

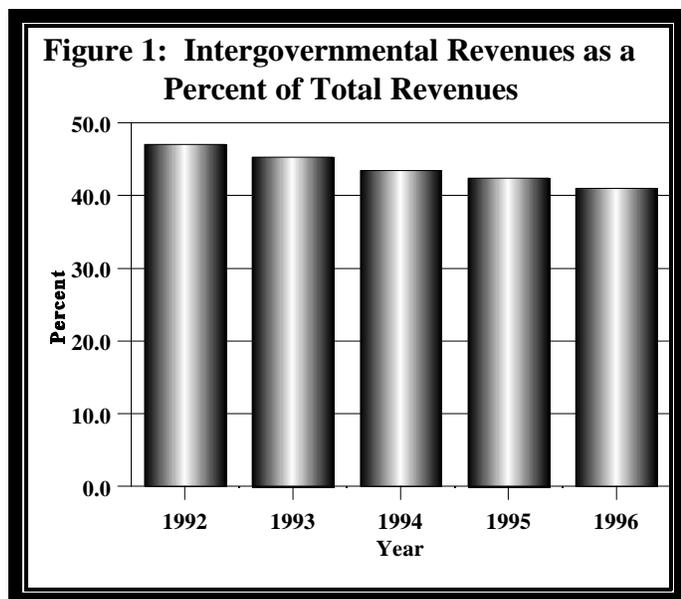
1996 Finances For Cities Under 2,500 Population

Governmental Revenues

Revenues for small cities totaled \$304.6 million in 1996 (excluding borrowing and transfers from other funds), which was an increase of \$14.4 million over 1995. The total revenue per capita in 1996 was \$702, compared to \$676 in 1995. The principal sources of revenues in 1996 were: intergovernmental revenues which accounted for 41.0 percent of revenues; property taxes which accounted for 22.7 percent of revenues; and “all other revenues” which accounted for 11.7 percent of revenues.

- **Intergovernmental revenues.** Cities receive grants and aids from a number of sources which include the federal, state, county and other local governments. Intergovernmental revenues were the largest source of revenues for small cities in 1996 totaling \$125.0 million and accounting for 41.0% of total revenues.

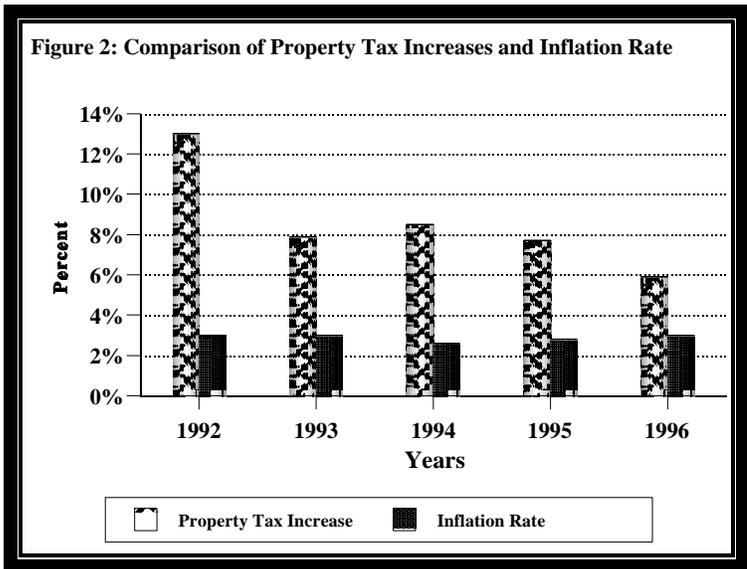
An analysis of intergovernmental revenues between 1992 and 1996 showed a decrease of 5.3 percent when adjusted for inflation. Intergovernmental revenues as a percent of total revenues has decreased from 47.0 percent in 1992 to 41.0 in 1996. Cities have addressed decreasing intergovernmental revenues by raising taxes and service charges.



State grants and aids. State grants and aids not only accounted for the largest share of intergovernmental revenues (78.6%) but were also the *single* largest source of revenues for small cities in 1996, accounting for 32.2 percent of all revenues. State local government aid (LGA) to small cities totaled \$56.0 million and was the largest state aid program for cities in 1996. LGA increased \$1.5 million or 2.7 percent between 1995 and 1996.

Federal grants and aids. Federal grants to small cities totaled \$20.4 million in 1996, up 8.2 percent from 1995. The 8.2 percent increase in federal grants to cities in 1996 reflects several large grants that were given to cities for wastewater and sewer improvement projects. The cities of Gaylord and Roseau both received significant grants for capital projects in 1996.

- General Property Taxes.** As in the previous five years, general property tax revenues grew faster than the rate of inflation. Revenues from general property taxes totaled \$69.2 million in 1996, up 5.9 percent from 1995. General property taxes provided a slightly larger share of total revenues for Minnesota's small cities in 1996 than in 1995. The share of city revenues derived from general property taxes increased from 22.5 percent in 1995 to 22.7 percent in 1996. Figure 2 provides a comparison between property tax increases and the rate of inflation for the years 1992 through 1996.



- Charges for services.** Minnesota's small cities received revenues of \$25.0 million from charges for services in 1996, an 8.7 percent increase over 1995. Charges for services represented 8.2 percent of all city revenues in 1996, up from 7.9 percent in 1995.

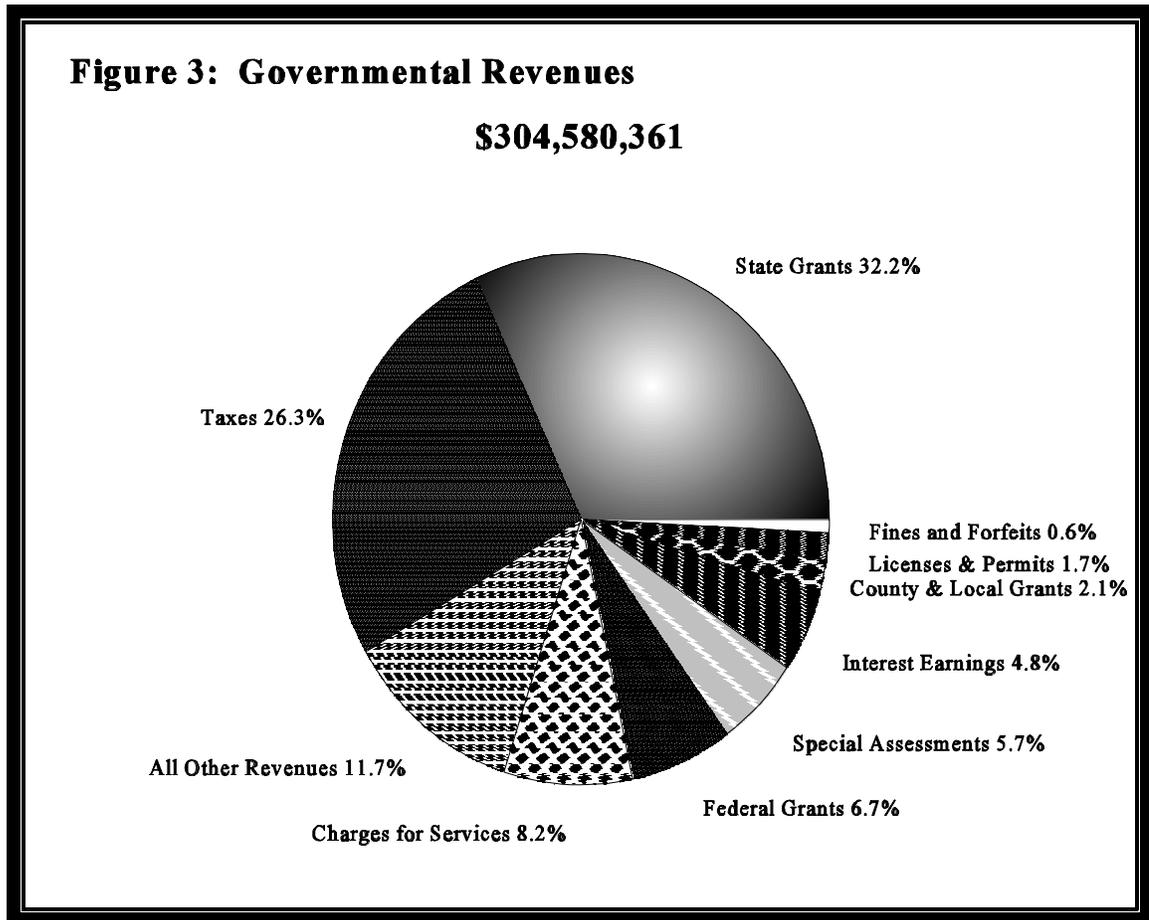
- Tax Increments.** Revenue from tax increments totaled \$10.3 million in 1996. This represents an increase of 6.9 percent over 1995 tax increments. Revenue from tax increments averaged 3.4 percent of small city revenues in 1996. Tax increment revenues as a percent of total city revenues in individual cities ranged from zero to 40.0 percent. Cities generate tax increment revenue when they establish tax increment financing (TIF) districts. In a TIF district, a city reserves the use of a portion of the property taxes collected from parcels in the district to pay the costs of development and redevelopment rather than the general services of the city, county and school district. In 1996, 23.1 percent of small cities had TIF districts compared to 91.3 percent of large cities.



- Interest earnings.** Interest earnings were relatively flat in 1996. Between 1995 and 1996, revenues from interest on investments grew just 0.9 percent.
- Special Assessments.** Revenue derived from special assessments increased 16.5 percent between 1995 and 1996. Cities levy special assessments to pay for services that are deemed to primarily benefit specific properties. Additionally, cities may issue special assessment bonds in which the interest and principal payments are funded in part by special assessment revenues. Several cities reported large special assessments related to capital projects and debt service in 1996.

- **Other sources of revenues.** Other sources of revenues that increased between 1995 and 1996 included franchise taxes which increased 28.8 percent; licenses and permits which increased 16.6 percent; fines and forfeits which increased 6.7 percent; all other revenues which increased 6.9 percent; and local sales & hotel/motel taxes which increased 5.4 percent.

Figure 3 summarizes the proportion of revenue that each source of revenue provides¹.



¹ The category of taxes includes property, hotel/motel, sales, franchise, gravel, and gambling taxes. It also includes tax increment revenue.

Total Governmental Expenditures

Total Current Expenditures

Minnesota's cities under 2,500 in population had current expenditures of \$179.7 million in 1996, up 8.2 percent from 1995.²

- **Public safety.** Public safety current expenditures totaled \$50.9 million in 1996. This represents an increase of 7.0 percent over 1995. Spending on police, fire, ambulance and other protection represented 28.3 percent of all current expenditures in 1996. Public Safety was the largest current expenditure for small cities in 1996. Public safety expenditures for cities under 2,500 in population account for a much smaller proportion of current expenditures than for cities over 2,500 in population. Public safety current expenditures for cities over 2,500 in population totaled \$589.9 million and represented 38.3 percent of current expenditures.
- 
- **General government.** General government services were the second largest current expenditure in 1996 accounting for 24.9 percent of all current expenditures. Cities spent a total of \$44.8 million on general government services such as administration, finance and elections in 1996. This represents an increase of 5.5 percent over 1995.
 - **Streets and highways.** Cities had street and highway current expenditures of \$38.1 million in 1996. This represents an increase of 10.0 percent over 1995. Street and highway current expenditures accounted for 21.2 percent of all current expenditures in 1996. In addition to these current expenditures, cities under 2,500 in population spent \$40.8 million on construction and other capital projects related to streets and highways.³
 - **Culture and recreation.** Culture and recreation current expenditures rose to \$17.5 million in 1996, 9.6 percent more than in 1995. Small cities have placed a greater priority on culture and recreation spending for several years. The emphasis on culture and recreation spending has lifted its share of total current expenditures from 8.9 percent in 1992 to 9.8 percent in 1996.
 - **Health.** Cities under 2,500 in population spent \$179,463 on health activities in 1996. Generally, smaller cities do not have health expenditures. Counties usually provide services related to health. Health expenditures decreased by 50.9 percent between 1995 and 1996.

² Current expenditures exclude capital outlay, debt service and other financing uses.

³ Street and highway current expenditures presented throughout this report exclude construction and other related capital expenditures.

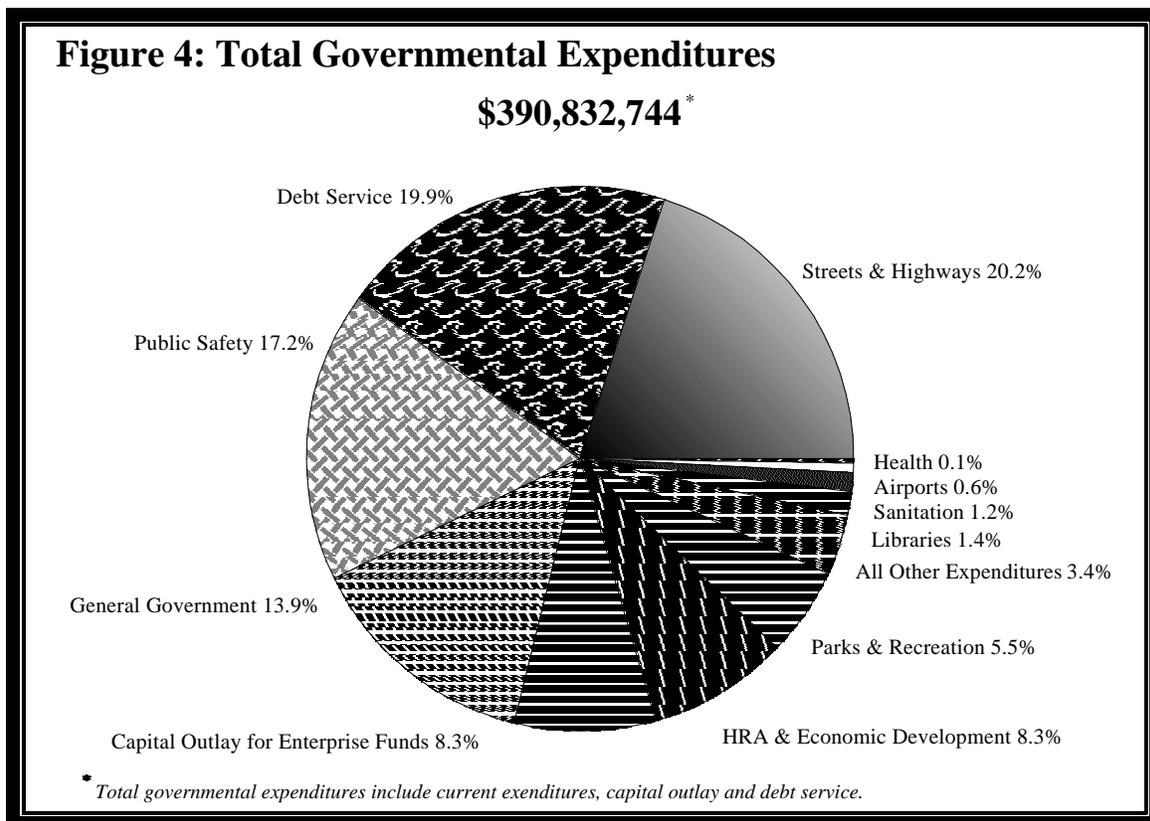
The city of Lakefield was largely responsible for the decrease. It had a large expenditure in 1995 to help a physician relocate to the city. This expenditure was not duplicated in 1996.

- **Other city expenditures.** Cities increased spending for economic development and housing by 28.4 percent; and airports by 12.2 percent between 1995 and 1996. Cities spent 0.1 percent less on sanitation in 1996.

Capital Outlay and Debt Service

In addition to current expenditures of \$179.7 million, cities had capital outlays of \$133.6 million and debt service payments of \$77.6 million.⁴ Capital outlays increased \$4.3 million or 3.3 percent in 1996. Street construction and the purchase of road and highway equipment represented the largest category of capital expenditures in 1996. Debt service expenditures increased 25.7 percent over the level of debt service in 1995.

Figure 4 summarizes the Total Governmental Expenditures for cities under 2,500 in population.



⁴ Total governmental expenditures exclude enterprise fund operations.

Municipal Enterprises

Cities establish municipal enterprises to provide specific services. These enterprises are financed and operated in a manner similar to a private business enterprise in that they are intended to be self-sustaining through fees and user charges. Many cities create enterprises to provide water, sewer, electric, gas and heat utilities. In addition to utilities, cities have enterprise funds for municipal hospitals, nursing homes, liquor stores, refuse disposal, and recreation activities.

The operating income for small city public service enterprises totaled \$11.3 million in 1996 on operating revenues of \$193.6 million and operating expenses of \$182.2 million.⁵ Municipal enterprises generated a net income of \$14.5 million in 1996. This represents a decrease of 9.1 percent from the net income generated in 1995. Cities transferred a net of \$7.0 million from enterprise funds to other governmental funds in 1996.

Total sales for municipal liquor stores increased \$1.7 million, cost of sales increased \$1.6 million, and gross profits were up \$177,901. Operating expenses decreased \$284,290, operating income increased \$462,191, and net income increased \$414,024.⁶

Indebtedness

During the year, bonds totaling \$128.9 million were issued and \$73.7 million were retired, leaving \$538.0 million outstanding at the end of 1996. On a per capita basis, there was a wide variance among cities in the amount of long-term debt held. The average per capita long-term debt for cities was \$1,418. Per capita long-term debt ranges from a high of \$28,356 in the City of Becker to no debt in 203 cities.

The City of Becker had bonded and other long term debt totaling \$48.5 million in 1996. This debt was issued for a number of economic development projects and a community center. The City of Becker is unique in that one property accounts for eighty-eight percent of the market value of the city. Northern States Power and Southern Minnesota Municipal Power Agency operate a large power plant in the City of Becker. Looming ominously for the citizens of Becker is a possible change in the way ad valorem taxes for utilities are calculated. The Legislature is considering modifying the tax code to exempt attached machinery from the assessed value of properties. Attached machinery accounts for seventy-eight percent of the market value of the power plant. A decrease in tax base of this magnitude could be devastating to the citizens of Becker because of the city's long-term debt service commitments. While the City of Becker has a far greater long term debt per capita than other cities, potential problems for other communities exist. Any city (or county) that incurs a high level of debt with the assumption that a single property will pay the

⁵ This comparison of municipal service enterprises excludes municipal liquor operations because of accounting differences.

⁶ A separate analysis of municipal liquor operations is available in the Office of the State Auditor's publication, *An Analysis of Minnesota Municipal Liquor Operations in 1996 (June 98)*.

majority of debt service could find itself in trouble. When incurring debt, a local entity must take into account the possibility that a business may relocate or go out of business, or that the tax code may be changed.

Figure 5 provides a two-year summary of bonds outstanding classified by type of issue:

Figure 5: Total Outstanding Bonded Indebtedness.		
<u>Type of Issue</u>	<u>1996</u>	<u>1995</u>
General Obligation	94,999,639	87,824,811
G.O. Tax Increment	86,627,980	72,905,500
Revenue Tax Increment	543,500	170,000
G.O. Special Assessment	136,753,623	126,028,932
G.O. Revenue	178,435,914	166,310,426
Revenue	39,447,917	29,446,641
All Other	1,150,000	8,043,000
Total Bonded Indebtedness	<u>\$537,958,573</u>	<u>\$490,729,310</u>