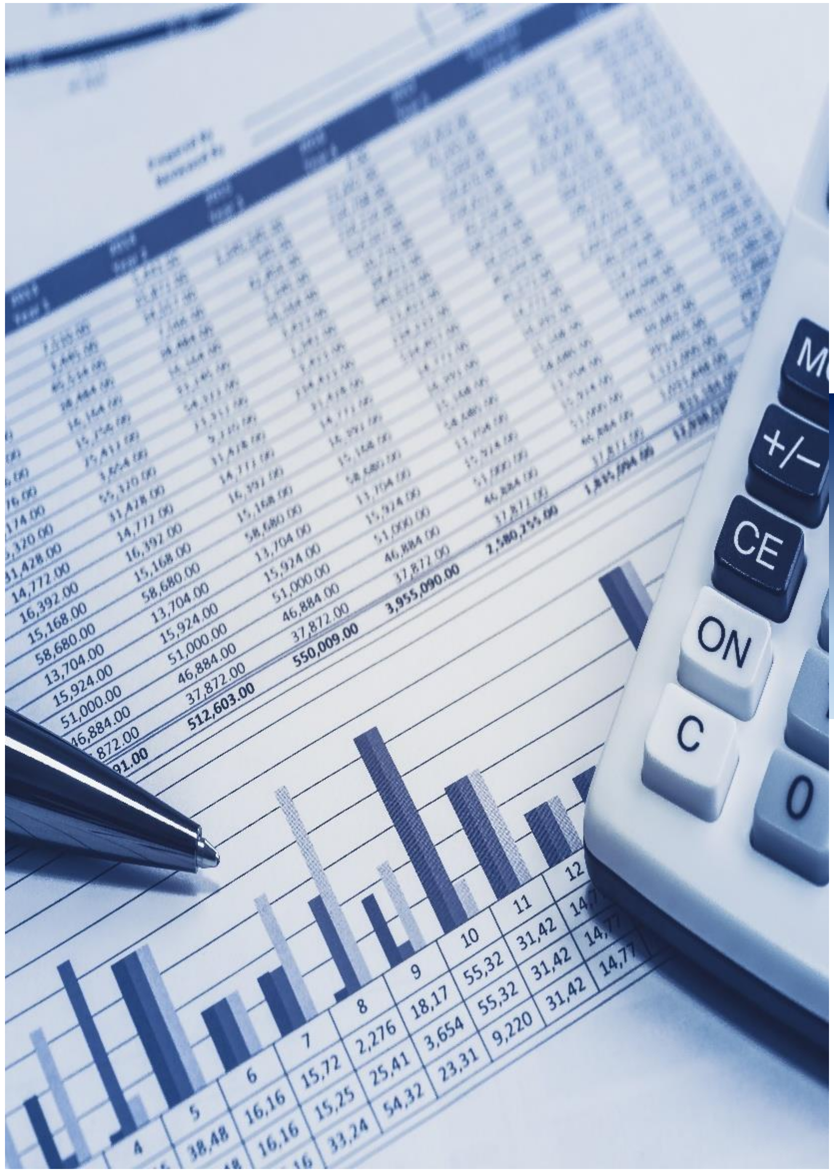
Anticipated Employee Vacancy Savings		**(1,200,000)**
Shift seasonal park maintenance expenses from Parks Fund to General Fund		**419,700**
Contingency Fund Expense Reductions/Miscellaneous Adjustments		**(531,525)**
Budget Adjustments	**4,205,900**	**(1,311,825)**
Total Budget Adjustments	**5,517,725**	

2027 General Fund Budget Summary

	2026 Approved	2027 Proposed	Change	
Total Revenue	**113,218,600**	**119,137,800**	**5,919,200**	**5.2%**
Expenses				
Salaries & Wages	63,186,800	66,292,400	3,105,600	4.9%
Benefits	30,608,500	32,179,400	1,570,900	5.1%
Other Costs	19,423,300	20,666,000	1,242,700	6.4%
Total Expenditures	**113,218,600**	**119,137,800**	**5,919,200**	**5.2%**

Balanced



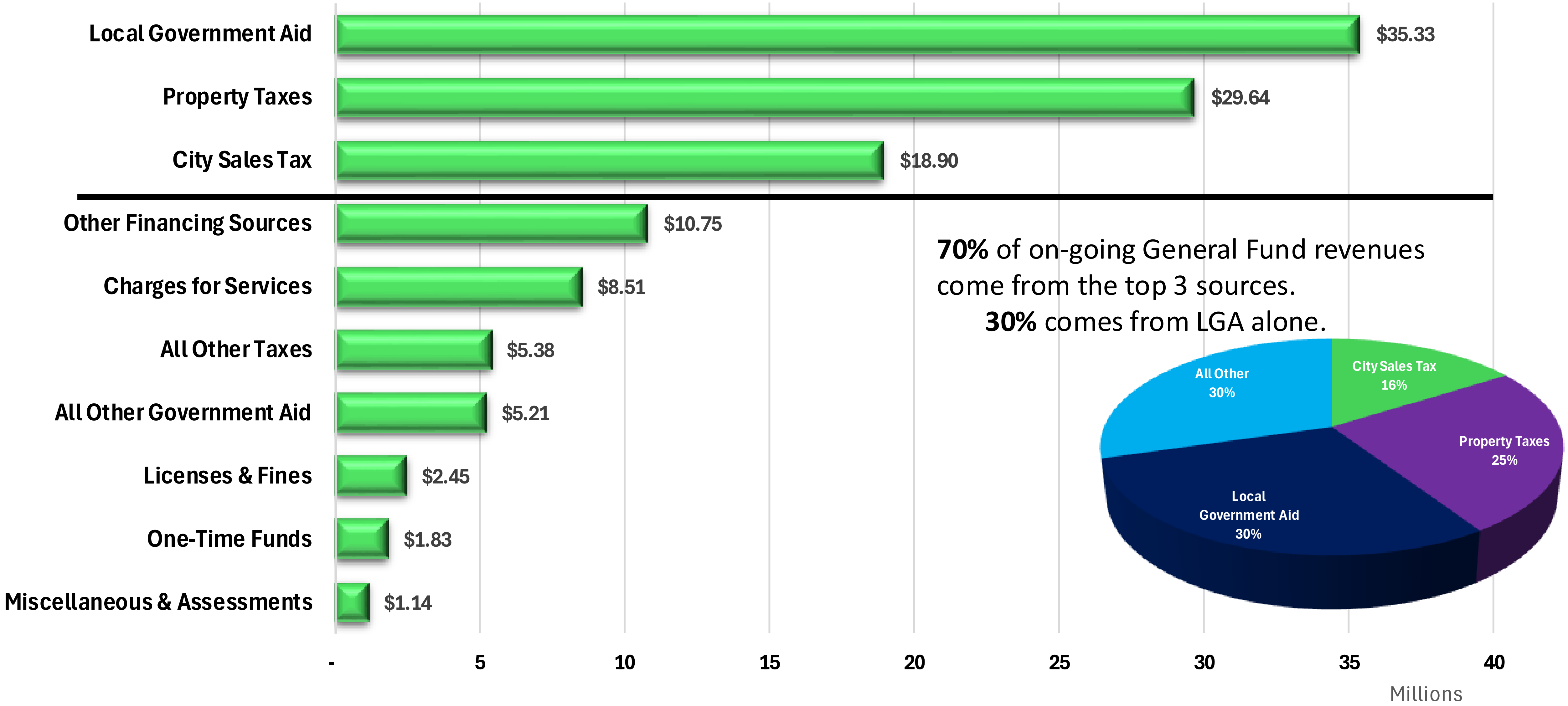
Revenue

2027 Proposed Property Tax Levy

	2026 Approved Levy	2027 Proposed Levy	Change In Levy	
General Operations Levy				
General Operations	$ 27,846,965	$ 29,488,008	$1,641,043	
Provision for Tax Delinquency	$ 150,000	$ 150,000	$ -	
Total General Operations Levy	**$ 27,996,965**	**$ 29,638,008**	**$1,641,043**	
Supplemental Parks Levy	**$ 280,000**	**$ 280,000**	**$ -**	
Capital Projects	$ 4,547,400	$ 4,547,400	$ -	
Debt Service	$ 7,564,200	$ 7,564,200	$ -	
Infrastructure Permanent Improvements	$ 280,000	$ 280,000	$ -	
Total Capital Projects Levy	**$ 12,391,600**	**$ 12,391,600**	**$ -**	
Street Light Levy	**$ 2,547,200**	**$ 2,547,200**	**$ -**	
Street Maintenance Levy	**$ 2,300,000**	**$ 2,300,000**	**$ -**	
Total City Property Tax Levy	**$ 45,515,765**	**$ 47,156,808**	**$1,641,043**	
General Operations Levy Increase			**$1,641,043**	**3.61%**
2027 City Tax Levy Increase			**$1,641,043**	**3.61%**
New Construction Growth			**$ 434,875**	**0.96%**
Net Property Tax Impact After Growth			**$1,206,168**	**2.65%**
2027 City Tax Levy Increase			**$1,641,043**	**3.61%**

100% of levy increase is allocated to city operations

2027 General Fund Revenues by Source



70% of on-going General Fund revenues come from the top 3 sources.
30% comes from LGA alone.

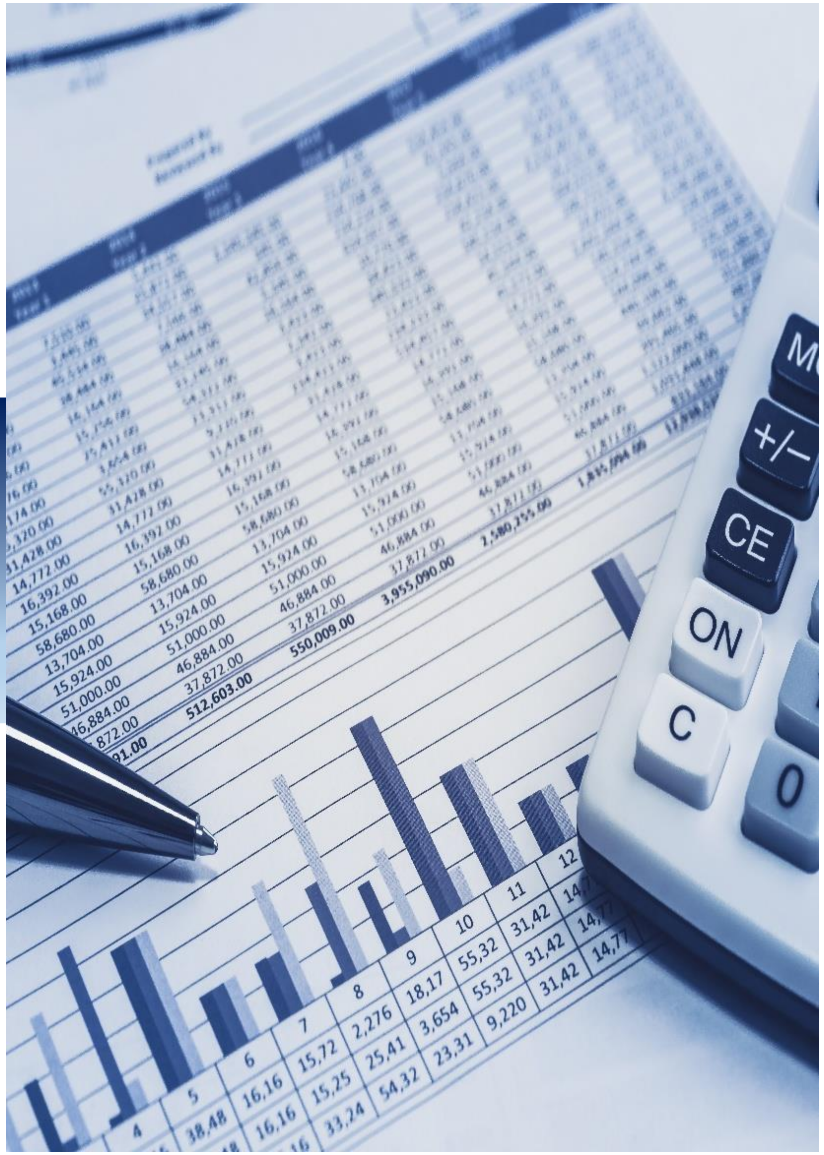


General Fund Revenues

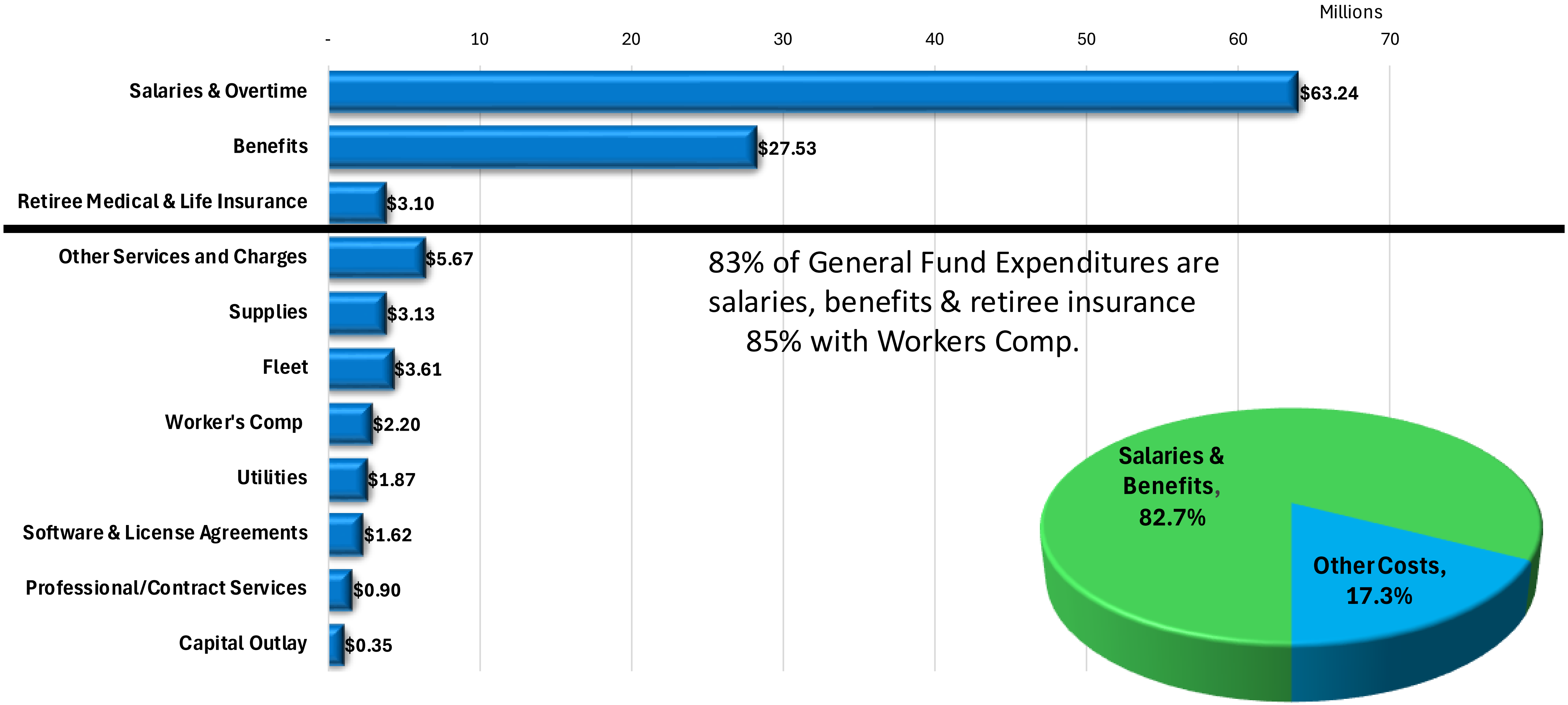
	2026 Approved	2027 Proposed	Change		
Local Government Aid	35,231,100	35,332,300	101,200	0.3%	
Property Taxes	27,997,000	29,638,100	1,641,100	5.9%	
City Sales Tax	18,486,500	18,900,400	413,900	2.2%	
Minnesota Power Franchise Fee	4,010,000	4,563,600	553,600	13.8%	
Multiple Dwelling Licenses	892,500	1,249,700	357,200	40.0%	
Other Financing Sources	7,429,400	7,752,900	323,500	4.4%	
Inspection Fees	3,524,300	3,545,000	20,700	0.6%	
Gas Utility in Lieu of Taxes	2,800,000	3,000,000	200,000	7.1%	
Transfer in from Broadband Fund*	-	1,826,000	1,826,000	100.0%	*one time
All other Revenue Sources	12,847,800	13,329,800	482,000	3.8%	
Total Revenue	**113,218,600**	**119,137,800**	**5,919,200**	**5.2%**	*

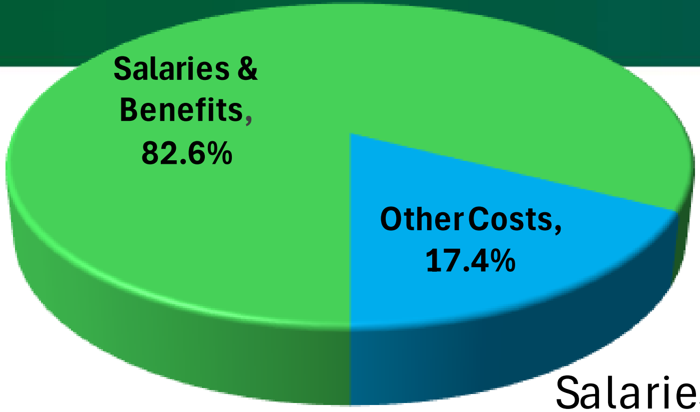
*3.5% revenue growth without one time funding

Expense



2027 General Fund Expenses by Type





General Fund Expenditures

	2026 Approved	2027 Proposed	Change	
Salaries and Wages	61,466,600	64,572,200	3,105,600	5.1%
Overtime	1,720,200	1,720,200	-	0.0%
Salaries & Wages Subtotal	63,186,800	66,292,400	3,105,600	4.9%
Medical Insurance	14,016,700	15,094,200	1,077,500	7.7%
PERA	7,826,900	8,169,000	342,100	4.4%
Retiree Medical	3,100,000	3,100,000	-	0.0%
All other Benefits	5,664,900	5,816,200	151,300	2.7%
Benefits Subtotal	30,608,500	32,179,400	1,570,900	5.1%
Insurance (work comp + liability)	2,814,900	2,814,900	-	0.0%
Motor Fuels	880,000	1,094,600	214,600	24.4%
Fleet Services	3,610,900	3,977,500	366,600	10.2%
All Other Expenditures	12,117,500	12,779,000	661,500	5.5%
Other Costs Subtotal	19,423,300	20,666,000	1,242,700	6.4%
Total Expenditures	**113,218,600**	**119,137,800**	**5,919,200**	**5.2%**

Questions?

THE CITY OF DULUTH MINNESOTA