

**1999 BUDGET DATA
TOGETHER WITH
1998 REVISED BUDGET DATA**

**CITIES OVER 2,500
IN POPULATION**

Minnesota Cities Over 2,500 in Population

1999 Budget Data Together With 1998 Revised Budget Data



October 19, 1999

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Governmental Revenues

Minnesota's large cities (those with a population greater than 2,500) proposed revenues of \$2.28 billion in their 1999 budgets.¹ This represents an increase of \$137.7 million, or 6.4 percent, over 1998 budgeted revenues. All sources of revenues except tax increments and special assessments increased in 1999 budgets.

The principal sources of revenues in 1999 city budgets were: intergovernmental revenues which accounted for 34.1 percent of revenues; property taxes which accounted for 29.7 percent of revenues; and charges for services which accounted for 8.0 percent of revenues. Property taxes and intergovernmental revenues account for a slightly smaller share of total revenues in 1999 budgets compared to 1998 budgets. In contrast, charges for services represent a slightly larger share of 1999 budgets.

! ***Intergovernmental Revenues.*** Cities receive grants and aids from the federal, state, and other local governments. Cities budgeted intergovernmental revenues of \$775.6 million for 1999. This represents an increase of 3.9 percent over 1998 budgeted intergovernmental revenues.

State General Purpose Aid. The most substantial source of intergovernmental revenues for cities is state general purpose aid. General purpose aid has no restrictions on its use and includes, among other things, Local Government Aid (LGA) and Homestead and Agricultural Credit Aid (HACA). Cities budgeted general purpose aid of \$494.8 million for 1999, which was \$10.6 million more than in 1998. State general purpose aid accounted for 21.7 percent of 1999 budgeted revenues.

State Categorical Aid. Cities budgeted categorical aid of \$134.0 million for 1999. This represents an increase of 9.3 percent over categorical aid budgeted in 1998. Categorical aid levels can fluctuate widely because these revenue sources commonly support capital projects that are short-term or cyclical in nature.

Federal Grants. Cities budgeted federal grants of \$91.8 million for 1999. This was an increase of 2.7 percent over federal grants budgeted in 1998.

Local Grants. Cities budgeted grant revenues from other local governments of \$55.0 million for 1999. This represents an increase of 9.7 percent over local grants budgeted for 1998. These revenues commonly reflect cooperation among two or more governments to provide a service or participate in a capital project. The cities of Minneapolis, Mankato, Richfield, and Rochester accounted for the majority of the increase.

¹There are 185 cities with populations above 2,500. Four of these cities failed to submit data, or submitted incomplete data, for 1999. Total revenues exclude borrowing and transfers from other funds.

- ! **Taxes.** Cities receive revenues from several types of taxes. In addition to levying property taxes, cities generate revenues from local option taxes such as hotel/motel, franchise (public utilities), gambling, gravel, and sales taxes. Cities that have established tax increment financing (TIF) districts also receive tax increment revenue.

Property Taxes. Property tax revenues increased 5.2 percent in 1999 budgets. Revenues derived from property taxes totaled \$676.6 million and accounted for 29.7 percent of city revenues. The majority of cities budgeted higher levels of property tax revenues for 1999. Of those cities reporting budget data, 160 cities budgeted higher property tax revenues, 16 cities budgeted lower revenues, and 5 cities budgeted the same level of revenues.

Tax Increments. Cities budgeted tax increment revenues of \$138.9 million for 1999. This represents a decrease of 2.1 percent from 1998 budgeted tax increments. The decrease in tax increment revenue was spread among 53 cities. 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.

All Other Taxes. This category of revenue accounts for taxes such as franchise, hotel/motel, sales, and others. Cities budgeted all other tax revenues of \$139.4 million for 1999. This was an increase of 10.6 percent over 1998 budgeted tax revenues. The most significant component of this category is local sales and hotel/motel taxes. Cities must receive legislative approval before enacting these types of local option taxes. There are currently 11 cities collecting local sales or use taxes. The revenues are generally dedicated to specific public facilities such as convention centers and arenas.

- ! **Charges for Services.** Cities budgeted revenues from charges for services of \$183.0 million, which was an increase of 11.4 percent over the amount budgeted in 1998. More than half of the increase is attributable to the cities of Minneapolis and St. Paul. Minneapolis reported that its actual 1998 revenues derived from charges for services were more than the amount it budgeted for 1999. St. Paul attributes its increase to a predicted rise in the use of fee-based services such as parking.

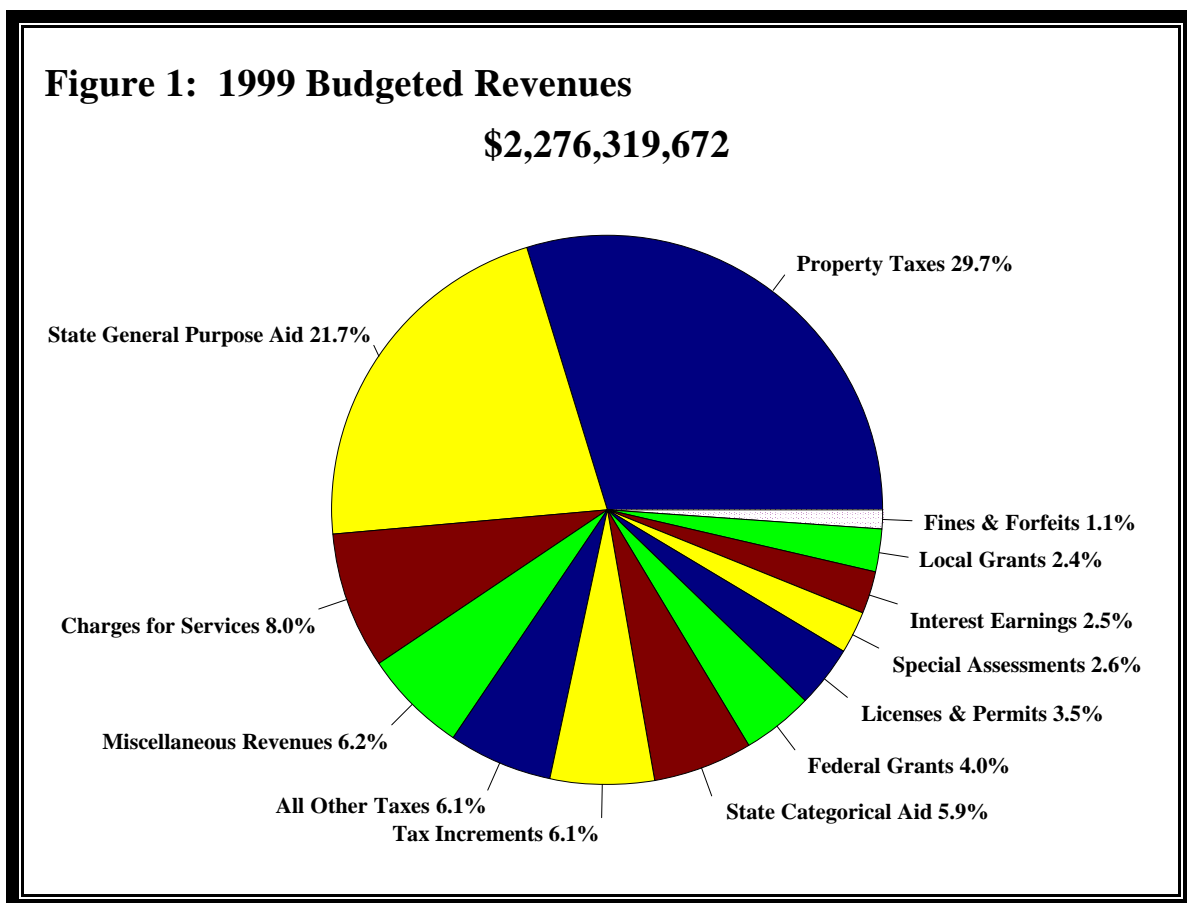
- ! **Licenses and Permits.** Cities budgeted revenues from licenses and permits of \$80.3 million for 1999. This represents an increase of 12.0 percent over the amount budgeted in 1998. This category accounts for revenue derived from fees collected for the issuance of both business and non-business licenses and permits. Growth in this category has been fueled by demand for building permits due to the strong economy and low interest rates. In addition, the two cities with the greatest percentage increase were East Grand Forks and St. Peter. Both of these cities are undergoing significant rebuilding activities due to the destruction wrought by natural disasters.

- ! **Special Assessments.** Cities budgeted revenues of \$60.0 million from special assessments in 1999. This represents a decrease of 1.7 percent from the level budgeted in 1998. Cities levy special assessments to pay for services that are deemed to primarily benefit specific properties. Cities also use special assessments for debt service payments. Several of the cities which indicated a decrease in special assessment revenue also indicated a reduction in debt service payments.

- ! **Interest Earnings.** Cities budgeted revenues from interest earnings of \$56.2 million for 1999, which was an increase of 5.2 percent over interest earnings budgeted for 1998. Cities expect that their investments will continue to perform well due to the strong economy and solid market growth.

- ! **Miscellaneous Revenues.** Cities budgeted miscellaneous revenues of \$142.1 million for 1999. This represents an increase of 31.1 percent over 1998. Eight cities accounted for 91.9 percent of the increase in this category.

Figure 1 summarizes the proportion of revenues derived from each category of revenue.



Governmental Expenditures

Current Expenditures

Cities set their budgets for total current expenditures at \$1.87 billion for 1999. This represents an increase of 6.7 percent over 1998 budgeted total current expenditures.²

The three most costly services budgeted by cities in 1999 were: public safety which accounted for 35.0 percent of current expenditures; streets and highways which accounted for 15.9 percent of current expenditures; and culture and recreation which accounted for 14.4 percent of current expenditures.

! **Public Safety.** Cities budgeted \$652.3 million for public safety in 1999. This represents an increase of 3.4 percent over public safety expenditures budgeted in 1998. Cities budgeted more than twice as much for public safety as for any other current expenditure.

Public Safety spending is more than double any other current expenditure.

! **Streets and Highways.** Cities budgeted \$296.7 million for streets and highways in 1999. This represents an increase 20.3 percent over 1998 streets and highways budgets. The cities of Minneapolis and St. Paul accounted for over eighty percent of the increase in this category. In Minneapolis, costs related to the reconstruction of Hiawatha Avenue and accommodation for light rail drove budget increases. In St. Paul, planning for a number of large road construction and realignment projects pushed street and highway budgets higher. This category includes snow removal, engineering, planning, and general maintenance, but excludes construction and the purchases of equipment. Streets and highways now represents the second largest current expenditure for cities.

! **Culture and Recreation.** Cities proposed culture and recreation current expenditures of \$268.8 million for 1999. This represents an increase of 7.1 percent over 1998 culture and recreation budgets.

! **General Government.** Cities budgeted general government current expenditures of \$261.8 million for 1999, which was an increase of 6.5 percent over 1998 general government budgets. General government expenditures reflect the administration costs of city governments including such items as salaries of city officials and maintenance of buildings.

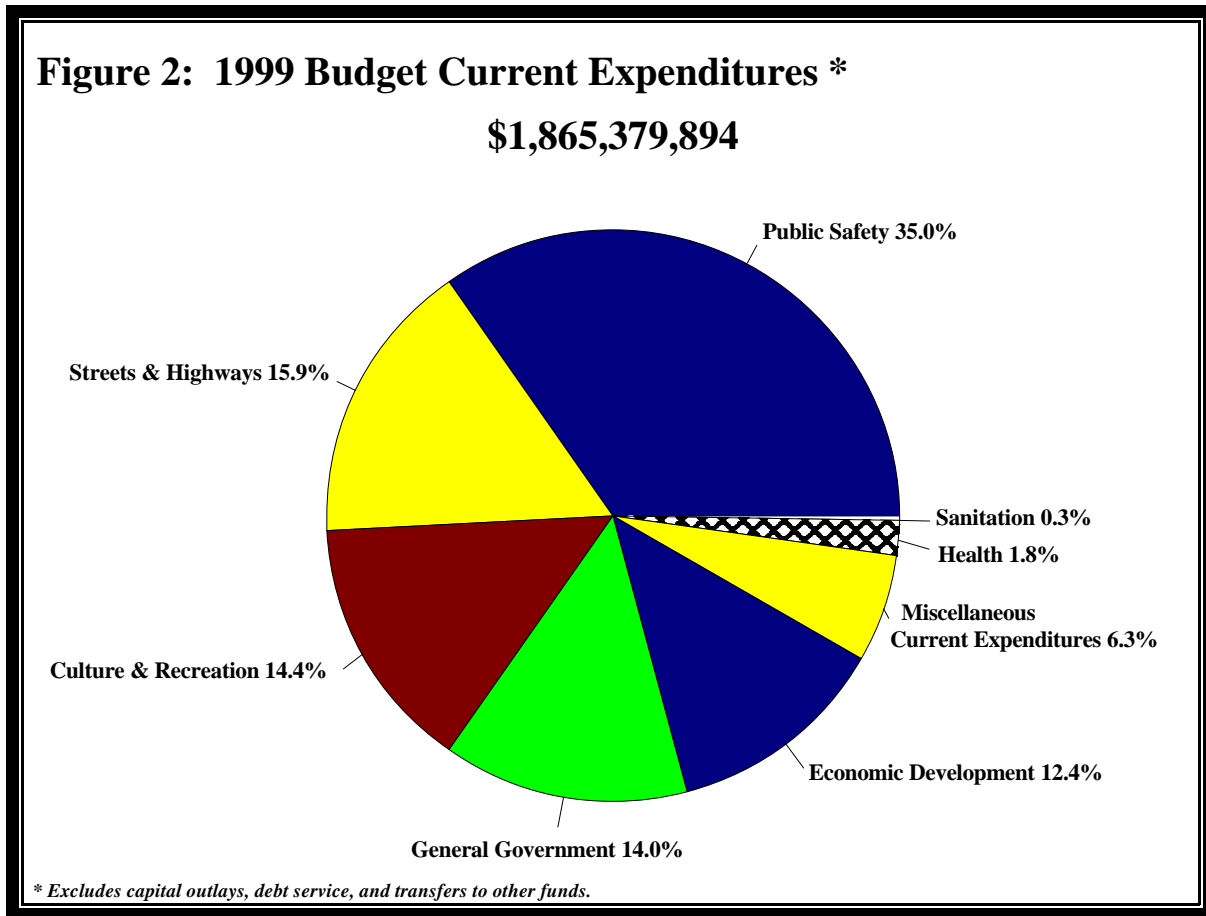
! **Urban and Economic Development and Housing.** Cities budgeted housing and economic development current expenditures of \$230.7 million. This represents an increase of 9.4 percent from the level budgeted in 1998.

! **Health.** Cities budgeted health current expenditures of \$32.8 million for 1999. This represents an increase of 4.0 percent from 1998 budgets.

²Total current expenditures exclude capital outlay, debt service, transfers to other funds, and proprietary funds.

! **Sanitation.** Cities budgeted \$5.0 million for sanitation current expenditures in 1999. This represents a decrease of 8.9 percent from 1998 budgets. Sanitation expenditures account for 0.3 percent of total current expenditures. These expenditures account for a relatively small share of total current expenditures because most cities over 2,500 in population do not directly provide sanitation services or provide them through municipal enterprises.

Figure 2 summarizes the proportion of current expenditures by governmental function.



Total Expenditures

Minnesota's cities with populations over 2,500 proposed total expenditures of \$2.52 billion for their 1999 budgets. This was an increase of 5.2 percent over 1998 budgeted total expenditures. Total expenditures include current expenditures, capital outlay, and debt service, but exclude transfers to other funds. Highlights of these expenditures include:

! **Capital Outlays.** Cities budgeted capital outlays of \$373.2 million for 1999. This represents an increase of \$34.4 million or 10.2 percent over capital outlays budgeted for 1998. Capital outlays represent 14.8 percent of total expenditures budgeted for 1999. Two cities, Mankato and Rochester, account for over 90 percent of the increase. Mankato's increase reflects an accounting change that more accurately budgets for capital projects. Rochester's increase is due to a large number of projects including municipal buildings, water and sewer lines, economic development, and cultural/recreational facilities.

! **Debt Service.** Cities budgeted debt service payments of \$285.7 million. This represents a decrease of 8.7 percent from 1998 budgeted debt service payments. Cities budgeted principal payments of \$210.2 million and interest and fiscal charges of \$75.5 million. Principal payments decreased 11.7 percent and interest and fiscal charges increased 0.7 percent in 1999 budgets. Seventy-six percent of the decrease in principal payments is attributable to the city of St. Paul. The city had a \$21.1 million reduction due to the calling of sewer revenue refunding bonds.

Net Unrealized Gain or Loss from Investments

Of the 181 cities that submitted 1999 budgets, only 59 reported any gain or loss on their investments. Of the 59 cities that reported information on their investments, 48 reported gains and 11 reported losses. The gains of those that reported investment information were greater than those that reported losses. The statewide reported net gain from investments was \$9.3 million.

Methodology and Caveats

Budget data used in this report reflect unaudited revenues and expenditures reported by cities to the Office of the State Auditor. Budgeted amounts of revenues and expenditures may differ from actual revenues and expenditures that year. The reported data does not represent all city revenues and spending for three reasons: (1) Cities reported budget data for all funds for which the city had adopted annual budgets. Cities with funds for which annual budgets were not adopted could have more revenues and expenditures than reported here. (2) The revenues and expenditures of municipal enterprises are not included. The inclusion of enterprise funds could significantly alter the revenue and expenditure trends of cities. (3) There were four cities (Belle Plaine, Lake City, Plainview, and Willmar) that failed to submit information on their budgets.