Overview

Total Governmental Revenues

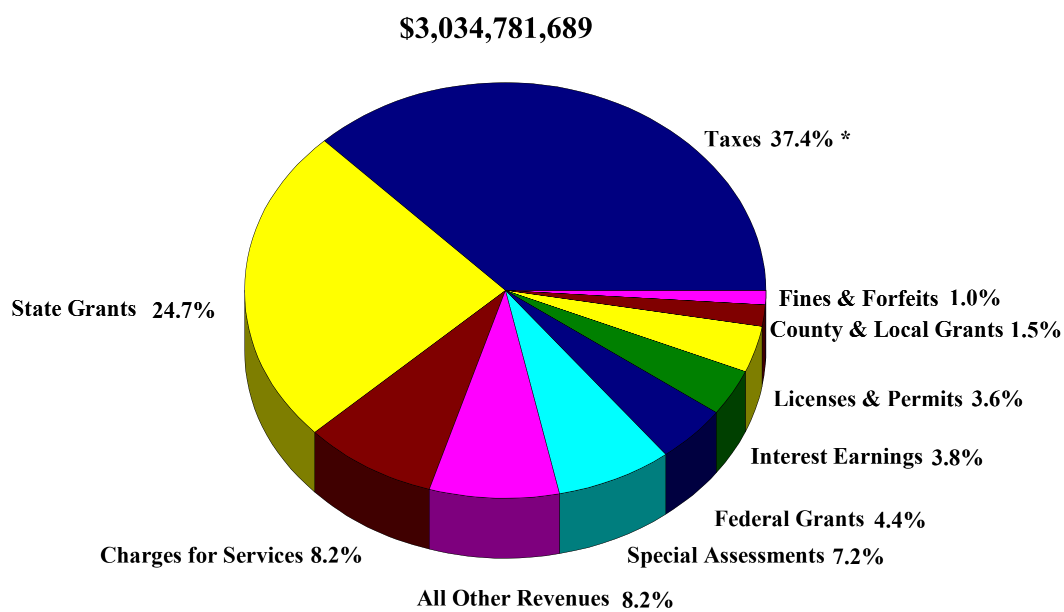
In 1999, cities over 2,500 in population raised total governmental revenues of $3.03 billion to finance city services. This represents an increase of 1.4 percent over the amount raised in 1998.

The shares of total governmental revenues generally vary only slightly from year to year. Over time, there have been some shifts in the composition of revenues. The single two largest sources of revenues for cities have remained taxes and state intergovernmental revenues. However, since 1995, state intergovernmental revenues as a share of total revenues has steadily declined. In 1995, state intergovernmental revenues accounted for 27.3 percent of total revenues compared to 24.7 percent in 1999.

The one source of revenue that has shown a steady increase in its share of total revenues is charges for services. This category has grown from 6.9 percent in 1995 to 8.2 percent in 1999. Charges for services related to parks and recreation activities showed the greatest gain over this period. To further examine five-year trends in revenues, please refer to Table 3.

Figure 1 shows the relative shares of total governmental revenues by source. The underlying data for this pie chart is detailed in Table 3.

Figure 1: Total Governmental Revenues



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

Total Governmental Expenditures

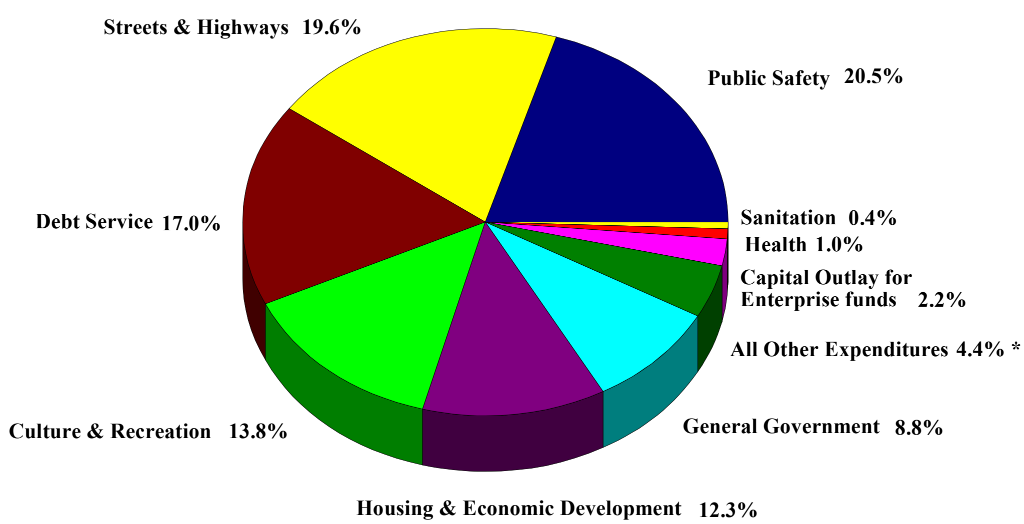
Cities provide a variety of services to their citizens. Most services are accounted for in governmental funds. The governmental funds are made up of the General, Special Revenue, Capital Projects, and Debt Service funds. In 1999, cities over 2,500 in population expended $3.57 billion from Governmental Funds to provide city services. This represents an increase of 4.9 percent over 1998 total governmental expenditures.

The relative shares of total governmental expenditures change very little from year to year. However, as the priorities of cities change over time, the relative shares of total spending shift to reflect these new priorities. For example, looking back to 1995, the top three expenditure categories were debt service (21.4%), streets and highways (20.1%), and public safety (19.3%). In 1999, the order of these three categories of spending completely reversed. The category of expenditure showing the greatest increase in share of total expenditures over this five-year period was culture and recreation. This category accounted for 9.9 percent of total governmental expenditures in 1995, compared to 13.8 percent in 1999. To examine these and other changes over the five-year period, please refer to Table 4.

Figure 2 shows the relative shares of total governmental expenditures by function. The underlying data for this pie chart is detailed in Table 4.

Figure 2: Total Governmental Expenditures

$3,566,588,793



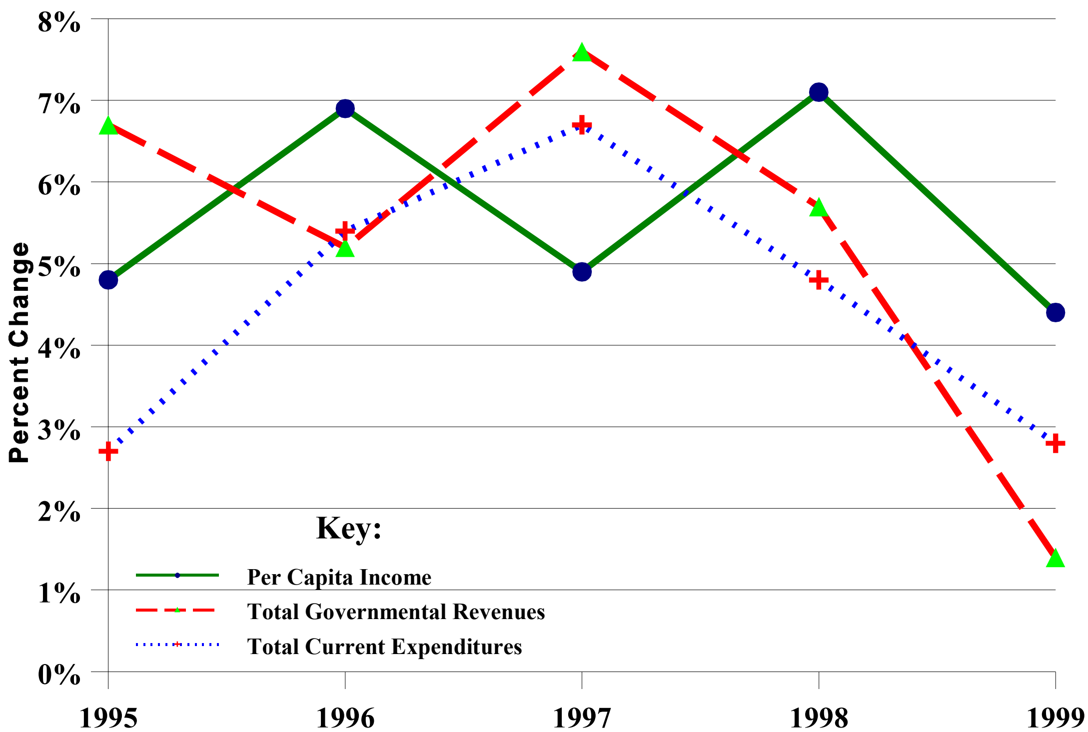
* Includes conservation of natural resources, airport, transit, unallocated insurance, and all other unallocated expenditures.

Growth in Government

During the five-year period of 1995 to 1999, total governmental revenues and total current expenditures increased every year.[1] The rate at which they grew varied from 1.4 percent to 7.6 percent. To place this growth in perspective, Figure 3 below includes a trend line for the growth in per capita personal income for Minnesotans.[2] Per capita income is an indicator of the ability of citizens to pay for increased governmental spending. When expenditures grow faster than per capita personal income, citizens must spend a greater proportion of their income on governmental services.

Figure 3 compares the growth in total current expenditures and total governmental revenues to the change in Minnesota per capita personal income. Per capita income grew faster than total current expenditures for all years but one during the five year period. Per capita income grew faster than total revenues for three of the five years.

Figure 3: Percentage Change - Total Governmental Revenues, Total Current Expenditures, and Per Capita Income - 1995 to 1999



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[1] The chart excludes capital outlays as this category is more prone to yearly fluctuations. The chart also excludes revenues derived from borrowing because cities are prohibited from borrowing for current expenditures. Most capital projects are funded through the issuance of bonds or other types of borrowing such as certificates of participation.

[2] Per capita income is calculated by dividing Minnesota total personal income by its total midyear population. The figure is calculated by the Bureau of Economic Analysis which is a part of the U. S. Census Bureau.

Capital Outlay Expenditures

Cities expended $1.19 billion on capital investments in 1999. This represents an increase of 16.8 percent over the level expended in 1998. Projects in Minneapolis and St. Paul accounted for 62.0 percent of the increase. Capital outlays are more likely than current expenditures to vary significantly from one year to the next. The reason for this is that capital projects tend to be large in size but infrequent in nature. Some of the factors that influence the level of capital investments include the need for infrastructure improvements for new developments, public safety concerns, demands for public meeting places and facilities, the need to replace aging infrastructure, and damage to public facilities caused by fire, floods and storms.

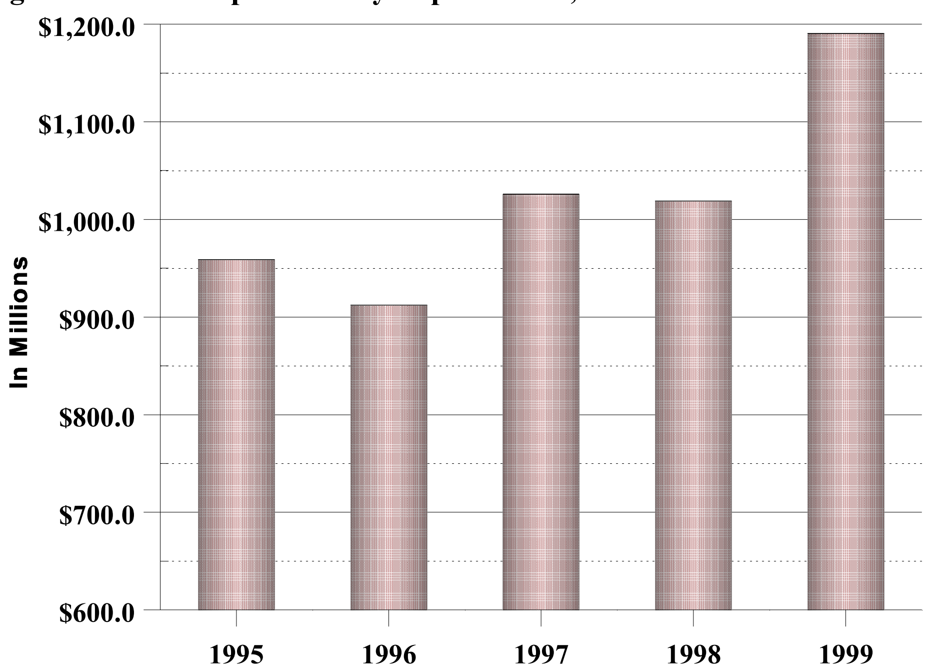
Table 1 shows total capital outlays in dollars and per capita. Figure 4 illustrates the trend in capital spending for the years 1995 through 1999.

Table 1: Total Capital Outlay Expenditures in Actual Dollars and Per Capita

Year	Total Capital Outlay (actual dollars)	Per Capita *
1995	$959,063,657	$296
1996	$912,541,019	$278
1997	$1,026,035,901	$309
1998	$1,019,065,674	$304
1999	$1,190,546,110	$350

* Per capita amounts are based on the total population of cities over 2,500 in population.

Figure 4: Total Capital Outlay Expenditures, 1995 to 1999



Municipal Enterprises

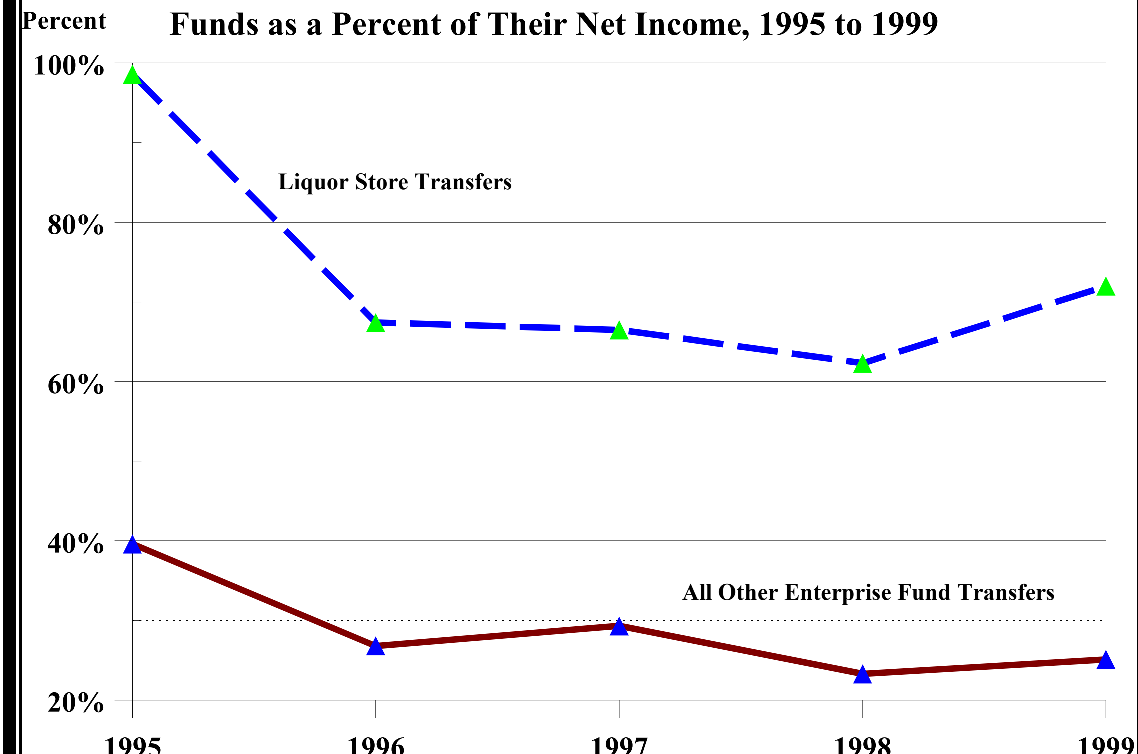
In addition to Governmental Funds, many cities establish Enterprise Funds to account for services that are financed and operated in a manner similar to private business enterprises. These enterprises are intended to be self-sustaining through fees and user charges. Although some enterprises may earn a net profit, most have the objective of breaking even. Enterprise fund accounting is also used to provide more detailed financial information on operations where there are public policy, accountability, management control, and other concerns. The most common enterprises created by cities include hospitals, nursing homes, and electric, gas, sewer, water and heat utilities. Other enterprises include recreation facilities, solid waste, liquor stores, and economic development.

The net income of municipal enterprises decreased 4.0 percent between 1998 and 1999. However, net transfers (transfers out minus transfers in) from Enterprise Funds increased 2.5 percent.

Municipal liquor stores, which are separated from other municipal enterprises because of accounting differences, saw an increase of 9.3 in profits between 1998 and 1999. Net transfers from municipal liquor operations increased 26.5 percent over the level transferred in 1998.

Figure 5 examines the five-year trend in net transfers from Enterprise and Municipal Liquor Store Funds as a percent of their net income. The chart helps illustrate that the primary purpose of municipal liquor stores is to provide additional revenues to cities, whereas other types of municipal enterprises primarily exist to provide a particular service for the city and citizens. Tables 10 through 19 provide additional details on municipal enterprises.

Figure 5: Net Transfers from Enterprise and Muncipal Liquor Store Funds as a Percent of Their Net Income, 1995 to 1999



Outstanding Long-Term Indebtedness

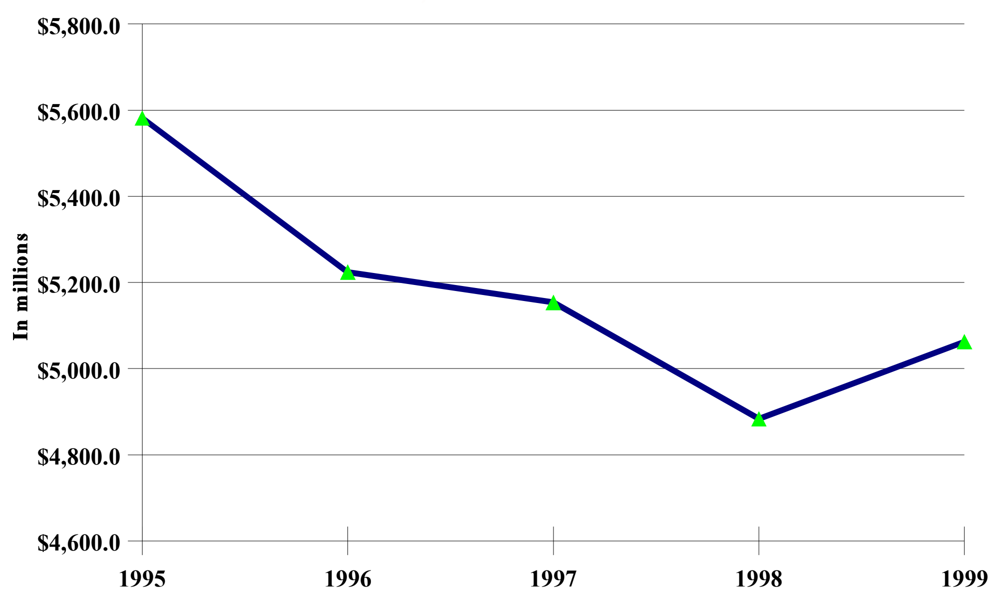
Cities incur long-term debt through the issuance of bonds and notes, certificates of indebtedness, and tax anticipation certificates. Long-term lease agreements are also classified as long-term debt. Cities may only borrow to finance capital projects and purchases. They are restricted by law from borrowing for current expenses. The amount of outstanding debt affects a city's current expenditures because cities must make principal and interest payments to service the debt.

Table 2 looks at outstanding bonded indebtedness for 1998 and 1999. Figure 6 shows the five-year trend of outstanding long-term debt for cities over 2,500 in population. The chart shows that cities lowered their level of debt between 1995 and 1998, but increased it slightly in 1999.

Table 2: Two-Year Summary of Outstanding Bonded Indebtedness

	1999 Amount	1998 Amount
General Obligation	$ 514,298,022	$ 551,081,279
G.O. Tax Increment	976,057,984	925,130,682
Revenue Tax Increment	246,781,539	294,242,934
Special Assessment	1,172,224,262	1,125,297,879
G.O. Revenue	1,367,926,002	1,181,082,318
Revenue	728,786,872	664,325,188
All Other	24,399,973	36,464,972
Total Bonded Indebtedness	**$5,030,474,654**	**$4,777,625,252**

Figure 6: Outstanding Long-Term Indebtedness as of December 31, 1999 *



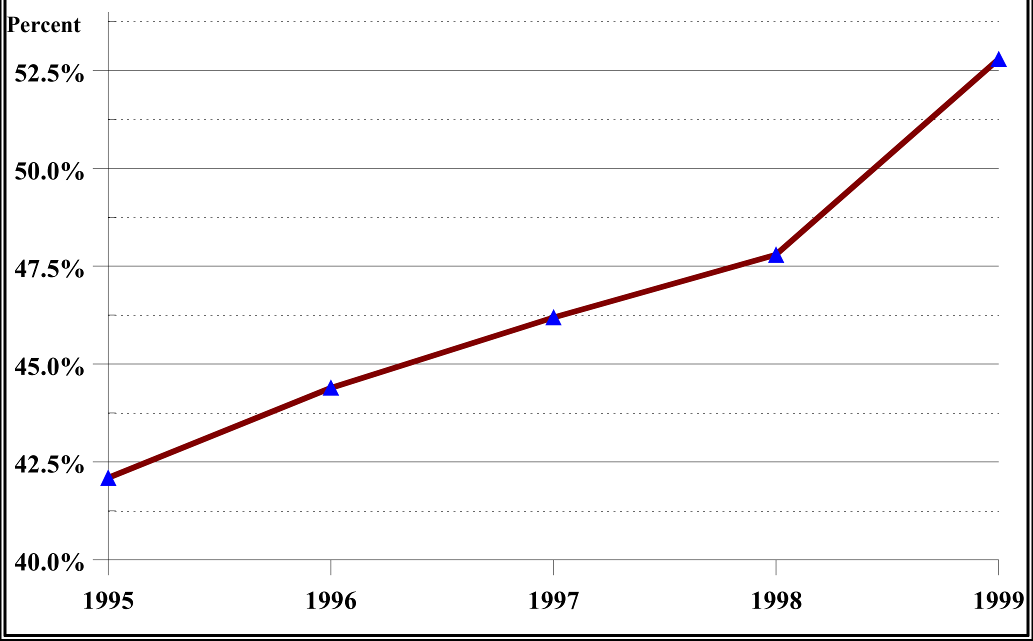
*** Includes bonds and other types of debt such as certificates of participation, long-term leases, and notes.**

Unreserved Fund Balances of the General Fund and Special Revenue Funds

Cities maintain cash reserves for several reasons. Cities should have relatively large fund balances at the end of the year because they must rely on them to meet expenditures during the first five months of the next fiscal year until they receive the first property tax and state aid payments. Additional reasons include contingency funds for unforseen needs and setting aside resources for future capital investments. The unreserved fund balances of cities' General and Special Revenue Funds totaled $934.7 million in 1999.[3] This represents an increase of 13.7 percent over the level in 1998.

Comparing cities' unreserved fund balances to their total current expenditures help put the fund balances in perspective and provides insight on the relative financial health of Minnesota's cities. City unreserved fund balances as a percent of total current expenditures averaged 52.8 percent in 1999. Among this group of cities, unreserved fund balances as a percent of total current expenditures ranged from -68.4 percent to 400.8 percent. Figure 7 shows the five-year trend of unreserved fund balances as a percent of total current expenditures.

Figure 7: Unreserved Fund Balances of the General and Special Revenue Funds as a Percent of Total Current Expenditures, 1995 to 1999



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[3] Although this section discusses only two types of fund balances, Minnesota cities actually report three different classifications of fund balances in the General and Special Revenue Funds. The ***unreserved, undesignated fund balances*** include all funds remaining at the close of the fiscal year for which no legally-binding commitment has been made, nor has the governing body passed a resolution designating those funds for a specific purpose. The ***unreserved, designated fund balances*** include all funds remaining at the close of the fiscal year for which no legally-binding commitment has been made; however, these funds have been designated by the governing body for a specific future use. The ***reserved fund balances*** include all funds remaining at the close of the fiscal year for which there is a legally-binding external commitment of those funds, such as a signed contract for services or equipment.