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**CITY OF CLOQUET
SPECIAL WORK SESSION MEETING**

Tuesday, May 31, 2016
5:30 p.m.
City Hall Council Chambers

Cloquet - Scanlon Consolidation Study Final Draft Presentation
By Ehler's & Associates

Recommendations to the City Councils
for the Cities of Scanlon and Cloquet
for a Merger by Cooperation and Combination,
and Preliminary Plan



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Draft Dated: May 20, 2016

Executive Summary

In many ways, there are few places in Minnesota where a cooperative combination would be less disruptive than it would be for the residents and businesses of Cloquet and Scanlon. The two cities are geographically and economically integrated. There are no physical separations between developments on the two cities’ boundaries. They share the same road system and their citizens are employed at the same businesses.

The two communities also share many governmental services. Both are served by Carlton County, Cloquet School District, Cloquet Area Fire and Ambulance District, Western Lake Superior Sanitary District, and Arrowhead Regional Development Commission.

In addition, the City of Cloquet currently provides all Scanlon residents with police services on a contractual basis and supplies water to the City of Scanlon on a wholesale basis.

The analysis was constructed using the assumptions provided by city staff for operating costs and, with the exception of the City of Scanlon, future capital needs. The analysis found that the many similarities between the two cities meant that the projected impacts between one combined city versus two separate cities were very minimal, with some exceptions as described below.

- Because the City of Cloquet already provides for some essential services to the City of Scanlon, this analysis found minimal savings from a combination due to the current structure of how city services are currently provided. The study found about \$40,000 in cost savings.
- Staffing changes would be minimal, except for potentially duplicative services such as Council, Mayor, utility billing, and election judges, which would be eliminated. Additional duplicative professional services such as attorney and financial statement audit could be reduced.
- For the water and sewer enterprise funds, the study found that the merger would be predominantly revenue neutral in the near term. The water and the sewer funds for the City of Cloquet have healthy fund and cash balances. The analysis assumed 3% inflationary increases in operating expenses and 4% inflation on capital costs for the water and the sewer utilities. The analysis also assumed that the existing utility debt for the Cities of Cloquet and Scanlon would be paid from the Water Fund after a merger. The chart below shows projected water, sewer and storm sewer fees for a 4,000 gallon per month average user:

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Cloquet Alone	\$45.05	\$46.17	\$47.33	\$48.51	\$49.72	\$50.97	\$52.24	\$53.55	\$54.88
Scanlon Alone	\$99.43	\$101.91	\$104.46	\$107.07	\$109.75	\$112.49	\$115.31	\$118.19	\$121.14
Merged Utility Rates	\$45.38	\$46.85	\$48.37	\$49.94	\$51.57	\$53.24	\$54.97	\$56.76	\$58.61
Change from Cloquet Alone	\$0.33	\$0.68	\$1.05	\$1.44	\$1.85	\$2.28	\$2.74	\$3.22	\$3.72
Change from Scanlon Alone	(\$54.05)	(\$55.06)	(\$56.09)	(\$57.13)	(\$58.18)	(\$59.25)	(\$60.33)	(\$61.43)	(\$62.54)

The chart above shows that a resident of Scanlon would see lower utility bills from a combination. A resident of Cloquet would see a minor increase in monthly utility bills from a combination. The study assumed that water revenues derived from the sales of bulk water to the City of Scanlon would be replaced by direct water sales to the residents of the City of Scanlon.

The City of Cloquet collects about \$77,300 in bulk sales to the City of Scanlon. Direct water sales would be about \$67,000. Water operating expenses and interest expenses that would transfer from

the City of Scanlon to the City of Cloquet are about \$77,200. Direct water sales of \$67,000 would not completely cover additional operating and interest expenses. The rate increases that have been identified in the future for the City of Cloquet’s water fund post-merger in the near term would be due to normal inflationary increases in expenses rather than as a direct and immediate consequence of a merger. Near term water rates would need to increase by 3.25% annually after a merger in order to compensate for inflationary increases in expenses. The existing cash balance in the Water Fund for the City of Cloquet is healthy and adequate to absorb the difference using conservative rate increases.

For the Sewer Fund operations, direct charges to Scanlon residents would equal about \$115,000 and additional operating expenses that would result from a combination would be about \$155,000. The analysis also assumed a 3% inflationary increase in operating expenses and 4% inflation on capital expenses. Future sewer rates would need to increase by 3.25% annually in the near term after a merger, again, due to normal inflationary increases in expenses rather than as a direct and immediate consequence of a merger. As with the water fund, the City of Cloquet’s sewer fund has a healthy and adequate cash balance. All assumptions for rate increases are shown in the table above.

A formal rate study was not completed during the course of this analysis. We would recommend that a full rate study be completed if and when the cities merge in order to address any potential revenue shortfalls, future capital improvement needs and match fees to actual usage patterns.

- The tax impact between a combined city versus two separate cities is minimal, except for the Knife Falls Township area. The chart below shows the projected city only taxes between a combined entity and two separate cities. This analysis assumes that the Knife Falls area, as described below, is phased into the combined area over a six year period. The chart shows the projected City rate only. The tax impacts do not show the projected rates of the other taxing jurisdictions such as the county or the school, because any potential changes to those rates were not included in this study.

City of Cloquet											
		Projected City Only Taxes									
	Final Pay 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Merger	\$316	\$328	\$336	\$342	\$348	\$364	\$409	\$424	\$444	\$465	\$487
No Merger	\$316	\$328	\$344	\$356	\$369	\$394	\$450	\$475	\$497	\$521	\$545
Difference	\$0	\$0	(\$8)	(\$14)	(\$21)	(\$30)	(\$41)	(\$51)	(\$53)	(\$56)	(\$59)

Knife Falls Township											
		Projected City Only Taxes (Knife Falls Township phased in over a six year period)									
	Final Pay 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Merger	\$87	\$90	\$153	\$193	\$233	\$284	\$368	\$424	\$444	\$465	\$487
No Merger	\$87	\$90	\$119	\$122	\$125	\$132	\$173	\$180	\$186	\$192	\$199
Difference	\$0	\$0	\$34	\$70	\$108	\$152	\$194	\$244	\$258	\$273	\$288

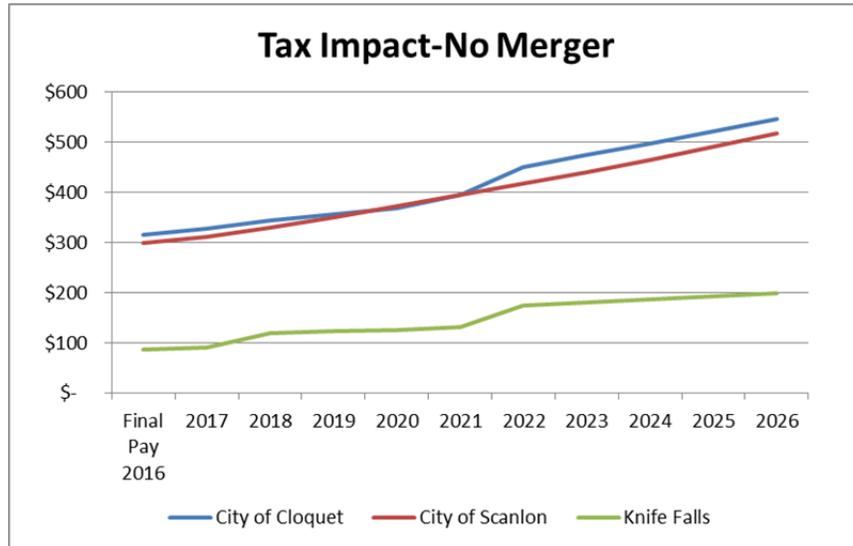
City of Scanlon											
		Projected City Only Taxes									
	Final Pay 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Merger	\$299	\$311	\$336	\$342	\$348	\$364	\$409	\$424	\$444	\$465	\$487
No Merger	\$299	\$311	\$330	\$351	\$372	\$394	\$417	\$440	\$465	\$490	\$517
Difference	\$0	\$0	\$5	(\$9)	(\$24)	(\$30)	(\$7)	(\$16)	(\$21)	(\$25)	(\$30)

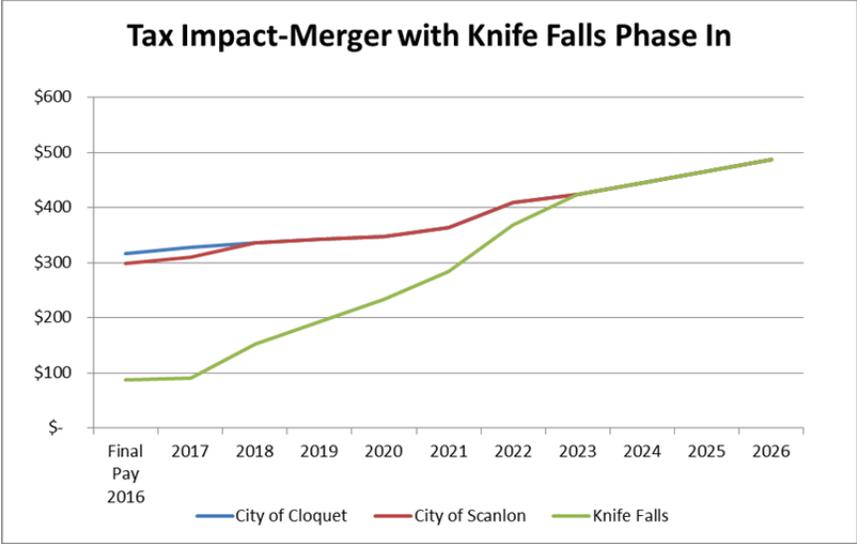
The table above shows the difference in city only taxes, not including County, School and other taxing jurisdictions, if a combination were to occur compared to no combination.

The increases in taxes shown above are the result of:

- (a) inflationary market value increases. The projections assume a 2% increase in the market value of the example residential home.
- (b) levy increases due to inflation on expenses. The projections assume a 3% increase in general operating expenditures.

The residents of the City of Cloquet and the City of Scanlon would potentially experience slightly less in property taxes while a resident of Knife Falls would experience higher taxes. The lower taxes for Cloquet and Scanlon are the result of a higher percentage of the value of Knife Falls area being added to the combined Cloquet/Scanlon city tax base over time. Conversely, the Knife Falls area would experience a higher tax rate because the value that is excluded from 100% participation in the tax base for the combined city would decrease. The graphs below show the same information.





The above is representative of an estimate of the projected taxes with the information available at this time. Other complex property tax issues such as disparity aid, County library levy, and other items outside of the control of the Cities may impact the final tax rates in a minor way and have not been calculated or incorporated in the projections.

Introduction

The cities of Cloquet and Scanlon have retained Ehlers to assist them with the evaluation of a potential cooperative combination. In effect, the two communities would merge into one. Cloquet and Scanlon have chosen this methodology of cooperation and combination to consider a merger that does not require any input or oversight from any other governmental entity. The process for this type of merger is detailed in Minnesota Statutes, Section 465.81 to 465.86 (the “Combination Statute”). This preliminary plan is intended to provide the information to the governing bodies and the citizens of Cloquet and Scanlon required under the Combination Statute. Once both city councils agree upon modifications to the plan, and each city council then adopts the final agreed upon written plan, the voters of the two cities must decide whether or not a merger by cooperation and combination of the two cities should occur.

In 2012, the Minnesota Office of the Legislative Auditor (the “OLA”) conducted a thorough study of the advantages of, disadvantages of, potential for and alternatives to municipal combinations. A portion of the OLA report is an Appendix to this study. The full report can be found at <http://www.auditor.leg.state.mn.us/ped/2012/consollocgov.htm>. The OLA study in its summary report makes the following key facts and findings:

- Minnesota has over 2,700 local units of government that range in size from very large to extremely small.
- Consolidations among Minnesota local governments are rare. When they do occur, they are typically initiated by local officials and residents.
- Consolidation can be a costly, controversial, and complicated undertaking, with no guarantee of savings or more efficient operations due to differences among potential partners in resources, services, and other factors.
- In lieu of consolidation, cooperative service arrangements and incremental boundary adjustments are preferred methods to reconfigure local government services.
- There are opportunities to increase collaboration and consolidation among local governments around the state, particularly among smaller jurisdictions with capital-intensive services.
- State funding for local capital projects may impact consolidation efforts among some local governments. In the past, state funding has helped facilitate local collaborative projects; for others, funding diminished the need to consider collaboration or consolidation.

The Combination Statute requires that each governing body that proposes to take part in a combination must by resolution adopt an agreement providing a plan for cooperation and combination. The plan must address certain items outlined below. The plan must be specific for any item that will occur within three years and may be general or set forth alternative proposals for an item that will occur more than three years in the future. In addition, the governing body of each local government unit proposing to take part in the combination, shall publish at least a summary of the adopted plans in its official newspaper, and each significant modification to the plans made thereafter.

After the final plan is adopted, the City Councils must set a single referendum date for a vote to occur. The combination of the two cities can take place quickly or more gradually after a successful vote, depending upon the contents of the plan. However, the initial cooperation period may not exceed two years, and the referendum must be conducted during that period of cooperation. The combination of the two governments must be completed over the following two years.

Background Information

In many ways, there are few places in Minnesota where a cooperative combination would be less disruptive than it would be for the residents and businesses of Cloquet and Scanlon. The two cities are geographically and economically integrated. There are no physical separations between developments on the two cities’ boundaries. They share the same road system and their citizens are employed at the same businesses.

The two communities share many governmental services. Both are served by Carlton County, Cloquet School District, Cloquet Area Fire and Ambulance District, Western Lake Superior Sanitary District, and Arrowhead Regional Development Commission.

In addition, the City of Cloquet currently provides all Scanlon residents with police services on a contractual basis and supplies water to the City of Scanlon on a wholesale basis.

Property Tax Rates

The tax rates between the two cities are similar. The table below shows the trend of tax rates for Cloquet and Scanlon over the past five years. The median value home is also similar, with a median pay 2016 value of \$106,600 in the City of Scanlon and a pay 2016 median value of \$105,200 in the City of Cloquet. The projections included as Appendix A presume the same median value home in order to calculate tax impacts, or a home valued at \$106,000.

Historical Property Tax Rates

Levy/Budget Year	2011/12	2012/13	2013/14	2014/15	2015/16
City of Cloquet *	37.97%	38.59%	38.06%	38.74%	40.31%
City of Scanlon	33.09%	34.97%	35.41%	36.83%	38.21%

Source: Carlton County

*Tax rate for all of Cloquet City except rural, former Knife Falls Township.

Knife Falls Township

The City of Cloquet annexed Knife Falls Township in the early 1970s. The City of Cloquet has followed the initial annexation agreement that reduced the City’s operating tax rate for the former Knife Falls Township properties not served by City of Cloquet infrastructure, designated as a rural taxing district, which is limited to 1/4 of the rest of the City of Cloquet’s property tax rate for operations, the rest of the City of Cloquet being designated as an urban taxing district. For taxes payable in 2016, approximately 17% of the City of Cloquet’s tax capacity is subject to the lower rural district tax rate. The projections

shown in Appendix A of this report assume that the Knife Falls area is phased 100% into the Cloquet/Scanlon area over a six year period.

Debt

The relative debt amounts of each community are very low. Below are summaries of each amount and type of debt for each community as found in the 2015 official statements for each cities latest debt issues;

Cloquet Debt Amounts and Types

Direct G.O. Debt Being Paid From:	
Revenues	\$ 822,768
Special Assessments	1,325,000
Tax Abatement and Taxes	1,240,000
Total General Obligation Debt	3,387,768
G.O. Debt Paid Entirely from Revenues	(822,768)
Tax Supported General Obligation Debt	\$ 2,565,000

Source: City of Cloquet 2016 official statement

Per capita debt for non-utility debt is \$209.25. Cloquet has an excellent bond rating from Standard & Poor's at a AA+ level. This rating is only one notch below the highest possible rating of a AAA.

Scanlon Debt Amounts and Types

Direct G.O. Debt Being Paid From:	
Revenues	\$ 830,000
Bonds secured by tax levies	220,000
Total General Obligation Debt	1,050,000
G.O. Debt Paid Entirely from Revenues	(830,000)
Tax Supported General Obligation Debt	\$ 220,000

Source: City of Scanlon 2015 official statement

Per capita direct debt is \$220 for non-utility bonds. Due to the smaller size of the community, the City of Scanlon is not independently rated by a bond rating agency. The City of Scanlon's utility bond issue was credit enhanced by the State of Minnesota. The projections assume that future debt related levies are not apportioned between the different areas, but rather levied across the combined area.

Utility Costs

While each community is served wholesale by the City of Cloquet for water and the WLSSD for sanitary sewer, each city charges very different rates to pay for capital improvements and operating costs within each utility. Both cities bill monthly with a fixed charge and a variable charge for water and sanitary sewer. It is expected that the utility billing system for Scanlon will be discontinued and the Cloquet billing system will incorporate the former Scanlon residents and businesses.

Cloquet Monthly Utility Rates

Rates for Standard Meters	Inside Rates	Outside Rates
Water Fixed Charge	\$ 4.00	\$ 5.00
Water per 1,000 gallons	\$ 2.00	\$ 3.00
Water over 6,000 gallons	\$ 2.50	\$ 3.50
Sewer Fixed Charge	\$ 3.00	\$ 3.00
Sewer per 1,000 gallons	\$ 4.75	\$ 4.75
Dept. of Health Fee	\$ 0.55	\$ 0.55

Stormwater Utility

	Monthly
Single Family Residential	\$ 4.00
Duplex	\$ 6.00

City of Cloquet resident using 4,000 gallons/month: \$11.55 fixed plus \$8.00 for water and \$19.00 for sewer = \$38.55 bill per month for utilities.

The City of Cloquet's annual water and sewer revenues for 2016 are expected to be \$3,029,800 (excluding Sappi water line but including \$1,208,800 water, \$1,489,000 sanitary sewer, and \$332,000 storm sewer budgets).

Scanlon Monthly Utility Rates

	Rates
Monthly Fixed Charges (water main \$4.00, water impr. \$5.00, water test \$.53, I&I \$3.00)	\$ 12.53
Water per 1,000 gallons	\$ 6.59
Sewer per 1,000 gallons	\$ 11.55

A City of Scanlon resident using 4,000 gallons/month: \$12.53 fixed plus \$26.36 for water and \$46.20 for sewer = \$85.09 monthly bill.

Because of the disparity between rates charged between the cities, the impacts of the combination on utility services assume that the rates for Scanlon residents would decrease. Currently, the City of Scanlon buys water from the City of Cloquet. The City of Scanlon then bills its residents directly. The study assumes that the revenues derived from bulk water sales to the City of Scanlon would be replaced by direct water sales to Scanlon residents. It is assumed that the bulk sales would have been higher than the direct sales. The study found that rates would need to increase by 3.25% to offset normal inflationary increases in operating expenses rather than as a direct and immediate consequence of a merger because the water operations for the City of Cloquet currently have healthy and adequate cash balances. A full rate study was not completed as part of this analysis and we would recommend one be completed when and if the cities combine.

Sales Tax

Beginning April 1, 2013, the City of Cloquet began levying a one half of one percent (.5%) sales and use tax that is administered by the Minnesota Department of Revenue. The tax will be used to pay for the following projects:

- (1) construction and completion of park improvement projects including St. Louis River riverfront improvements; Veteran's Park construction and improvements; improvements to the Hilltop Park soccer complex and Braun Park baseball complex; capital equipment and building grounds improvements at the Pine Valley/Pine Valley Hockey Arena/Cloquet Area Recreation Center; and development of pedestrian trails within the city;
- (2) extension of utilities and the construction of all improvements associated with the development of property adjacent to Highway 33 and Interstate Highway 35, including payment of all debt service on bonds issued for these; and
- (3) engineering and construction of infrastructure improvements, including, but not limited to, storm sewer, sanitary sewer, and water in areas identified as part of the city's comprehensive land use plan.

The sales tax applies to retail sales made within the city limits of Cloquet. The use tax applies to taxable items used in Cloquet if the local sales tax was not paid. The tax applies to the same items that are taxable under the Minnesota sales and use tax law for a State sales tax with the exception that the Cloquet sales and use tax does not apply to sales of motor vehicles registered for road use.

The source for the sales tax information above was based upon a fact sheet provided by the Minnesota Department of Revenue.

A local sales tax is statutorily required to apply everywhere within the local jurisdiction boundaries. Following local jurisdiction boundary changes, local sales tax shall apply to previously untaxed areas starting only on the first day of a calendar quarter, and only after the commissioner has notified sellers at least 120 days prior to the change. The commissioner will need to be notified immediately following a successful referendum of the boundary changes to the City of Cloquet, with the inclusion of the City of Scanlon. The local sales tax will then become effective April 1, 2017 throughout the former City of Scanlon.

The exact amount of sales that that will result from sales in Scanlon is difficult to determine without a Department of Revenue study of current sales tax collected in Scanlon. The growth in internet based retail sales and the irregular collection system associated with those sales further complicates the issue.

Cloquet is forecasting slightly more than \$1,000,000 in sales tax receipts. Based simply on population, an extension of the sales tax to Scanlon would mean \$80,000 in additional revenue. This amount could be significantly less once input from the State is received.

Short Term and Long-Term Governance

Cloquet began as a group of small settlements around three sawmills: Shaw Town, Nelson Town, and Johnson Town. These later became known as Knife Falls, named after a local waterfall over sharp slate rocks, and then later as Cloquet. The area was platted in 1883 and the village of Cloquet was incorporated from the three settlements in 1884. It became a city with a mayor and city council in 1904. The City of Cloquet annexed Knife Falls Township in the early 1970s. The City Administrator and the Finance Director are responsible for administrative details and financial records.

The City of Cloquet operates under a statutory form of government consisting of a seven-member City Council of which the Mayor is a voting member. Five of the council members are elected by wards with the Mayor and one council-member elected at large. Ward 4, Ward 5 and the at-large seat are scheduled for election at the end of 2016 with the remainder of the council scheduled for election in 2018.

The City of Scanlon, named after Joseph Scanlon, a businessperson in the lumber industry, was organized on February 11, 1902. Scanlon is a Minnesota statutory city with an Optional Plan A form of government. It has a mayor elected at large for a four-year term and four council members also elected at large for four-year terms. Two council seats are up for election in 2016 with the remainder of the Council subject to election in 2018.

The councils plan to collectively meet on a regular basis through a committee and with the whole membership to effectuate the merger and jointly address council agendas and council business. Following a successful referendum November 2016, the merging cities plan a complete merger of the City Councils by December 31, 2016, with no transitional council being formed.

Recommendations

The Combination Statute Section 465.82, Cooperation and Combination Plan, in Subdivision 2, Contents of Plan, is broken down into nine paragraphs, each providing specific requirements that are to be addressed in a plan. The following items reflect the preliminary Ehlers' recommendations under each paragraph:

Required: CONTENTS OF PLAN

pursuant to Minn. Stat. § 465.82, Subd.2

Cooperative Activities, Paragraph 1 (*M.S. § 465.82, Subd.2(1)*): State the specific cooperative activities the units will engage in during the first two years of the venture:

The cities will share fees associated with the combination:

- ____ equally.
- ____ proportionate to their size.
- ____ other (_____).

The cities have already split the fees for this study. Additional work will need to be done by each city attorney's office to refine governance issues.

The cities will cooperatively decide on a name for the merged city. The rules for consolidation provide that the new municipality shall assume the name of the most populous municipality unless prior to the referendum another name is chosen by joint resolution of the merging cities. Although this is not a consolidation, the rule is still logically applicable. It is therefore recommended that Cloquet continue as the name of the new city.

The cities will jointly publish a summary of the final cooperation and combination plan in their official newspaper. The cities will jointly hold public information meetings during the time prior to the referendum on the cooperation and combination process.

Each city council will review each of the other entity's budgets in the summer of 2016 for the fiscal year 2017. City of Cloquet public works staff and city of Scanlon public works staff, with consulting engineers, will review of the condition of each cities water, sewer and street infrastructure in 2016. City of Scanlon council will be briefed on the City of Cloquet's future new/renovated facility plans.

Law enforcement service is currently cooperative through the Cloquet Police Department and will remain cooperative. Fire protection and ambulance service is currently cooperative, through the Cloquet Area Fire District and will remain cooperative.

Should a referendum occur in November, 2016, the cities will work to quickly prepare for further cooperation of services by January 2017 with combination of services to be complete by as early as January 2018. These services include but are not limited to street and park maintenance, utility maintenance services, financial reporting and record keeping.

The cities plan to cooperatively review their ordinances during the first two years. The Cloquet City Code will remain intact with Scanlon City Ordinances to be reviewed by committee of council members, staff and citizens described below as well as the city attorneys of both cities for proposed amendments to the Cloquet City Code, to arrive at a unified City Code governing the territory of the merged cities.

The cities anticipate joint and cooperative utility billing starting in late 2017 or early 2018 after a review of the capital needs of both cities and after a committee of council members, staff and citizens work on an alignment of water and sewer rates.

Administration of building permits and inspections will be cooperative starting January 2017, and will be combined starting January 2018 following merging of the City Code. Administration and enforcement of zoning and subdivision ordinances will be cooperative starting January 2017, and will be combined starting January 2018 following merging of the City Code.

Steps to be Taken to Effect a Merger, Paragraph 2 (M.S. § 465.82, Subd.2(2)): *State the steps to be taken to effect the merger of the governmental units, with completion no later than four years after the process begins;*

Schedule for 2016

- March: City councils review cooperation and combination plan in joint work session
- April: City councils create joint subcommittee to meet regularly and refine plan
- May: Cities hold open house or public hearing for public feedback on general concept of merger by cooperation and combination.
- Decision on new format for city council established.
- June: Cities agree upon and each adopt the merger plan and publish a summary of plan
- July: Cities hold open house or public hearing for public feedback on plan for merger by cooperation and combination.
- August: City councils agree upon and each adopt amended plan and republish summary of plan, if necessary.
- City councils adopt appropriate ballot language and resolutions
August 26 is deadline to file ballot and resolutions to County Auditor for election
- September: City councils adopt separate budgets and tax levies assuming the merger were not to occur but receive briefings on both budgets.
- Cities prepare factual summary of combination impacts
Public information meeting held
- October: Publishing and posting deadlines for election.
- November: Cities hold referendum.
- Commissioner of Revenue is notified of jurisdictional boundary changes to be effective January 1, 2017 to notify sellers for local sales tax implementation April 1, 2017.
- December: Process of merging Scanlon administration with Cloquet's begins.
- Committee is formed to review all city codes with initial emphasis on zoning, fees, and council procedures. The committee would continue until a unified code is adopted by the City Council. The committee should include individuals appointed by the City Administrator, and should include one former Scanlon city council member. The City Administrator will chair the committee. Completed

sections of unified code will be reviewed by the City Attorney as to authority, form and legal validity before presentation to the City Council for approval.

Schedule for 2017

January: Combination occurs with merger of two city councils into one. A Scanlon ward is created and one council member from the former Scanlon council is added to the Cloquet city council.

February: Budget for 2017 is modified to reflect combination and to reduce any expenditures which are duplicative.

Committee is formed to review utility rates and oversee a new capital improvement plan for sewer, water, and stormwater. The committee would continue until a new rates structure and capital improvement plan for the utilities is adopted by the City Council. The committee should include individuals appointed by the City Administrator, and should include one or more former Scanlon city council members. The City Administrator will appoint a chair for the committee.

April: Cloquet city sales tax extends over entire merged city.

September: New merged preliminary tax levy adopted for taxes payable 2018, with taxes being equalized between Cloquet and Scanlon urban districts, and with taxes being equalized between Cloquet and Scanlon rural districts. Equalization between urban and rural taxing districts is not a requirement for the merger and will not be addressed at this time.

December: New utility rate structure for 2018 adopted.
Budget for 2018 adopted.

Schedule for 2018

January: Task force for evaluating changes to wards or elimination of ward system established.

April: Decision on realignment of ward boundaries or elimination of ward system complete.

November: New city council elections for expiring terms minus one to bring council back to seven members.

Creation of Single Governing Body, Paragraph 3 (M.S. § 465.82, Subd.2(3)): State the steps by which a single governing body will be created.

The City of Cloquet operates under a statutory form of government consisting of a seven-member City Council of which the Mayor is a voting member. Five of the council members are elected by wards with the Mayor and one council-member elected at large.

Scanlon is a Minnesota Statutory City with an Optional Plan A form of government. It has a mayor elected at large for a four-year term and four council members also elected at large for four-year terms.

The following is a list of current elected officials for each of the merging Cities and the years the seats are scheduled to be subject to an election:

Cloquet:

Mayor - Dave Hallback (2018)

Ward 1 - Jeff Rock (2018)

Ward 2 - David Bjerkness (2018)

Ward 3 - Roger Maki (2018)

Ward 4 - Kerry Kolodge (2016)

Ward 5 - Steve Langley (2016)

At Large - Lara Wilkinson (2016)

Scanlon:

Mayor - Marshall Johnson (2018)

James Pratt (2016)

Scott Boedigheimer (2016)

Mike Berthiaume (2018)

Allan Wallin (2018)

There are options in the Consolidation Statute for a transitional government that would allow all council members or at least of a majority of each council to participate in a temporary city council until new elections are held for a new government. Given the relative size of the two cities, it is not recommended that a transitional council be selected. Following a successful referendum November 2016, the merging cities plan a complete merger of the City Councils by December 31, 2016, with no transitional council being formed.

Due to the disparity in size between the two cities, on the passing of the referendum by both cities, the Scanlon City Council will appoint one of their members to be the representative for the Scanlon “Ward”

as an additional member of the merged Cloquet City Council. The Scanlon ward would contain less than 1,000 people while the other five wards would have 2,000 to 3,000 people per ward. Ward lines would need to be adjusted prior to the next election in 2018 to equalize the population between wards. The new Cloquet Council would then have eight members beginning January 1, 2017. The remainder of the Scanlon City Council would be expected to resign. However, it is recommended that committees be formed to address implementation issues that remain including the new utility rate structures and the merging of the City Codes for each City. It is further recommended that former Scanlon councilmembers play a role in these committees.

As early as 2018, further modifications to the size and structure of the new City Council would need to occur. There are several options that could be considered for a redesigned Cloquet council. These include one or more of the following variations, one of which must be chosen for the Plan:

1. At-large City Council position could be eliminated as it expires and the Scanlon ward could continue with the boundaries of the former city being expanded as part of ward equalization, bringing the size of the council back to seven.
2. Ward lines could be redrawn to continue an At-large City Council seat by eliminating one of the present wards, and the Scanlon Ward would remain intact even though its outer boundaries would require adjusting, bringing the size of the council back to seven.
3. The city could choose to eliminate the ward system in the future with new Council members to be elected in an at large election in 2018 for expiring terms minus one, to bring the size of the council back to seven.

Services Provided, Paragraph 4 (*M.S. § 465.82, Subd.2(4)*): *State changes in services provided, facilities used, and administrative operations and staffing required to effect the preliminary cooperative activities and the final merger, and a two-, five-, and ten-year projection of expenditures for each unit if it combined and if it remained separate;*

General City Services

The services provided to citizens would not change with a combination nor will new facilities need to be constructed because of the combination. The location of such services will change for Scanlon residents. Administrative functions currently held at the Scanlon city hall could begin to move shortly after the referendum approving the merger to the Cloquet city offices. It is anticipated that the Scanlon city hall will remain open, potentially transformed to a social and/or recreational center over time. Street maintenance currently provided by Scanlon employees would move to Cloquet facilities in January 2017. Staffing in the short-term would only change by the duplication of services that occurs with a part-time clerk currently employed by Scanlon.

In the general fund budgets of the two merged communities, this study has identified a minimum of approximately \$40,000 in annual savings through a merged budget (this excludes the reduction in revenue and expenses for a merged community related to the police contract between the two cities). The savings come from the costs for Scanlon council and mayor, Scanlon city attorney, auditor and election costs that

would not be necessary after a merger. The savings also include the elimination of one part-time position currently employed by Scanlon.

Water and Sewer Utility Services

While each community is served wholesale by the City of Cloquet for Water and the WLSSD for sanitary sewer, each city charges very different rates to pay for capital improvements and operating costs within each utility. Both cities bill monthly with a fixed charge and a variable charge for water and sanitary sewer. It is expected that the utility billing system for Scanlon will be discontinued and the Cloquet billing system will incorporate the former Scanlon residents and businesses.

Treatment of Employees, Paragraph 5 (M.S. § 465.82, Subd.2(5)): *State treatment of employees of the merging governmental units, specifically including provisions for reassigning employees, dealing with exclusive representatives, and providing financial incentives to encourage early retirements;*

The City of Cloquet currently has approximately 67 full-time and six part-time/seasonal employees. The staff of the City of Scanlon consists of three full-time and one part-time position. At this time, the only change to current employment would be the elimination of the Scanlon part-time position. It is anticipated that all of the remainder of the current Cloquet and Scanlon employees will continue to be employed in the merged city.

Financial Arrangements, Paragraph 6 (M.S. § 465.82, Subd.2(6)): *State financial arrangements for the merger, specifically including responsibility for debt service on outstanding obligations of the merging units;*

The responsibility for debt service payments on outstanding obligations will be paid by the taxpayers and utility systems of the combined new city without regard to the former boundaries of the two cities. The City of Cloquet is very highly rated by Standard & Poor's at a "AA+", the second highest possible rating for a city and the same rating as the State of Minnesota. This high rating will be extended to existing and future debt of Scanlon, with lower interest costs for future debt. Both cities currently have very low amounts of debt when compared to similar cities. Debt service in projected 2018 expenditures for merged property tax levy is less than 3% of the total general fund expenditures and less than 5% for utility expenditures of the combined two cities. Scanlon's total outstanding debt (not annual payments) in 2015 was \$220,000 for general obligation debt supported primarily by taxes and \$830,000 of general obligation debt supported by utility revenues and assessments. Cloquet's total outstanding debt (not annual payments) in 2015 was \$2,565,000 for general obligation debt supported primarily by taxes and assessments and \$823,000 of general obligation debt supported by utility revenues.

Impact Analysis, Paragraph 7 (M.S. § 465.82, Subd.2(7)): *one- and two-year impact analyses, prepared by the granting state agency at the request of the local government unit, of major state aid revenues received for each unit if it combined and if it remained separate, including an impact analysis, prepared by the Department of Revenue, of any property tax revenue implications associated with tax increment financing districts and fiscal disparities under chapter 276A or 473F resulting from the merger;*

State Aids:

The merger is expected to slightly increase state aids to the merged city when compared to existing state aids. There are two primary state aids applicable in this situation: local government aid (LGA) which is used to reduce a city's property tax levy and municipal state aid (MSA) which is a portion of the State of Minnesota motor vehicle fuel tax dedicated to help cities over 5,000 in population with improvements to local roads. LGA for Cloquet in 2016 is budgeted at \$2,356,480 and \$208,372 for Scanlon. The State of Minnesota indicated in writing that it does not anticipate a change in total LGA due to merger. Therefore, approximately \$2,565,000 in LGA is anticipated in future budgets in the merged city. The City of Cloquet currently receives \$689,000 in MSA funds to serve 22 miles in MSA designated streets. The MSA amount breaks down into \$241,000 for annual street maintenance and \$448,000 for construction. The City of Scanlon does not receive MSA because it is too small. The Minnesota Department of Transportation oversees use of MSA dollars and declined to offer an exact amount of new MSA dollars without several meetings with regional and state staff. Based upon approximately 1 to 1.5 miles of increased MSA eligible roads in the merged city, Cloquet staff and consultants estimate that the MSA funding would increase by approximately \$48,700.

Tax Increment

Scanlon currently has no tax increment financing (TIF) districts and Cloquet has three TIF districts which include less than 1% of Cloquet's tax base. The TIF districts are not expected to impact materially tax revenue because of the minor use of the tool and because chapter 276A or 473F do not apply in this situation.

Property Taxes

Taxes for Cloquet and Scanlon residents are expected to be slightly lower with a combination than it would have been without a combination. The projections assume that the Knife Falls area is phased into the combined Cloquet/Scanlon area over a six year period. Currently, the Knife Falls area contributes 25% of its tax capacity to the City of Cloquet and the rate extended to this area is 25% of the general operating rate of the City of Cloquet as a whole. The projections assume that a larger portion of the Knife Falls area is added to the combined Cloquet/Scanlon area over time, resulting in a larger combined tax base for Cloquet/Scanlon. In future years, the tax rates may increase due to increases in inflation and the potential for a new public facility that is already planned in Cloquet. Because Scanlon does not have a long-term capital plan, current year capital expenditures are projected forward without any major change. This is an unknown factor in this analysis. Large, unidentified future capital expenditures could materially change the projections and the impacts. Future expenditures over the next 10 years for each city separately and combined are found in Exhibit A.

The chart below shows the impact of a combination versus no combination.

Projected City Only Taxes											
	Final Pay 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Merger	\$316	\$328	\$336	\$342	\$348	\$364	\$409	\$424	\$444	\$465	\$487
No Merger	\$316	\$328	\$344	\$356	\$369	\$394	\$450	\$475	\$497	\$521	\$545
Difference	\$0	\$0	(\$8)	(\$14)	(\$21)	(\$30)	(\$41)	(\$51)	(\$53)	(\$56)	(\$59)

Knife Falls Township											
Projected City Only Taxes (Knife Falls Township phased in over a six year period)											
	Final Pay 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Merger	\$87	\$90	\$153	\$193	\$233	\$284	\$368	\$424	\$444	\$465	\$487
No Merger	\$87	\$90	\$119	\$122	\$125	\$132	\$173	\$180	\$186	\$192	\$199
Difference	\$0	\$0	\$34	\$70	\$108	\$152	\$194	\$244	\$258	\$273	\$288

City of Scanlon											
Projected City Only Taxes											
	Final Pay 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Merger	\$299	\$311	\$336	\$342	\$348	\$364	\$409	\$424	\$444	\$465	\$487
No Merger	\$299	\$311	\$330	\$351	\$372	\$394	\$417	\$440	\$465	\$490	\$517
Difference	\$0	\$0	\$5	(\$9)	(\$24)	(\$30)	(\$7)	(\$16)	(\$21)	(\$25)	(\$30)

Water and Sewer Utility

There is expected to be an impact on the cost of water and sewer utility services upon completion of a combination. For an average user of 4,000 gallons of water and sanitary sewer flow in Scanlon, the current monthly bill is slightly more than \$85, of which \$12.53 is a fixed fee and the remainder is a variable amount dependent upon usage. In Cloquet, including the monthly stormwater fee in addition to the two other utilities, the monthly bill is \$38.55. The fixed portion of the Cloquet bill is \$11.55. For purposes of this analysis, it is anticipated that Scanlon residents would be merged into the Cloquet utility rate structure. It is anticipated that there would be a very small amount of savings with a merged utility system due to elimination of a part time position employed by Scanlon. However, it is also possible that capital needs will offset any savings due to the fact that the City of Scanlon has not completed a comprehensive capital improvement plan. The study assumes that the Cloquet water and sewer rates will need to increase 3.25% in 2018 and the near term to offset inflationary increases in expenses rather than as a direct and immediate consequence of a merger. Water and sewer revenues that would result from a transition from bulk sales to direct sales would not entirely offset projected increases in expenses. One factor that mitigates the need to increase rates by more than inflation is due to the fact that the utility operations for the City of Cloquet currently have healthy cash balances. This allows the utility system to absorb the difference between revenues and expenses in the near term. The analysis also assumes that the existing utility debt for the Cities of Cloquet and Scanlon would be paid from the water fund after a merger. The chart below shows projected water, sewer and storm sewer fees for a 4,000 gallon per month average user:

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Cloquet Alone	\$45.05	\$46.17	\$47.33	\$48.51	\$49.72	\$50.97	\$52.24	\$53.55	\$54.88
Scanlon Alone	\$99.43	\$101.91	\$104.46	\$107.07	\$109.75	\$112.49	\$115.31	\$118.19	\$121.14
Merged Utility Rates	\$45.38	\$46.85	\$48.37	\$49.94	\$51.57	\$53.24	\$54.97	\$56.76	\$58.61
Change from Cloquet Alone	\$0.33	\$0.68	\$1.05	\$1.44	\$1.85	\$2.28	\$2.74	\$3.22	\$3.72
Change from Scanlon Alone	(\$54.05)	(\$55.06)	(\$56.09)	(\$57.13)	(\$58.18)	(\$59.25)	(\$60.33)	(\$61.43)	(\$62.54)

The chart above shows that a resident of Scanlon would see lower utility bills from a combination. A resident of Cloquet would see a minor increase in utility bills from a combination. A formal rate study was not completed during the course of this analysis. We would recommend that a full rate study be completed if and when the cities merge in order to address any potential revenue shortfalls, future capital improvement needs and match fees to actual usage patterns.

Sales Tax

The City of Cloquet has a .5% local sales tax which commenced in 2013. The funding is to be used for recreational and infrastructure projects in the City. It is required that the sales tax be extended to Scanlon following the merger, which will enable the sales tax funds to be spent in the former Scanlon. No projections have been made on the impact of the extension of a sales tax to Scanlon businesses because it is not known how much of sales in Scanlon businesses or through retail sales come from Scanlon residents only. The projections in Appendix A do not assume higher sales tax collections from a combined city. The City of Cloquet expects to collect approximately \$1,000,000 in sales tax in 2016. It is recommended the Minnesota Department of Revenue be asked to estimate the increase in revenues from the Scanlon area. The sales tax is required to extend to changes in the jurisdictional limits of the city, but not until after 60 days' notice of the change

Procedures for a Referendum, Paragraph 8 (M.S. § 465.82, Subd.2(8)): *State procedures for a referendum to be held before the proposed combination to approve combining the local government units, specifically stating whether a majority of those voting in each district proposed for combination or a majority of those voting on the question in the entire area proposed for combination is needed to pass the referendum; and*

Due to the differential in population in each community, it is recommended that a majority of voters in each community must affirmatively vote to combine the two cities.

Implementation Schedule, Paragraph 9 (M.S. § 465.82, Subd.2(9)): *State a time schedule for implementation.*

See paragraph 2 on page 13 above.

Optional: INTERIM GOVERNING BODY *pursuant to Minn. Stat. § 465.82, Subd.3*

An interim governing body may be established to act on behalf of the new local government unit before the effective date of the combination. If established, the interim governing body must consist of at least a majority of the elected officials from each local government unit taking part in the combination. If the plan establishes an interim governing body, the governing body of each unit taking part in the combination shall appoint its representatives to serve on the interim governing body. An interim governing body may not take any official action on behalf of the new local government unit before approval of the combination through the referendum. After approval of the combination through the referendum, and before the effective date of the combination, an interim governing body may exercise all statutory authority of the governing body of the new local government unit, including the authority to enter into contracts and adopt policies and local ordinances.

The Cities do not anticipate an interim governing body.

Optional: DIFFERENTIAL TAXATION

pursuant to Minn. Stat. § 465.82, Subd.4

The Plan may establish that the tax rate of the local government unit with the lesser tax rate prior to the effective date of combination shall be increased in substantially equal proportions over not more than six years to equality with the tax rate on the property already within the borders of the local unit of government with the higher tax rate. The appropriate period of time, if any, for transition to the higher tax rate shall be based on the time reasonably required to effectively provide equal municipal services to the residents of the local unit of government with the lower tax rate.

The Cities do not anticipate a differential taxation plan. Taxes will be equalized between Cloquet and Scanlon urban districts, and taxes will be equalized between Cloquet and Scanlon rural districts. Equalization between urban and rural taxing districts is not a requirement for the merger and will not be addressed at this time.

[optional section] COSTS OF SCANLON AND CLOQUET COMBINATION

OLA findings on consolidations may be relevant to this combination

One of the OLA findings is that consolidations can be costly. There are two categories of costs to consider in determining if this is true for the proposed Scanlon and Cloquet consolidation, cost prior to the referendum and the costs to actual implement the plan. The most easily identifiable costs prior to the vote are legal and consulting costs to formulate the plan and options for each city council to consider. At this time, the cities have budgeted \$_____ for these efforts. The second cost is the additional meetings required to evaluate the consolidation. The meetings require ?overtime? of staff and ?per diem? for council. This cost is estimated to be \$_____

The recommendation for Scanlon and Cloquet is to utilize the general election in 2016 for the vote on the consolidation. Therefore there is not any cost of the election.

There will certainly be more staff time and council time required to implement the consolidation if it were to occur. At this time, it is not anticipated that outside consultants will be utilized, but it will likely require more city attorney time, estimated at \$_____

Therefore, the total cost of the consolidation is estimated at \$_____.

PLAT MAPS

pursuant to Minn. Stat. § 465.85

As required by Minn. Stat. § 465.85, the County has prepared maps attached hereto that show:

- a. The boundaries of each of the present units;
- b. The boundaries of the proposed unit;
- c. The boundaries of proposed election districts; and

d. Other information deemed pertinent to the governing bodies by the county auditor, including legal descriptions for the boundaries.

APPENDIX A –MERGER PROJECTIONS

CITY OF CLOQUET
Financial Management Plan
Merger Summary

Inflation Assumptions
 Revenue (Non-property tax)
 Interest Earnings
 Expenses

1	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
2	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
3	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

GENERAL FUND BUDGET	GENERAL FUND	Actual	Adopted	Cloquet Preliminary	Scanlon Preliminary	Cloquet Preliminary	Scanlon Preliminary	Adjustments	Notes	Projected Merged Cities								
		2014	2015	2016	2016	2017	2017			2018	2019	2020	2021	2022	2023	2024	2025	2026
		REVENUE																
4	General Property Tax	1,456,120	1,475,000	1,425,000	225,820	1,435,000	231,192			1,694,790	1,783,809	1,981,715	2,139,786	2,303,155	2,471,983	2,646,436	2,826,685	3,012,908
5	Other taxes			55,000		55,000	22,624			55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000
6	Licenses, Permits, & Fees	152,646	130,200	152,900	22,400	157,900	10,816			180,750	180,979	182,789	184,616	186,463	188,327	190,210	192,113	194,034
7	Intergovernmental	2,724,360	2,741,900	438,400	10,709	443,400		(115,000)	Note 2	347,013	350,949	354,458	358,003	361,583	365,199	368,851	372,539	376,265
8	Intergovernmental-LGA (not inflated)			2,356,500	208,372	2,356,500	208,372			2,564,872	2,564,872	2,564,872	2,564,872	2,564,872	2,564,872	2,564,872	2,564,872	2,564,872
9	Charges for Services	257,219	223,500	241,500	-	248,500	-			251,500	263,000	265,630	268,286	270,969	273,679	276,416	279,180	281,972
10	Fines & Forfeits	63,256	85,000	60,000	2,000	60,000	2,020			62,040	62,061	62,681	63,308	63,941	64,581	65,226	65,879	66,537
11	Special Assessments			-	2,500	-	2,525			2,550	2,576	2,602	2,628	2,654	2,680	2,707	2,734	2,762
12	Interest Earnings	84,352	80,000	95,000	500	100,000	505			150,510	200,515	202,520	204,546	206,591	208,657	210,743	212,851	214,979
13	Contributions & Donations			-	-	-	-			-	-	-	-	-	-	-	-	-
14	Miscellaneous Revenues	86,256	60,000	65,000	19,410	65,000	19,604			84,800	84,998	85,848	86,707	87,574	88,449	89,334	90,227	91,130
15	Total Revenue	4,824,209	4,795,600	4,889,300	491,711	4,921,300	497,658	(115,000)		5,393,826	5,548,758	5,758,115	5,927,751	6,102,801	6,283,427	6,469,796	6,662,080	6,860,458
EXPENSES																		
16	Current																	
17	General Government	959,860	1,050,200	974,150	196,588	981,850	202,486	(39,042)	Note 1	1,171,666	1,197,280	1,233,198	1,270,194	1,308,300	1,347,549	1,387,975	1,429,615	1,472,503
18	Public Safety	2,192,502	2,400,100	2,624,950	124,792	2,722,700	128,536	(115,000)	Note 2	2,837,338	2,950,800	3,039,324	3,130,504	3,224,419	3,321,151	3,420,786	3,523,409	3,629,112
19	Public Works	1,223,372	1,146,500	1,242,100	109,163	1,267,450	112,438			1,409,711	1,445,085	1,488,438	1,533,091	1,579,084	1,626,456	1,675,250	1,725,507	1,777,273
20	Community Development	52,755	59,750	59,750	-	59,750	-			59,750	59,750	61,543	63,389	65,290	67,249	69,267	71,345	73,485
21	Parks & Recreation			-	28,348	-	29,198			30,074	30,977	31,906	32,863	33,849	34,864	35,910	36,988	38,097
22	Capital Outlay			-	-	-	-			-	-	-	-	-	-	-	-	-
23	General Government	3,203		135,000	-	-	-			-	-	-	-	-	-	-	-	-
24	Public Safety			-	-	-	-			-	-	-	-	-	-	-	-	-
25	Public Works	5,370		-	55,000	-	80,000			25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
26	Parks, Arena, Library			-	4,000	-	4,000			-	-	-	-	-	-	-	-	-
27	Total Expenses	4,437,062	4,656,550	5,035,950	517,891	5,031,750	556,658	(154,042)		5,533,539	5,708,892	5,879,408	6,055,041	6,235,942	6,422,270	6,614,188	6,811,864	7,015,470
28	Revenues Over / (Under) Expenses	387,147	139,050	(146,650)	(26,180)	(110,450)	(59,000)			(139,713)	(160,134)	(121,294)	(127,289)	(133,141)	(138,843)	(144,393)	(149,784)	(155,012)
OTHER FINANCING SOURCES / (USES)																		
29	Transfers In	315,427	210,000	230,000		240,000	59,000			250,000	270,000	280,000	290,000	300,000	310,000	320,000	330,000	340,000
30	Contingency			-		-	-			-	-	-	-	-	-	-	-	-
31	Sale of Fixed Assets			-		-	-			-	-	-	-	-	-	-	-	-
32	Bond Proceeds			-		-	-			-	-	-	-	-	-	-	-	-
33	Transfers Out	(700,000)	(485,000)	(610,000)		(125,000)				(300,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
34	Total Other Sources / (Uses)	(384,573)	(275,000)	(380,000)	-	115,000	59,000	-		(50,000)	220,000	230,000	240,000	250,000	260,000	270,000	280,000	290,000
35	Prior Period Adjustments																	
36	Ending General Fund Balance (FB)	4,303,324	4,167,374	3,640,724	322,221	3,645,274	322,221			3,820,295	3,880,161	3,988,867	4,101,578	4,218,437	4,339,594	4,465,201	4,595,417	4,730,405
37																		
38																		
39	Unassigned																	
40	% of FB to Current Year Exp (basis for City Policy of 35% - 50%)									69%	68%	68%	68%	68%	68%	68%	67%	67%
41																		
42	General Fund Operating Tax Levy	1,400,000	1,420,000	1,425,000	225,820	1,435,000	231,192			1,694,790	1,783,809	1,981,715	2,139,786	2,303,155	2,471,983	2,646,436	2,826,685	3,012,908
43	Annual Increase		1.4%	0.4%						1.7%	5.3%	11.1%	8.0%	7.6%	7.3%	7.1%	6.8%	6.6%
ANNUAL DEBT LEVIES BY BOND ISSUE																		
44	G.O. Business Park Debt-2010A GO Improvement Refunding-Cloquet debt	125,000																
45	G.O. Swimming Pool Debt (Abatement Bonds of 2009A)-Cloquet debt	115,000	115,000	115,000		115,000				115,000	115,000	109,300	105,000	95,000	95,000	95,000	95,000	95,000
46	G.O. Capital Improvement Bonds, Series 2009A-Scanlon debt				20,810		22,500			22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
51																		
52	Total Annual Debt Levies	240,000	115,000	115,000	20,810	115,000	22,500			137,500	137,500	131,800	127,500	117,500	117,500	117,500	117,500	117,500
OTHER SPECIAL TAX LEVIES																		
53	Library	400,000	400,000	400,000		400,000				400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
54	Park	250,000	300,000	300,000		350,000				350,000	350,000	350,000	400,000	400,000	425,000	425,000	425,000	425,000
55	Permanent Improvement	100,000	214,000	260,000		285,000				100,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000
56	Public Works Reserve	130,000	150,000	175,000		150,000				150,000	150,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
57	Sewer Utility	30,000	30,000	30,000		30,000				30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
58	Community Development Operating	100,000	100,000	105,000		125,000				125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
59																		
60	Total Other Special Levies	1,010,000	1,194,000	1,270,000	-	1,340,000	-			1,155,000	1,165,000	1,065,000	1,115,000	1,115,000	1,140,000	1,140,000	1,140,000	1,140,000
61	Total Tax Levy	2,650,000	2,729,000	2,810,000	246,630	2,890,000	253,692			2,987,290	3,086,309	3,178,514	3,382,286	3,535,655	3,729,483	3,903,936	4,084,185	4,270,408
62	Potential New Debt Levy (See Page 2 for details)	0	0	0	0	0	0			325,000	325,000	325,000	325,000	692,900	692,900	692,900	692,900	692,900
63																		
64	Net Levy to Taxpayers	2,650,000	2,729,000	2,810,000	246,630	2,890,000	253,692			3,								

CITY OF CLOQUET
Financial Management Plan
Summary

	Inflation Assumptions											
1	Revenue (Non-property tax)						1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
2	Interest Earnings						1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
3	Expenses						3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

	Actual 2014	Adopted 2015	Preliminary 2016	Projected										
				2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	
GENERAL FUND BUDGET														
REVENUE														
4	General Property Tax	1,456,120	1,420,000	1,425,000	1,435,000	1,450,000	1,525,000	1,708,455	1,851,631	1,999,645	2,152,645	2,310,783	2,474,216	2,643,106
5	Other taxes		55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000
6	Licenses, Permits, & Fees	152,646	130,200	152,900	157,900	157,900	157,900	159,479	161,074	162,685	164,311	165,954	167,614	169,290
7	Intergovernmental	2,724,360	2,741,900	438,400	443,400	453,400	458,400	462,984	467,614	472,290	477,013	481,783	486,601	491,467
8	Intergovernmental-LGA (not inflated)			2,356,500	2,356,500	2,356,500	2,356,500	2,356,500	2,356,500	2,356,500	2,356,500	2,356,500	2,356,500	2,356,500
9	Charges for Services	257,219	223,500	241,500	248,500	251,500	263,000	265,630	268,286	270,969	273,679	276,416	279,180	281,972
10	Fines & Forfeits	63,256	85,000	60,000	60,000	60,000	60,000	60,000	61,206	61,818	62,436	63,061	63,691	64,328
11	Special Assessments													
12	Interest Earnings	84,352	80,000	95,000	100,000	150,000	200,000	202,000	204,020	206,060	208,121	210,202	212,304	214,427
13	Contributions & Donations													
14	Miscellaneous Revenues	86,256	60,000	65,000	65,000	65,000	65,650	66,307	66,970	67,639	68,316	68,999	69,689	
15	Total Revenue	4,824,209	4,795,600	4,889,300	4,921,300	4,999,300	5,140,800	5,336,298	5,491,637	5,651,936	5,817,344	5,988,015	6,164,105	6,345,778
EXPENSES														
16	Current													
17	General Government	959,860	1,050,200	974,150	981,850	1,004,525	1,025,125	1,055,879	1,087,555	1,120,182	1,153,787	1,188,401	1,224,053	1,260,774
18	Public Safety	2,192,502	2,400,100	2,624,950	2,722,700	2,826,950	2,940,100	3,028,303	3,119,152	3,212,727	3,309,108	3,408,382	3,510,633	3,615,952
19	Public Works	1,223,372	1,146,500	1,242,100	1,267,450	1,293,900	1,325,800	1,365,574	1,406,541	1,448,737	1,492,200	1,536,966	1,583,075	1,630,567
20	Community Development	52,755	59,750	59,750	59,750	59,750	59,750	61,543	63,389	65,290	67,249	69,267	71,345	73,485
21	Parks & Recreation													
22	Capital Outlay													
23	General Government	3,203		135,000										
24	Public Safety													
25	Public Works	5,370												
26	Parks, Arena, Library													
27	Total Expenses	4,437,062	4,656,550	5,035,950	5,031,750	5,185,125	5,350,775	5,511,298	5,676,637	5,846,936	6,022,344	6,203,015	6,389,105	6,580,778
28	Revenues Over / (Under) Expenses	387,147	139,050	(146,650)	(110,450)	(185,825)	(209,975)	(175,000)	(185,000)	(195,000)	(205,000)	(215,000)	(225,000)	(235,000)
OTHER FINANCING SOURCES / (USES)														
29	Transfers In	315,427	210,000	230,000	240,000	250,000	270,000	280,000	290,000	300,000	310,000	320,000	330,000	340,000
30	Contingency													
31	Sale of Fixed Assets													
32	Bond Proceeds													
33	Transfers Out	(700,000)	(485,000)	(610,000)	(125,000)	(300,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
34	Total Other Sources / (Uses)	(384,573)	(275,000)	(380,000)	115,000	(50,000)	220,000	230,000	240,000	250,000	260,000	270,000	280,000	290,000
35	Prior Period Adjustments													
36	Ending General Fund Balance (FB)	4,303,324	4,167,374	3,640,724	3,645,274	3,409,449	3,419,474	3,474,474	3,529,474	3,584,474	3,639,474	3,694,474	3,749,474	3,804,474
37														
38														
39	Unassigned													
40	% of FB to Current Year Exp (basis for City Policy of 35% - 50%)	97%	89%	72%	72%	66%	64%	63%	62%	61%	60%	60%	59%	58%
41		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
PROPERTY TAX LEVY AND TAX IMPACT														
42	General Fund Operating Tax Levy	1,400,000	1,420,000	1,425,000	1,435,000	1,450,000	1,525,000	1,708,455	1,851,631	1,999,645	2,152,645	2,310,783	2,474,216	2,643,106
43	Annual Increase		1.4%	0.4%	0.7%	1.0%	5.2%	12.0%	8.4%	8.0%	7.7%	7.3%	7.1%	6.8%
ANNUAL DEBT LEVIES BY BOND ISSUE														
44	G.O. Business Park Debt-2010A GO Improvement Refunding	125,000												
45	G.O. Swimming Pool Debt (Abatement Bonds of 2009A)	115,000	115,000	115,000	115,000	115,000	115,000	109,300	105,000	95,000	95,000	95,000	95,000	95,000
51														
52	Total Annual Debt Levies	240,000	115,000	115,000	115,000	115,000	115,000	109,300	105,000	95,000	95,000	95,000	95,000	95,000
OTHER SPECIAL TAX LEVIES														
53	Library	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
54	Park	250,000	300,000	300,000	350,000	350,000	350,000	400,000	400,000	400,000	425,000	425,000	425,000	425,000
55	Permanent Improvement	100,000	214,000	260,000	285,000	100,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000
56	Public Works Reserve	130,000	150,000	175,000	150,000	150,000	150,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
57	Sewer Utility	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
58	Community Development Operating	100,000	100,000	105,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
59														
60	Total Other Special Levies	1,010,000	1,194,000	1,270,000	1,340,000	1,155,000	1,165,000	1,065,000	1,115,000	1,115,000	1,140,000	1,140,000	1,140,000	1,140,000
61	Total Tax Levy	2,650,000	2,729,000	2,810,000	2,890,000	2,720,000	2,805,000	2,882,755	3,071,631	3,209,645	3,387,645	3,545,783	3,709,216	3,878,106
62	Potential New Debt Levy (See Page 2 for details)	0	0	0	325,000	325,000	325,000	325,000	325,000	692,900	692,900	692,900	692,900	692,900
63														
64	Net Levy to Taxpayers	2,650,000	2,729,000	2,810,000	2,890,000	3,045,000	3,130,000	3,207,755	3,396,631	3,902,545	4,080,545	4,238,683	4,402,116	4,571,006
65														
66	Existing Tax Base	6,963,204	7,043,916	6,578,842	6,711,718	6,847,251	6,985,495	7,126,504	7,270,333	7,438,966	7,588,606	7,741,239	7,896,924	8,055,723
67	Tax Capacity-Decertified TIF									21,927				
68	Total Net Tax Capacity	6,963,204	7,043,916	6,578,842	6,711,718	6,847,251	6,985,495	7,126,504	7,270,333	7,460,893	7,588,606	7,741,239	7,896,924	8,055,723
69	Tax Rate on Tax Capacity (Line 58/Line 61)	38.057%	38.743%	40.313%	40.646%	41.392%	41.729%	41.949%	43.592%	48.464%	49.735%	50.694%	51.659%	52.631%
70	Tax Rate % Change		1.80%	4.05%	0.83%	1.84%	0.81%	0.53%	3.92%	11.17%	2.62%	1.93%	1.90%	1.88%
71	City taxes on \$105,200 Residential Homestead	298	303	316	328	344	356	369	394	450	475	497	521	545
	\$ Tax Increase / (Decrease)	\$	\$ 5.37	\$ 12.29	\$ 11.96	\$ 15.95	\$ 12.80	\$ 12.37	\$ 25.34	\$ 56.15	\$ 24.74	\$ 22.34	\$ 23.93	\$ 24.02
72	% Tax Increase / (Decrease)		1.80%	4.05%	3.79%	4.87%	3.73%	3.47%	6.87%	14.25%	5.49%	4.70%	4.81%	4.61%

CITY OF SCANLON
Financial Management Plan
Summary

	Inflation Assumptions												
1	Revenue (Non-property tax)	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
2	Interest Earnings	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
3	Expenses	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

GENERAL FUND BUDGET	GENERAL FUND	Actual	Adopted	Preliminary	Projected									
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	REVENUE													
4	General Property Tax	198,959	213,485	225,820	231,192	244,790	258,809	273,259	288,155	303,510	319,338	335,653	352,469	369,802
5	Licenses, Permits, & Fees	27,441	20,850	22,400	22,624	22,850	23,079	23,310	23,543	23,778	24,016	24,256	24,499	24,744
6	Intergovernmental	204,137	215,994	10,709	10,816	10,924	11,033	11,144	11,255	11,368	11,481	11,596	11,712	11,829
7	Intergovernmental-LGA (not inflated)			208,372	208,372	208,372	208,372	208,372	208,372	208,372	208,372	208,372	208,372	208,372
8	Charges for Services													
9	Fines & Forfeits	2,992	2,200	2,000	2,020	2,040	2,061	2,081	2,102	2,123	2,144	2,166	2,187	2,209
10	Special Assessments	22,005	3,300	2,500	2,525	2,550	2,576	2,602	2,628	2,654	2,680	2,707	2,734	2,762
11	Interest Earnings	1,410	500	500	505	510	515	520	526	531	536	541	547	552
12	Contributions & Donations													
13	Miscellaneous Revenues	38,274	19,500	19,410	19,604	19,800	19,998	20,198	20,400	20,604	20,810	21,018	21,228	21,441
14	Total Revenue	495,218	475,829	491,711	497,658	511,837	526,443	541,486	556,980	572,940	589,378	606,309	623,749	641,711
	EXPENSES													
15	Current													
16	General Government	194,492	170,116	196,588	202,486	208,560	214,817	221,262	227,899	234,736	241,778	249,032	256,503	264,198
17	Public Safety	120,328	120,660	124,792	128,536	132,392	136,364	140,454	144,668	149,008	153,478	158,083	162,825	167,710
18	Public Works	56,524	131,127	109,163	112,438	115,811	119,285	122,864	126,550	130,346	134,257	138,284	142,433	146,706
19	Community Development													
20	Parks & Recreation	19,716	27,676	28,348	29,198	30,074	30,977	31,906	32,863	33,849	34,864	35,910	36,988	38,097
24	Capital Outlay (See Note 1)													
25	General Government	36,493												
26	Public Safety													
27	Public Works		45,000	55,000	80,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
28	Parks, Arena, Library		2,000	4,000	4,000									
29	Total Expenses	427,553	496,579	517,891	556,658	511,837	526,443	541,486	556,980	572,940	589,378	606,309	623,749	641,711
30	Revenues Over / (Under) Expenses	67,665	(20,750)	(26,180)	(59,000)	-								
	OTHER FINANCING SOURCES / (USES)													
31	Transfers In (See Note 1)				59,000									
32	Contingency													
33	Sale of Fixed Assets													
34	Bond Proceeds													
35	Transfers Out	68,747												
36	Total Other Sources / (Uses)	68,747	-	-	59,000	-								
37	Prior Period Adjustments													
38	Ending General Fund Balance (FB)	369,151	348,401	322,221	322,221	322,221	322,221	322,221	322,221	322,221	322,221	322,221	322,221	322,221
39														
40														
41	Unassigned													
42	% of FB to Current Year Exp	86%	70%	62%	58%	63%	61%	60%	58%	56%	55%	53%	52%	50%
43														
44	General Fund Operating Tax Levy	202,389	213,485	225,820	231,192	244,790	258,809	273,259	288,155	303,510	319,338	335,653	352,469	369,802
45	Annual Increase		5.5%	5.8%	2.4%	5.9%	5.7%	5.6%	5.5%	5.3%	5.2%	5.1%	5.0%	4.9%
	ANNUAL DEBT LEVIES BY BOND ISSUE													
46	Payoff													
47	G.O. Capital Improvement Bonds, Series 2009A		21,181	20,810	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
53	N/A													
54	Total Annual Debt Levies	-	21,181	20,810	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
	OTHER SPECIAL TAX LEVIES													
61														
62	Total Other Special Levies	-	-	-	-	-	-	-	-	-	-	-	-	-
63	Total Tax Levy	202,389	234,666	246,630	253,692	267,290	281,309	295,759	310,655	326,010	341,838	358,153	374,969	392,302
64	Potential New Debt Levy (See Page 2 for details)													
65														
66	Net Levy to Taxpayers	202,389	234,666	246,630	253,692	267,290	281,309	295,759	310,655	326,010	341,838	358,153	374,969	392,302
67														
68	Existing Tax Base	627,411	637,181	645,462	658,371	671,538	684,969	698,668	712,641	726,894	741,432	756,261	771,386	786,814
69	New Net Tax Capacity													
70	Total Net Tax Capacity	627,411	637,181	645,462	658,371	671,538	684,969	698,668	712,641	726,894	741,432	756,261	771,386	786,814
71	Tax Rate on Tax Capacity (Line 58/Line 61)	35.414%	36.829%	38.210%	38.533%	39.803%	41.069%	42.332%	43.592%	44.850%	46.105%	47.358%	48.610%	49.860%
72	Tax Rate % Change		4.00%	3.75%	0.85%	3.29%	3.18%	3.08%	2.98%	2.89%	2.80%	2.72%	2.64%	2.57%
73	City Taxes on \$106,600 Residential Homestead	277	288	299	311	330	351	372	394	417	440	465	490	517
74	% Tax Increase / (Decrease)		4.00%	3.75%	3.81%	6.37%	6.16%	6.09%	5.91%	5.73%	5.68%	5.51%	5.57%	5.32%

Note 1: The City of Scanlon intends to fund the capital shown in 2017 from another fund. This is reflected as a transfer in.

City of Cloquet

	Projected City Only Taxes										
Final Pay	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Merger	\$316	\$328	\$343	\$356	\$369	\$394	\$448	\$473	\$495	\$519	\$543
No Merger	\$316	\$328	\$344	\$356	\$369	\$394	\$450	\$475	\$497	\$521	\$545
Difference	\$0	\$0	(\$1)	(\$0)	\$0	\$0	(\$2)	(\$2)	(\$2)	(\$2)	(\$2)

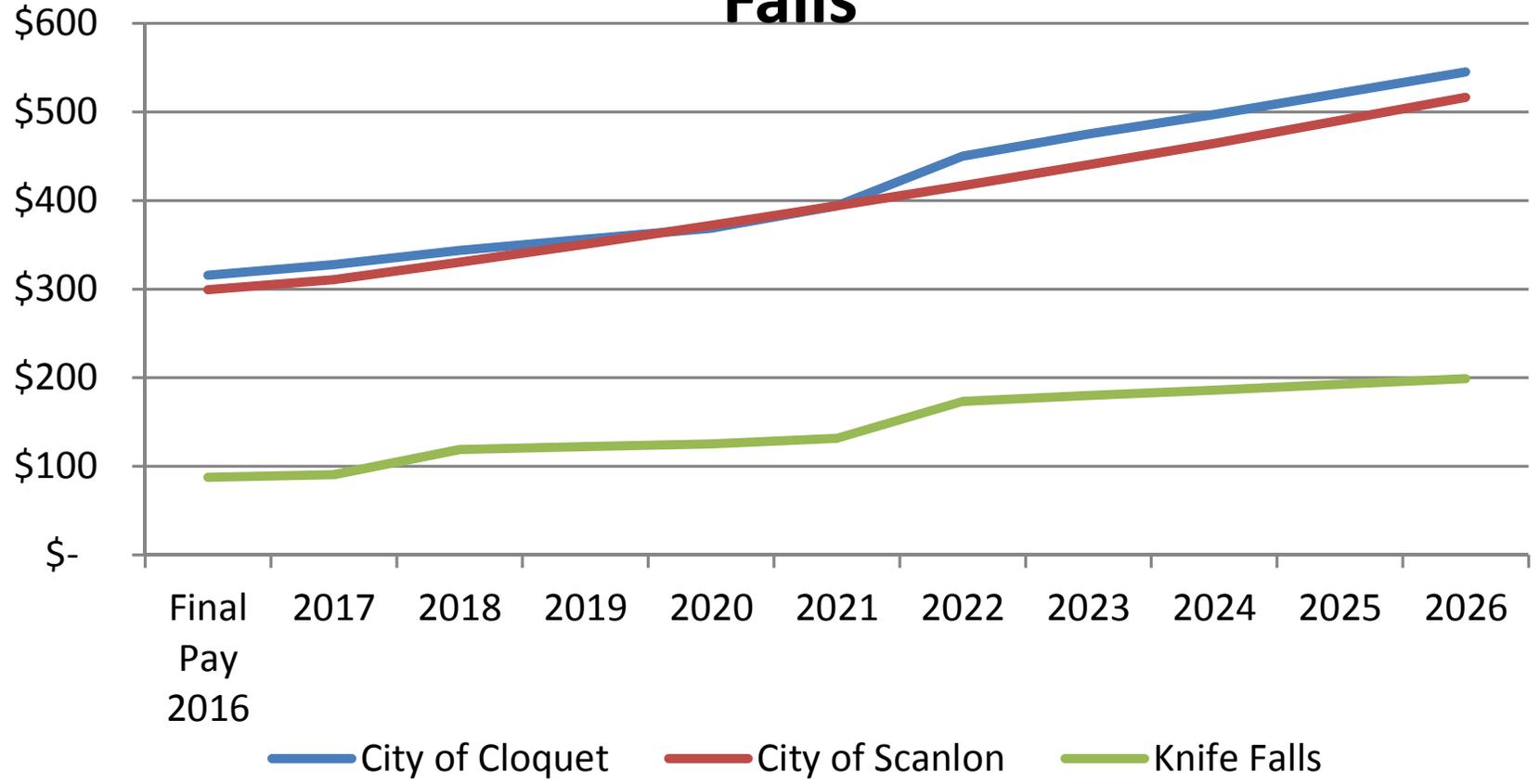
Knife Falls Township

	Projected City Only Taxes										
Final Pay	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Merger	\$87	\$90	\$118	\$121	\$124	\$131	\$170	\$176	\$182	\$189	\$195
No Merger	\$87	\$90	\$119	\$122	\$125	\$132	\$173	\$180	\$186	\$192	\$199
Difference	\$0	\$0	(\$1)	(\$1)	(\$1)	(\$1)	(\$3)	(\$4)	(\$4)	(\$4)	(\$3)

City of Scanlon

	Projected City Only Taxes										
Final Pay	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Merger	\$299	\$311	\$343	\$356	\$369	\$394	\$448	\$473	\$495	\$519	\$543
No Merger	\$299	\$311	\$330	\$351	\$372	\$394	\$417	\$440	\$465	\$490	\$517
Difference	\$0	\$0	\$12	\$5	(\$3)	\$0	\$31	\$32	\$30	\$29	\$27

Tax Impact-No Merger-No Change to Knife Falls



Tax Impact-Merger No Change to Knife Falls

