

December 2, 2015

Honorable Mayor and City Council
City of Pine City
315 Main Street S. Suite 100
Pine City, MN 55063-1619

Introduction

Enclosed is the 2016 proposed final budget as prepared by city staff and AEM Financial Solutions. The budget and tax levy will be approved and certified with the County before December 31, 2015. As you are aware, the construction of the 2016 budget is a year-long process which includes Mayor, City Council, and staff input, budget work sessions, and culminating with a final document to be approved by City Council.

Key items in this year's budget:

- Overall City-wide levy increase is 4.08 percent. This increase is primarily due to additional funding for capital improvement and adjustments to compensation and proposed new positions. Part of the increase was offset by a decrease in the Debt Service levy due to accumulated reserves in the pooled Debt Service Fund.
- Wages and benefits
 - Health insurance increase of 6.5%
 - Proposed staffing change – proposed part time Building Inspector position whose services will generate additional revenue from other Cities.
 - Compensation adjustment – Increase in salaries for management staff based on step increase and 2.5% increase in base, 2.5% increase for AFSCME staff, and a 2.5% for Liquor Store staff.
- General Fund Revenue
 - Increase in charges for services for expanded services provided by Building Inspector position
 - Increase in intergovernmental revenues due to increase in LGA of \$17,139
 - Decrease in unknown grants to be received in 2016
- General Fund Expenditures
 - Increase in elections due to budgeting for primary election in 2016
 - Additional increased related to proposed positions noted above
 - Increase in overlay of \$13,000

The following are some of the key factors in developing the budget:

Minimum Wage Increase

There was no new minimum wage law passed in 2015; however, some of the provisions passed in 2014 have yet to come into effect. This is simply intended to remind cities of the 2014 law.

As of August 2014, large employers (cities with a total budget greater than \$500,000) had to pay most employees covered by minimum wage law at a rate of at least \$8.00 per hour, and small employers must pay all applicable employees at a rate of at least \$6.50 per hour. On Aug. 1 of 2015 and 2016, the Minnesota minimum wage is scheduled to increase for both large and small employers.

As of Aug. 1, 2015, the Minnesota minimum pay rate increased to \$9.00 per hour for large employers and to at least \$7.25 per hour for small employers. Then, on Aug. 1, 2016, the Minnesota minimum pay rate will increase to \$9.50 per hour for large employers and to at least \$7.75 per hour for small employers.

There are two exceptions to these wage amounts for younger employees. First, large employers must pay employees under age 18 a rate of at least \$6.50 per hour.

Second, all employers may elect to pay employees under age 20 at a rate not less than \$6.50 per hour, but only for their first 90 consecutive days of employment. After the 90 days, the minimum hourly rate becomes \$8.00. Both of these rates were effective Aug. 1, 2014, and both amounts are scheduled to increase each year.

As before, these minimum wage requirements do not pertain to elected officials; individuals who serve on any governmental board, commission, committee, or other similar body; city volunteers; or any individual employed, directly or indirectly, by the city to provide police or fire protection services.

Beginning in 2017 and each year after, the Department of Labor and Industry will determine with feedback of stakeholders any appropriate minimum wage increase. The minimum wage increase, if any, will be effective in August of the following year.

City sales and use tax exemption.

Instrumentalities of cities, special districts, and joint powers boards become exempt from state sales and use tax on Jan. 1, 2017. Prior to the amendment, these entities were to become exempt on Jan. 1, 2016.

Levy Limits

At this time there are no levy limits.

Deadline for certification of final levy

The final levy is to be certified to Pine County no later than five business days following December 20, 2015. This would be December 28, 2015.

Tax Levy Summary

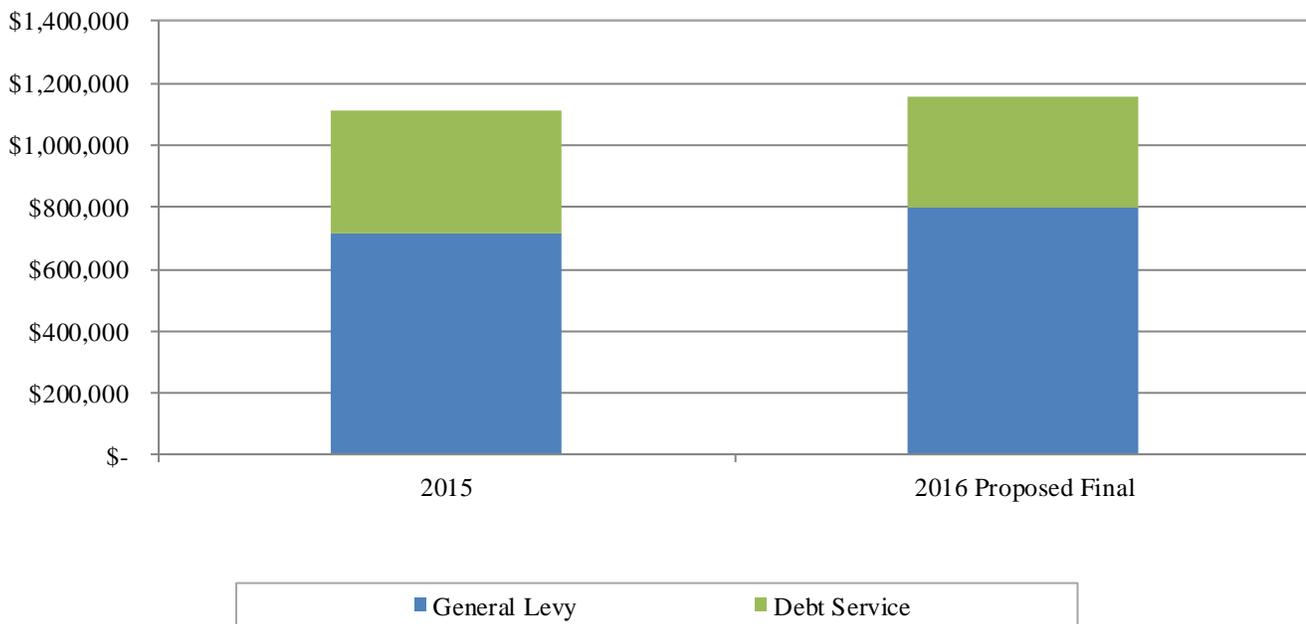
Overall, the tax levy includes levies for general operations, city infrastructure and debt services. The levy includes an overall increase of 4.08 percent when compared to 2015. The 2015 budgeted and 2016 tax levies are listed below:

	2015 Budget	2016 Final Budget	Increase (Decrease)	% Change
General	\$ 631,750	\$ 667,228	\$ 35,478	5.62%
Capital Improvement Fund	86,000	130,000	44,000	51.16%
Total General Government	717,750	797,228	79,478	
Debt Service				
JOBZ Exempt	55,000	55,000	-	0.00%
JOBZ Nonexempt	337,161	304,330	(32,831)	-9.74%
Total Debt Service Levy	392,161	359,330	(32,831)	
Total City Operating Levy	1,109,911	1,156,558	46,647	4.20%
Economic Development	32,949	32,976	27	0.08%
Total City Wide Levy	\$ 1,142,860	\$ 1,189,534	\$ 46,674	4.08%

The increase in the 2016 Preliminary Tax Levy can be primarily attributed to the following factor;

- Increase of capital budget - \$44,000
- Increase in compensation as noted above
- Decrease in debt levy

Levy Summary 2015 to 2016 Projected



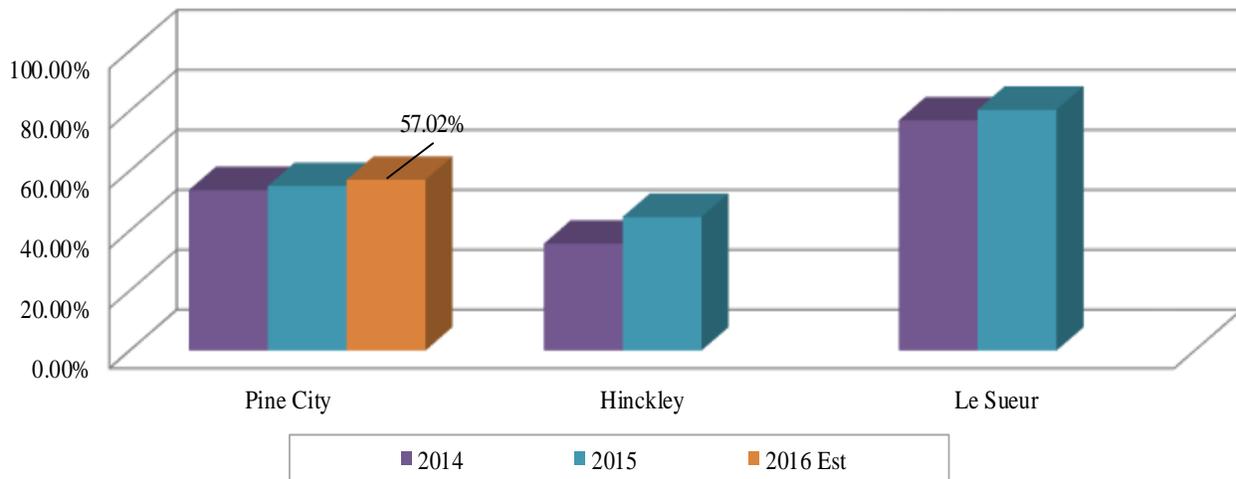
Summary of the City's Tax Capacity

The past two years with comparison to the average percentage change for Pine County is listed below:

City of Pine City Property Type - Tax Capacities	2013 Pay 2014	2014 Pay 2015	2015 Pay 2016	% Change
Rural	\$ 8,367	\$ 8,648	\$ 4,198	-51.46%
Residential	870,303	891,163	903,090	1.34%
Apartments	161,966	161,535	162,044	0.32%
Manufactured Home Park	14,485	14,485	14,484	-0.01%
Commercial/Industrial	963,229	939,861	938,358	-0.16%
Other	64,071	63,519	64,028	0.80%
Total	\$ 2,082,421	\$ 2,079,211	\$ 2,086,202	0.34%

Tax Capacity Rates - 2014 - 2015, 2016 Estimate for Pine City

City of Pine City Tax Rate History Compared to other related cities:



Conclusion

The purpose of the summary overview was to give a high level perspective of the overall budget. The remainder of this budget documents outlines each fund and the proposed changes. As a reminder, once the preliminary 2016 levy was set the Council can decrease the levy but cannot increase it. The final levy must be approved and submitted to the County no later than December 28, 2015.