

**REVENUES, EXPENDITURES, AND DEBT
OF MINNESOTA
CITIES UNDER 2,500 IN POPULATION**

DECEMBER 31, 1997

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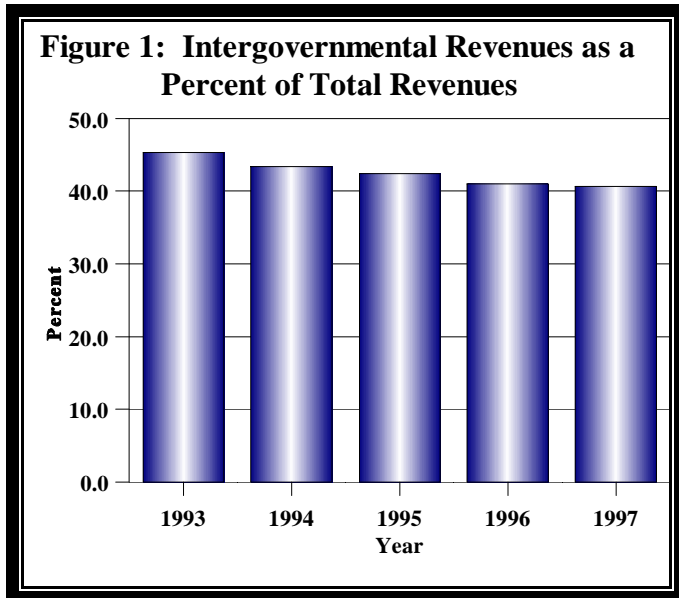
1997 Finances for Cities Under 2,500 in Population

Total Governmental Revenues

Revenues for small cities totaled \$316.0 million in 1997 (excluding borrowing and transfers from other funds). This represents an increase of \$11.4 million or 3.7 percent over 1996. The total revenue per capita in 1997 was \$725, compared to \$702 in 1996. The principal sources of revenues in 1997 were: intergovernmental revenues which accounted for 40.6 percent of revenues; property taxes which accounted for 23.3 percent of revenues; and “all other revenues” which accounted for 11.5 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 1997 totaling \$128.1 million and accounting for 40.6% of total revenues.

An analysis of intergovernmental revenues between 1993 and 1997 showed an increase of 1.9 percent when adjusted for inflation.¹ Intergovernmental revenues as a percent of total revenues has decreased from 45.3 percent in 1993 to 40.6 in 1997. As the proportion of total revenues represented by intergovernmental revenues has decreased, taxes and charges for services have increased in importance.



State grants and aids. State grants and aids not only accounted for the largest share of intergovernmental revenues (79.1%) but were also the *single* largest source of revenues for small cities in 1997, accounting for 32.1 percent of all revenues. State local government aid (LGA) to small cities totaled \$58.4 million and was the largest state aid program for cities in 1997. LGA increased \$2.3 million or 4.2 percent between 1996 and 1997.

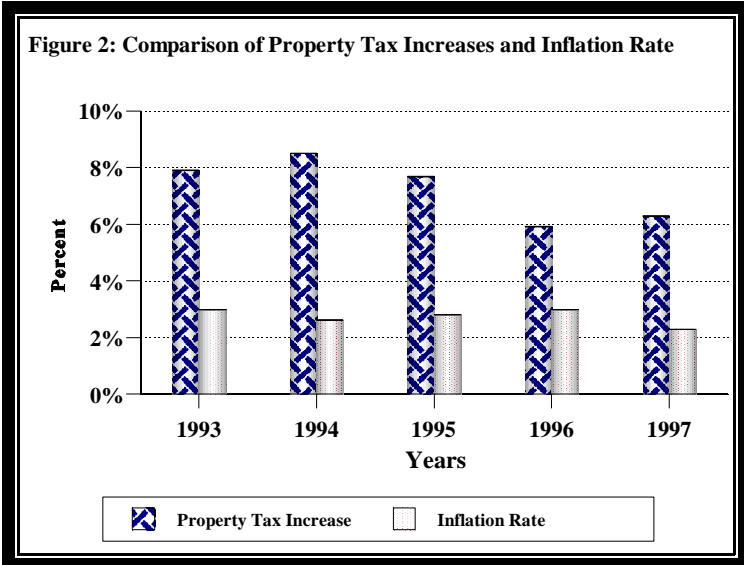
Federal grants and aids. Federal grants to small cities totaled \$20.8 million in 1997, up 2.0 percent from 1996. The majority of federal grants and aids received by cities help support

¹ Intergovernmental revenues were adjusted for inflation (put into constant dollars) based on the U.S. Consumer Price Index. The percent change was calculated using the constant dollars.

major infrastructure projects such as wastewater treatment facilities and sewer improvements. Cities also receive federal disaster assistance for items such as flood control projects and recovery efforts. While there has been a significant number of natural disasters over the last several years, federal disaster grants have not increased greatly.

! **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 \$73.6 million in 1997, up 6.3 percent from 1996. General property taxes provided a slightly larger share of total revenues for Minnesota's small cities in 1997 than in 1996. The share of city revenues derived from general property taxes increased from 22.7 percent in 1996 to 23.3 percent in 1997. Figure 2 provides a comparison between property tax increases and the rate of inflation for the years 1993 through 1997.



! **Charges for services.** Minnesota's small cities received revenues of \$26.3 million from charges for services in 1997. This represents a 5.0 percent increase over 1996. Charges for services represented 8.3 percent of all city revenues in 1997, up from 8.2 percent in 1996.

! **Tax Increments.** Revenue from tax increments totaled \$11.6 million in 1997. This represents an increase of 12.5 percent over 1996 tax increments. Revenue from tax increments averaged 3.7 percent of small city revenues in 1997. Tax increment revenues as a percent of total city revenues in individual cities ranged from zero to 40.3 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 1997, 24.1 percent of small cities had TIF districts.

Tax increment revenues as a percent of total city revenues in individual cities ranged from zero to 40.3 percent.

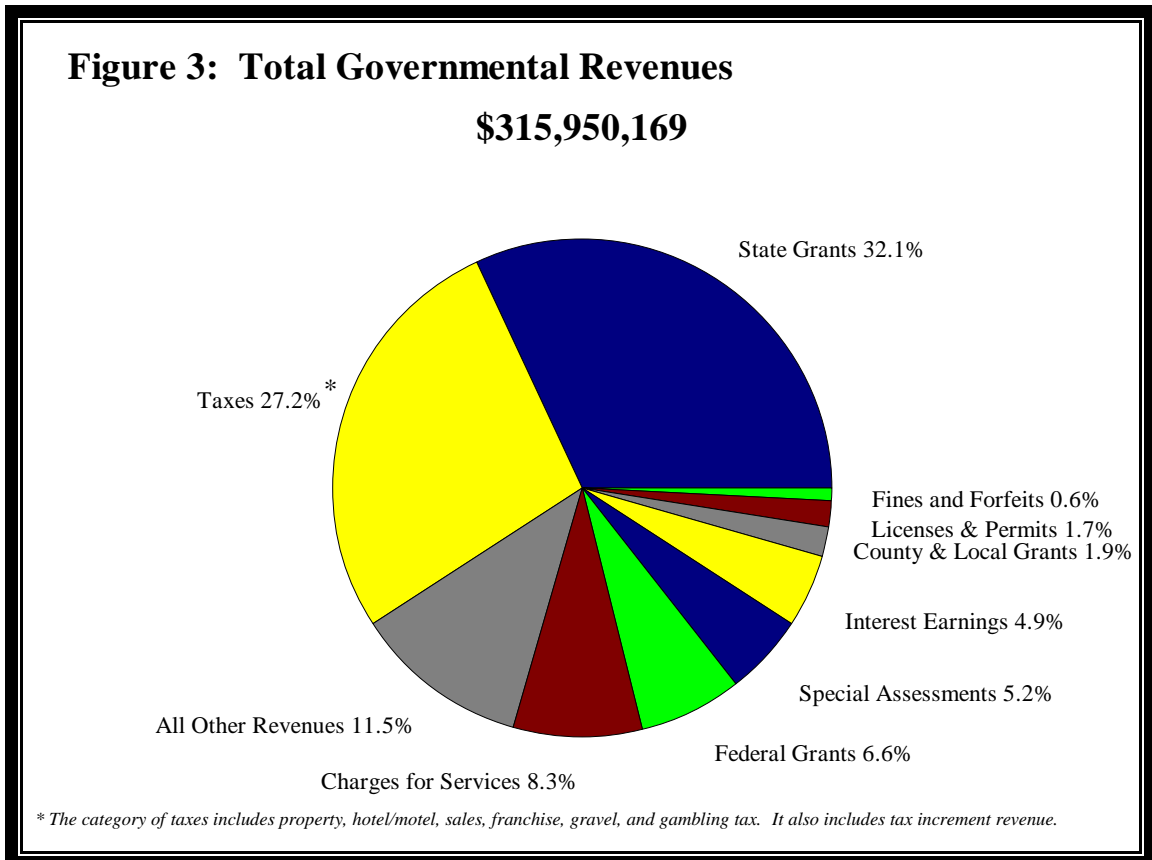
! **Interest earnings.** Between 1996 and 1997, revenues from interest on investments grew by \$853,060 or 5.8 percent.

! **Special Assessments.** Revenue derived from special assessments decreased 5.2 percent between 1996 and 1997. 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. The city of Becker was largely responsible for the large decrease in special assessment revenues between 1996 and 1997. The city had a large decrease in special assessments dedicated to debt service on bonds.

! **Other sources of revenues.** Other sources of revenues that increased between 1996 and 1997 included franchise taxes which increased 22.4 percent; licenses and permits which increased 9.1 percent; fines and forfeits which increased 8.8 percent; all other revenues which increased 1.7 percent; and local sales & hotel/motel taxes which increased 11.6 percent.

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



Total Governmental Expenditures

Total Current Expenditures

Minnesota's cities under 2,500 in population had current expenditures of \$191.3 million in 1997. This represents an increase of 6.5 percent over 1996.² Some of the highlights of 1997 city spending include:

- ! **Public safety.** Public safety current expenditures totaled \$54.5 million in 1997. This represents an increase of 7.1 percent over 1996. Spending on police, fire, ambulance, and other protection accounted for 28.5 percent of all current expenditures in 1997. Public safety was the largest current expenditure for small cities in 1997.

Public safety was the largest current expenditure for small cities in 1997.

- ! **General government.** General government services were the second largest current expenditure in 1997 accounting for 24.9 percent of all current expenditures. Cities spent a total of \$47.7 million on general government services such as administration, finance, and elections in 1997. This represents an increase of 6.4 percent over 1996 spending.

- ! **Streets and highways.** Cities had street and highway current expenditures of \$39.8 million in 1997. This represents an increase of 4.6 percent over 1996. Street and highway current expenditures accounted for 20.8 percent of all current expenditures in 1997. In addition to these current expenditures, cities under 2,500 in population spent \$32.1 million on construction and other capital projects related to streets and highways.³

- ! **Culture and recreation.** Culture and recreation current expenditures rose to \$18.9 million in 1997. This represents an increase of 7.8 percent over 1996. 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 9.2 percent in 1993 to 9.9 percent in 1997.

- ! **Other city expenditures.** Cities increased spending in 1997 for health (9.1%) and economic development and housing (5.8%). Cities spent 18.3 percent less on airports, and 0.6 percent less on sanitation in 1997 than in 1996.

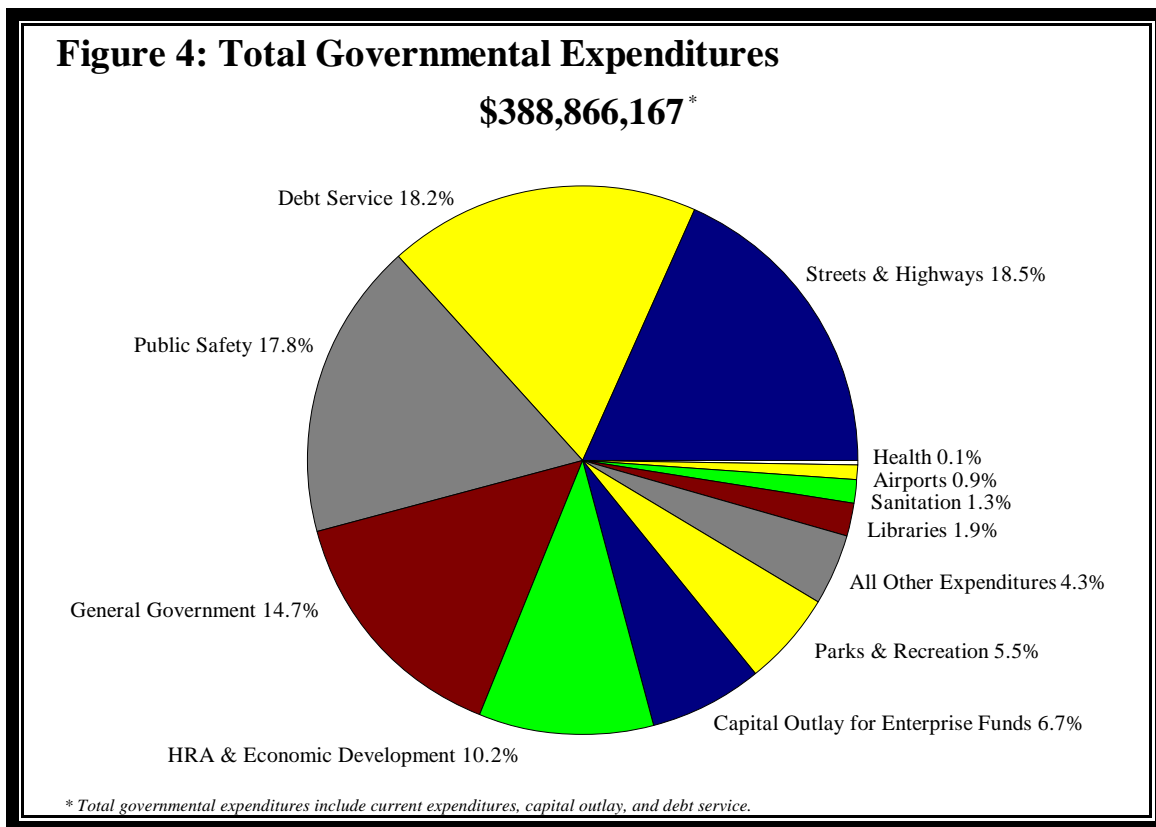
² Current expenditures exclude capital outlay, debt service, and other financing uses.

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

Capital Outlay and Debt Service

In addition to current expenditures of \$191.3 million, cities had capital outlays of \$126.9 million and debt service payments of \$70.7 million.⁴ Capital outlays decreased \$6.7 million or 5 percent between 1996 and 1997. Street construction and the purchase of road and highway equipment represented the largest category of capital expenditures in 1997. Debt service expenditures decreased 8.9 percent between 1996 and 1997.

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



Public Service Enterprises

Cities establish public service enterprises (also called 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 \$13.7 million in 1997 on

⁴ Total governmental expenditures exclude enterprise fund operations.

operating revenues of \$200.8 million and operating expenses of \$187.1 million.⁵ Municipal enterprises generated a net income of \$19.5 million in 1997. This represents an increase of 34.0 percent over the net income generated in 1996. Cities transferred a net of \$3.4 million from enterprise funds to other governmental funds in 1997.

Total sales for municipal liquor stores increased \$1.5 million, cost of sales increased \$1.2 million, and gross profits were up \$329,082. Operating expenses increased \$239,395, operating income increased \$89,687, and net income increased \$174,644.⁶ Cities under 2,500 in population transferred profits of \$3.3 million from the liquor store operations to other funds in 1997.

Indebtedness

During 1997, bonds totaling \$97.8 million were issued and \$59.9 million were retired, leaving \$573.9 million in outstanding bonded indebtedness at the end of the year. In addition, cities held \$90.3 million in other long-term debt. On a per capita basis, there was a wide variance among cities in the amount of outstanding long-term (bonded and other) debt. The average per capita long-term debt for cities was \$1,523. Per capita long-term debt ranges from a high of \$21,636 in the City of Becker to no debt in 199 cities. No information is available for the four cities that failed to report.

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

<u>Type of Issue</u>	<u>1997</u>	<u>1996</u>
General Obligation	94,688,168	94,999,639
G.O. Tax Increment	93,152,431	86,627,980
Revenue Tax Increment	0	543,500 ⁷
G.O. Special Assessment	136,333,480	136,753,623
G.O. Revenue	202,380,756	178,435,914
Revenue	42,551,295	39,447,917
All Other	4,745,000	1,150,000
Total Bonded Indebtedness	<u>\$573,851,130</u>	<u>\$537,958,573</u>

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 1997 (May 1999)*.

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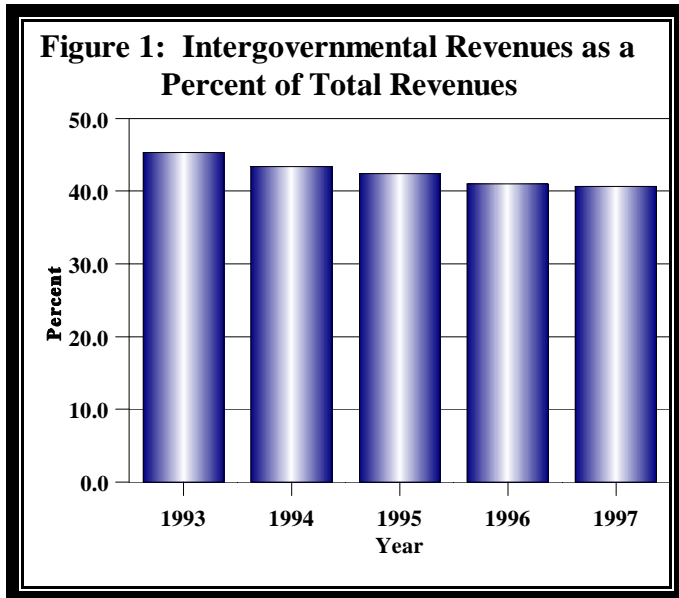
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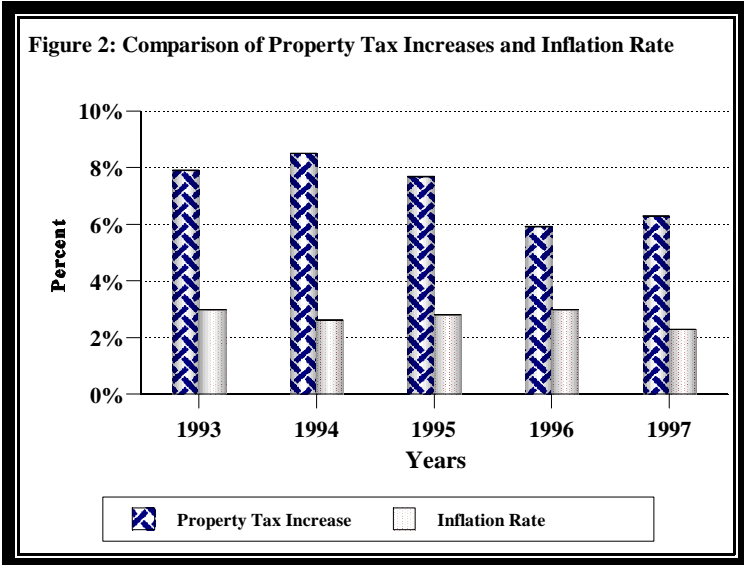
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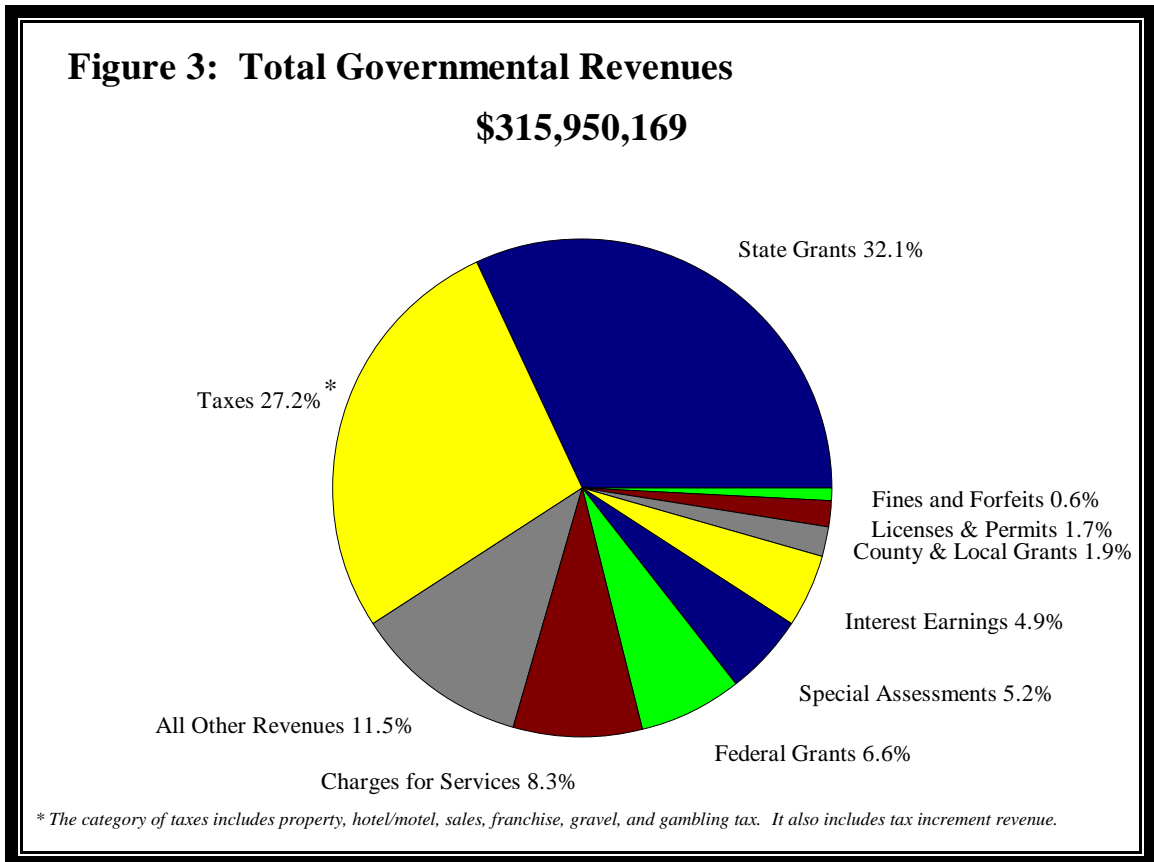
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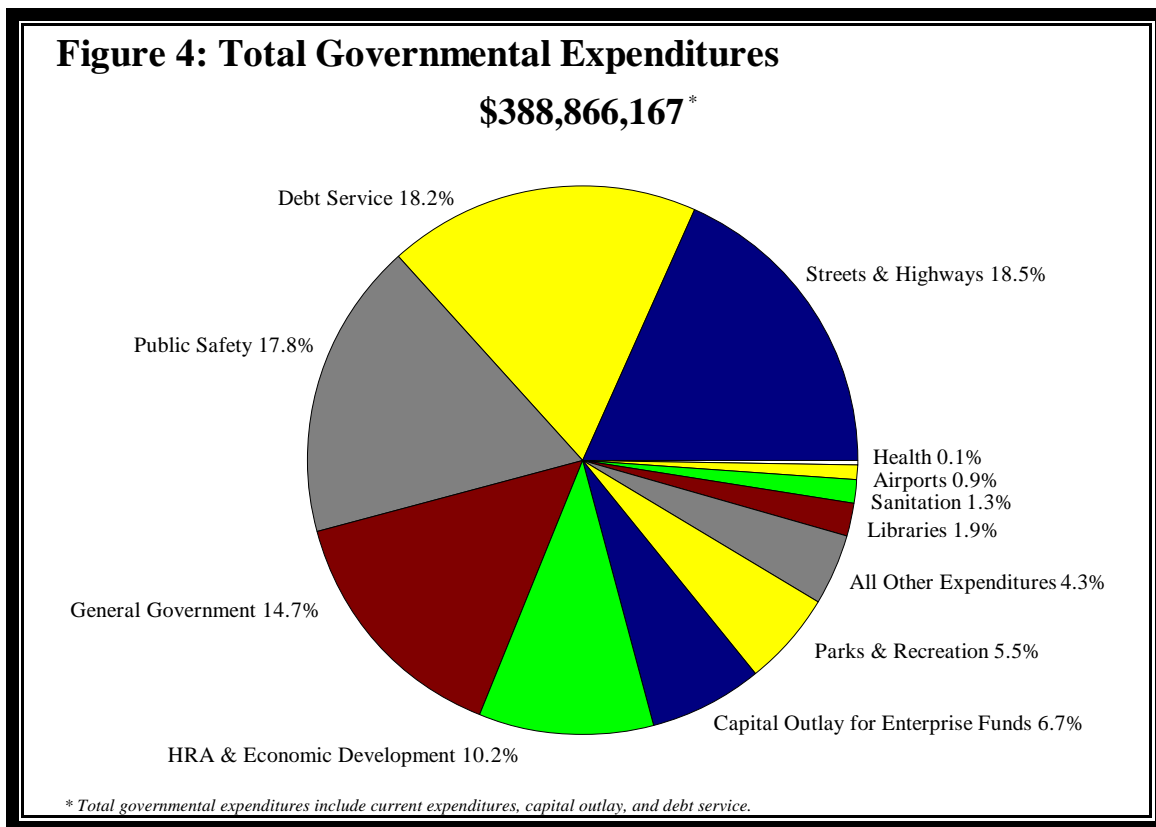
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