1998 Finances For Cities Over 2,500 In Population

Overview

This report provides information and analysis on the finances of Minnesota's cities with a population over 2,500 (hereinafter referred to as "large cities"). Minnesota's large cities generated more revenues than they spent, and ended 1998 in strong financial condition. Total revenues grew by 5.7 percent. Total spending grew by 5.1 percent. The unreserved fund balances in the General and Special Revenue Funds of these cities grew 8.4 percent and totaled $821.8 million in 1998.

Governmental Revenues

Revenues for large cities totaled $2.99 billion in 1998. This represented an increase of 5.7 percent over 1997. On a per capita basis, total revenues increased from $852 in 1997 to $891 in 1998.

Table 1 summarizes the amount of total revenue per capita for each population class.

Table 1: Total Revenues Per Capita By Population Class

Class	Population	1996 Revenues Per Capita	1997 Revenues Per Capita	1998 Revenues Per Capita
First	Over 100,000	$1,225	$1,302	$1,332
Second	20,001 to 100,000	683	714	737
Third	10,001 to 20,000	715	753	783
Fourth	2,500 to 10,000	651	735	842

The principal sources of revenues for the 185 large cities consisted of: intergovernmental revenues which accounted for 31.6 percent of total revenues; property taxes which accounted for 23.0 percent of total revenues; and tax increments which accounted for 8.5 percent of total revenues.

! ***Intergovernmental Revenues.*** Cities receive grants and aids from a number of sources including the federal, state, county and other local governments. Intergovernmental revenues increased 4.9 percent between 1997 and 1998. Intergovernmental grants and aids accounted for 31.6 percent of total revenues for cities in 1998, down slightly from 31.9 percent in 1997.

State grants and aids. The largest source of intergovernmental aids and grants to cities was the State of Minnesota. State grants and aids totaled $751.2 million in 1998. This represented an increase of 5.5 percent over 1997.

The three largest state aid programs in 1998 were local government aid (LGA), homestead and agricultural credit aid (HACA), and "all other state aid". LGA increased 5.4 percent; HACA decreased 0.2 percent; and "all other state aid" to large cities increased 12.9 percent between 1997 and 1998.

The "all other" category increased primarily because it includes disaster assistance. The cities showing the greatest dollar increase in this category included: Breckenridge, Chaska, East Grand Forks, and St. Peter. The state provided funds to these cities to assist in disaster recovery and help leverage federal disaster relief. Generally the funds were used for infrastructure repair and replacement, housing, and flood abatement.

Federal grants and aids. Federal grants and aids were the next largest source of intergovernmental revenues for cities. Federal grants and aids totaled $158.4 million in 1998. This represented an increase of $9.8 million or 6.6 percent over 1997 levels. As in 1997, federal disaster assistance accounted for a significant portion of the federal aid to cities in 1998. The combined dollar increase of two cities, Breckenridge and St. Peter, was greater than the statewide total increase. Breckenridge received federal assistance for flood recovery while St. Peter received federal disaster aid for tornado damage.

County and local grants. Intergovernmental grants from counties and other local governments totaled $36.4 million in 1998 and accounted for 1.2 percent of city revenues. County and other local grants and aids decreased 11.8 percent between 1997 and 1998.

! ***Taxes.*** Cities receive revenues from several types of taxes. In addition to property taxes, many large cities also generate revenues from local option taxes such as hotel/motel, franchise (public utilities), gambling, gravel and sales taxes. Cities also generate revenue from tax increments; however, this revenue cannot be used to support general city services.

Property taxes. Revenue from property taxes totaled $687.8 million in 1998. This represents an increase of 5.0 percent over 1997. Property tax revenues increased in 164 cities and decreased in 21 cities.

Tax increments. 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. Tax increment revenue totaled $253.3 million in 1998. This represented a decrease of 1.7 percent from 1997. Revenue from tax increments averaged 8.5 percent of city revenues in 1998. Tax increment revenues as a percent of total city revenues in individual cities ranged from zero to 33.3 percent.

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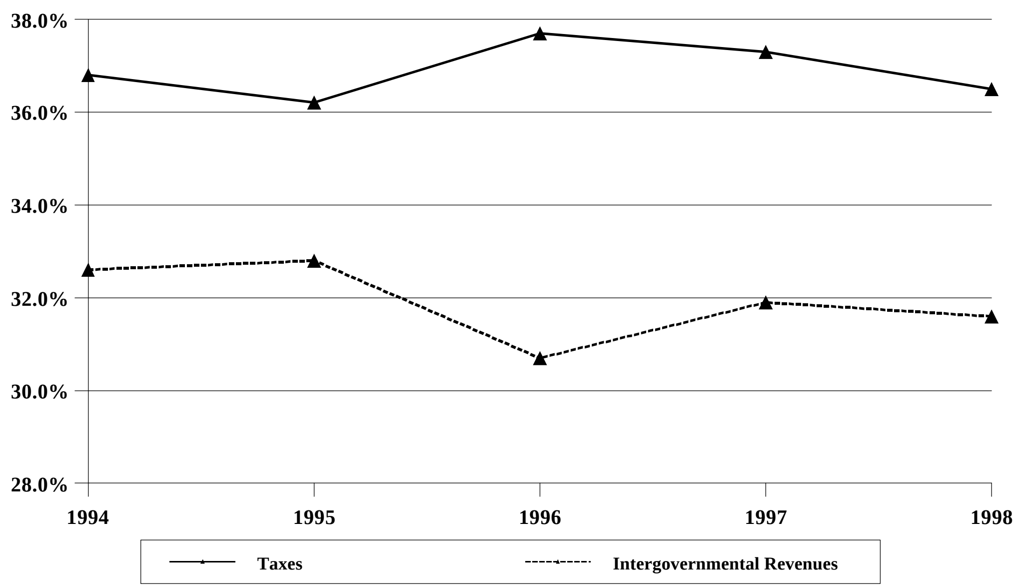
Hotel/motel and local sales taxes. Revenue from local sales taxes and hotel/motel taxes totaled $93.1 million in 1998. This represents an increase of $9.0 million or 10.7 percent over 1997 levels. Local sales tax revenue increased 12.8 percent and hotel and motel tax revenues increased 4.4 percent. Cities must receive legislative approval before enacting local sales, lodging, and liquor taxes. Revenues from these taxes generally support the construction or maintenance of municipal projects such as convention centers, arenas, and other cultural and recreational centers.

Figure 1 illustrates the proportion of revenues that were provided by taxes and intergovernmental revenues for the years 1994 through 1998.

Figure 1: Taxes* and Intergovernmental Revenues as a Percent of Total Revenues



***** The category of taxes includes property, hotel/motel, sales, franchise, gravel, and gambling taxes as well as tax increments.*

! ***Charges for services.*** Charges for services totaled $231.4 million in 1998. This represented an increase of $16.4 million or 7.6 percent over 1997. The share of revenues derived from charges for services increased slightly from 7.6 percent of total revenues in 1997 to 7.7 percent in 1998. This category of revenues includes, among other things, parking ramp revenue, user fees for recreational amenities, and charges on developers to connect to city utilities.

! ***Special assessments.*** Cities collected special assessments totaling $221.0 million in 1998, which accounted for 7.4 percent of all revenues. Special assessments increased $31.0 million or 16.3 percent between 1997 and 1998. Special assessments are often greatest in those cities experiencing growth. These cities frequently levy special assessments to pay for infrastructure projects such as the roads and sewers needed to support new development. In addition, cities dedicate special assessments to service the debt on special assessment bonds issued for capital projects.

Overall, smaller cities relied more on special assessments than large cities. Special assessments accounted for 2.9 percent of revenues for cities of the first class, compared to an average of 9.5 percent for cities of the second, third and fourth class.

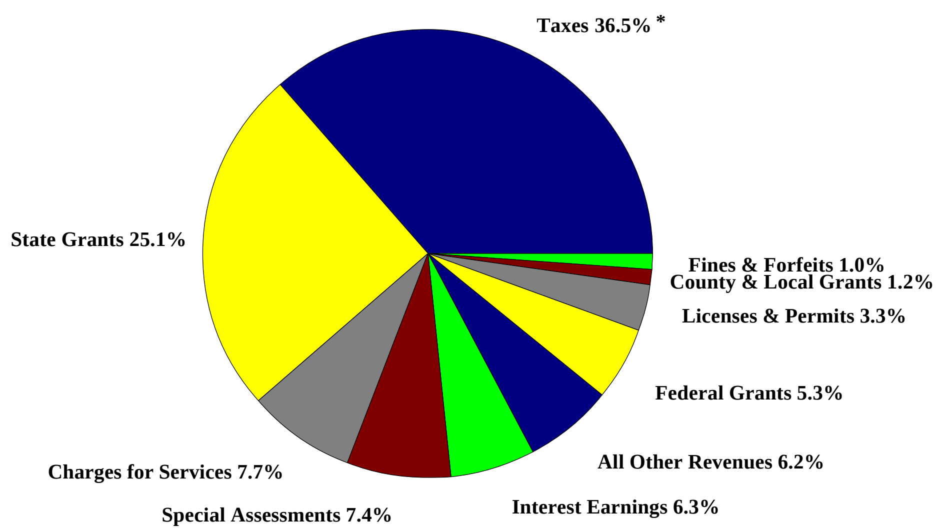
- **_Interest earnings._** Interest earnings totaled $188.4 million in 1998. This represents an increase of $9.9 million or 5.5 percent over the level generated in 1997. If the interest earnings of the City of Bloomington were excluded, the increase would have been much greater. Beginning in 1998, Bloomington started excluding the Fire Department Relief Association finances from the city's financial statement. By excluding the interest earnings of the association from the city, the interest earnings dropped $16.2 million or 73.7 percent between 1997 and 1998.

  The cities of Minneapolis and St. Paul reported the largest dollar increase in interest earnings. On a percentage basis, Minneapolis recorded an increase of 32.4 percent, and St. Paul recorded an increase of 62.2 percent. The interest earnings of Minneapolis and St. Paul increased primarily as a result of an accounting change which requires the recognition of net unrealized gains or losses.[1]

Figure 2 summarizes the proportion of revenue that each source of revenue provides.

Figure 2: Governmental Revenues

$2,992,318,578



** The category of taxes includes property, hotel/motel, sales, franchise, gravel, and gambling taxes as well as tax increments.*

[1] Both cities implemented the Governmental Accounting Standards Board (GASB) Statement No. 31- *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* in 1998. The Statement requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. These adjustments are reflected in the financial statements of the cities. Prior to 1998, all investments were stated at cost or amortized cost.

Governmental Expenditures

Current Expenditures

In 1998, Minnesota's large cities had current expenditures of $1.72 billion, which was $78.4 million or 4.8 percent more than in 1997. Current expenditures exclude capital outlay, principal payments, interest and fiscal charges, and transfers to other funds. The following categories of current expenditures represent the most significant areas of spending for cities:

! ***Public safety.*** As in past years, public safety represented the largest current expenditure by Minnesota's large cities, accounting for 38.6 percent of all current expenditures. Cities spent $664.6 million on public safety in 1998. This was more than twice as much as on any other current expenditure. Public safety current expenditures increased $36.7 million or 5.8 percent in 1998 -- the largest dollar increase of any current expenditure. Public safety current expenditures include police, fire, ambulance and other public safety related services.

! ***General government.*** General government services represented the second largest current expenditure for cities. Cities spent $270.0 million on general government services in 1998. This represented an increase of 3.8 percent over 1997 levels. General government services include expenditures for the mayor, city council and other items related to the administration of the city.

! ***Streets and highways.*** Minnesota's large cities had streets and highways current expenditures of $246.6 million in 1998. This represented an increase of 4.5 percent over 1997.[2] Streets and highways current expenditures accounted for 14.3 percent of total current expenditures in 1998.

! ***Culture and recreation.*** Cities spent $268.8 million on libraries and parks & recreation in 1998. This represented an increase of 7.0 percent over 1997. Spending on culture and recreation accounted for 15.6 percent of total current expenditures in 1998. Expenditures on libraries grew by 3.1 percent, while parks & recreation spending grew by 8.0 percent.

Cities also increased spending on airports (16.6 percent), health (29.1 percent), and sanitation (7.7 percent) during this period.

Cities decreased spending on housing and economic development (1.4 percent), transit systems (3.1 percent), and all other unallocated (7.4 percent) between 1997 and 1998.

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[2] Streets and highways current expenditures exclude expenditures for construction or equipment. Cities spent $434.3 million on streets and highways capital outlay in 1998. The combined current expenditures and capital outlay for streets and highways were the costliest function for cities in 1998 at $681.0 million.

Capital Outlay and Debt Service

Spending on capital projects totaled $1.02 billion in 1998. This represented a decrease of 0.7 percent from 1997. A large decrease in general government capital outlays offset increases in most other categories. General government capital spending decreased by $25.6 million or 45.6 percent between 1997 and 1998. Most of the decrease was attributable to the city of St. Paul which spent $25.1 million or 79.7 percent less on general government capital projects in 1998 than in 1997.

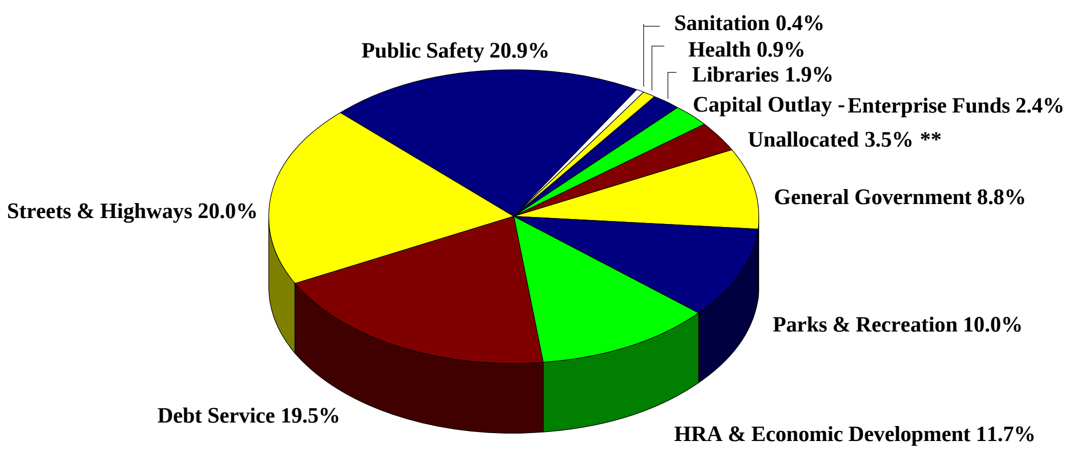
The largest category of capital outlay was streets and highways. Cities spent $434.3 million on streets and highways in 1998. This represented an increase of 2.2 percent over 1997 levels. Streets and highways accounted for 42.6 percent of total capital outlays.

Cities had debt service expenditures of $662.0 million in 1998. This represented an increase of $95.1 million or 16.8 percent over 1997.[3] Debt service payments were the third largest category of city spending and represented 19.5 percent of total expenditures. The three largest cities (Bloomington, Minneapolis, and St. Paul) accounted for 94 percent of the total increase. For all large cities, the average per capita expenditures on debt service was $197. Per capita debt service payments ranged from zero in Deephaven and North Oaks to $1,078 in Redwood Falls.

Figure 3 summarizes the proportion of expenditures by governmental function.

Figure 3: Total Governmental Expenditures

$3,401,409,417



** Total governmental expenditures include current expenditures, capital outlay, and debt service.*

*** Unallocated includes airports, cemeteries, conservation, transit, unallocated insurance, and all other unallocated.*

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[3] Debt service does not include enterprise fund debt service payments.

Municipal Enterprises

In addition to governmental funds, many cities establish Enterprise Funds to account for operations that are financed and operated in a manner similar to private business enterprises. These enterprises are intended to be self-sustaining through fees and user charges. Enterprise funds are also created to provide more detailed financial information on operations where there are public policy, accountability, management control and other concerns. The common enterprises created by cities include water, sewer, electric, gas and heat utilities. Other enterprises include nursing homes, hospitals, liquor stores, sanitation, and recreation services.

Municipal enterprises had operating revenues of $1.64 billion and operating expenses of $1.50 billion in 1998 resulting in an operating income of $136.3 million.[4] Municipal enterprises generated a net income of $159.3 million in 1998, which was 11.4 percent more than in 1997. Net transfers (transfers out minus transfers in) from Enterprise Funds to Governmental Funds totaled $37.8 million in 1998. Although net income increased 11.4 percent in 1998, net transfers decreased 9.6 percent.

Total sales for municipal liquor stores increased $10.0 million. The cost of sales rose by $7.3 million and the gross profit increased $2.7 million. Operating expenses increased $1.2 million and operating income increased $1.5 million. Contributions by municipal liquor stores to Governmental Funds totaled $7.1 million in 1998, compared to $6.8 million in 1997.

Bonded Indebtedness

During 1998, large cities issued bonds totaling $790.8 million and retired bonds totaling $779.9 million, leaving $4.78 billion outstanding at the end of 1998. In 1998, per capita bonded indebtedness among large cities ranged from zero in two cities to $5,540 in the city of Blue Earth. The average per capita bonded indebtedness for large cities was $1,423.

Table 2: Two-Year Summary of Bonded Indebtedness

	1998 Amount	1997 Amount
General Obligation	$ 551,081,279	$ 515,723,367
G.O. Tax Increment	925,130,682	926,134,833
Revenue Tax Increment	294,242,934	387,360,089
Special Assessment	1,125,297,879	1,096,657,671
G.O. Revenue	1,181,082,318	1,068,581,910
Revenue	664,325,188	713,070,033
All Other	36,464,972	52,192,953
Total Bonded Indebtedness	**$4,777,625,252**	**$4,759,720,856**

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[4] This comparison of municipal service enterprises excludes municipal liquor operations because of accounting differences. A separate analysis of municipal liquor operations is available in the Office of the State Auditor's publication, *An Analysis of Minnesota's Municipal Liquor Store Operations in 1998.*

Fund Balances of the General Fund and Special Revenue Fund

The unreserved fund balances in the General and Special Revenue Funds (hereinafter referred to as "unreserved fund balances") of cities over 2,500 in population grew 8.4 percent between 1997 and 1998. The largest unreserved fund balance increase was posted by the city of South St. Paul whose fund balance increased by 1,446.0 percent between 1997 and 1998. The largest fund balance decrease was recorded by the city of Mountain Iron whose fund balance decreased 100 percent. Between 1997 and 1998, 137 cities increased their unreserved fund balance and 48 cities decreased their fund balance

Comparing city unreserved funds balances to their total current expenditures helps place the fund balances in perspective and provides insight on the relative financial health of Minnesota's cities. Cities should have relatively large fund balances at the end of the year because they must rely on them to meet expenses during the first five months of the next fiscal year until they receive the first property tax and state aid payments. City unreserved fund balances as a percent of total current expenditures averaged 47.8 percent in 1998. Unreserved fund balances as a percent of total current expenditures ranged from 459.3 percent in Vadnais Heights to -53.2 percent in Caledonia. Vadnais Heights had total current expenditures of $2.9 million and an unreserved fund balance of $13.3 million. A large part of the Vadnais Heights fund balance resides in its Bonded Debt Reserve Special Revenue fund. Vadnais Heights officials indicated that the fund balance was set aside to pay for several capital projects including a new city hall, fire station, public works facility, and street improvements. The city intends to use the reserves to pay for the projects rather than to incur bonded debt. Caledonia had total current expenditures of $1.3 million and an unreserved fund balance of -$678,710. Caledonia officials indicated that they expect future revenues to offset the unreserved fund balance deficit. For a further discussion of fund balances, please see Appendix B.

Figure 4 shows a five year trend in the unreserved fund balances in the General and Special Revenue Funds as a percent of total current expenditures.

Figure 4: Unreserved City General and Special Revenue Fund Balances as a Percent of Total Current Expenditures, 1994-1998