

Appendix A

Factors Affecting City Expenditures

Factors Affecting City Expenditures

The finances of cities are affected by many different factors. Some of the variation results from decisions made by city officials. Some is due to factors outside the control of the elected officials, such as a city's size, the economic status of its residents or the proximity of similar services provided elsewhere. Large swings in expenditures may reflect demands caused by extraordinary weather events such as floods and tornados, public safety events such as forest or brush fires, or large-scale investigations of high-profile crimes. Some factors have an on-going effect on city finances, while others might be one time events.

A. Demographics

Age of Housing. In the metropolitan area, the average age of housing in a city reflects not only the probable condition of the city's infrastructure, but several other conditions as well. The League of Minnesota Cities (LMC) found the average age of housing to be indicative of a variety of characteristics, including a higher relative rate of poverty, more tax exempt property, more subsidized housing, and a declining population base. Each of these factors tends to contribute to a demand for public services.

Population. Cities with larger populations face certain challenges not encountered by smaller cities. Simply dealing with large amounts of traffic is one challenge that can become very costly, depending upon the burden carried by an area's streets and highways. Large populations may also indicate high population densities that in turn are associated with higher poverty and crime rates.

Population Decline. A large loss of population can have a very significant effect upon a city's per capita spending. The costs of a city's infrastructure and many of its services do not go down immediately when a number of city residents move away. Even if the city's costs remain the same, its per capita spending will increase because the costs are distributed over a smaller population base.

Income. The median per capita income of a city's residents is related to a city's expenditure level in several ways. Per capita income is indirectly related to a city's ability to raise revenues. Where incomes are lower, property values may also be depressed, reducing a city's tax capacity. Poverty rates, in turn, will be higher creating greater demand for public services.

Crime Rate. Higher crime rates require a correspondingly high level of public safety services. Cities that host sporting and other entertainment events can draw large crowds of nonresidents and create unusual public safety service demands. In addition, higher levels of poverty are also associated with the crime rate of a city and contribute to an overall greater demand for police protection.

B. Geographic Location

Different areas of the state often operate within quite different economic environments. Just the presence of one large business or industry can impact an entire region. Declines in industries or companies that dominate local economies may result in a higher demand for public assistance. Agricultural issues could cause lower property values and a decline in revenues for cities in regions whose economies are primarily agriculturally-based. Cities located in these areas may experience difficulty raising revenues and also face higher demands for public services.

C. Revenue Sources

Tax Capacity Per Capita. The amount of money any individual or entity spends is directly related to the amount that is available to spend. Likewise, the costs of doing business are directly related to the amounts of revenue that can be generated to meet the costs. The greater the amount and types of revenue available to a city, the more it will spend.

Taconite Aid. Many cities located in the “Iron Range” are eligible to receive special funding in the form of taconite aid. For a number of years, revenues in these cities were greater than they might have been without the distribution of taconite aid, especially for cities without taconite processing plants. In addition, the availability of taconite aid enabled these cities to spend without raising property taxes.

Enterprise Funds. This report does not reflect expenditures accounted for in enterprise funds. The most common enterprise funds are for sewer and water operations. Many cities also charge fees for refuse disposal, recycling, and other public services. Some finance park and recreation programs and/or facilities through user fees, particularly golf courses and swimming pools. Cities that account for these services in their General or Special Revenue funds will show higher per capita expenditures in this report than those that provide the services through enterprise funds.

D. Shared Services, Joint Powers Agreements

A significant practice among cities is the sharing of services and the use of joint powers agreements to provide necessary services. "Joint exercise of powers" is defined in Minnesota Statutes § 471.59. Such arrangements allow cities to provide services jointly with other cities and thus pool their resources. For example, the metropolitan cities of Circle Pines, Lexington, and Centerville have a joint powers agreement to provide police protection services.

A number of cities share services through the use of contracts. For example, the City of St. Paul contracts with several other cities in Ramsey County for the provision of water. The City of St. Anthony contracts with Falcon Heights and Lauderdale to provide police protection. In Greater Minnesota, the City of Thief River Falls provides fire services to five townships on a contractual basis.

Shared service arrangements are not necessarily formal; some cities provide services to other jurisdictions on an informal basis. The importance of shared services and joint powers agreements on this per capita analysis of city expenditures has to do primarily with the population number used to determine the per capita rates. If a city of 3,000 provides services to a neighbor city of 1,000 population, the size of the population served is actually 4,000. If the first city's expenditures for the service is not reduced by the amount spent on the second city, the calculated per capita rate will be too high. This happens because the calculation for the per capita rate would use the population of the first city and not the combined population of both cities.

The Office of the State Auditor does not collect information on joint powers agreements such that it would enable us to divide every expenditure by a different population figure. It is imperative, therefore, that in those instances where one city's expenditures appear higher than the average, the reader exercise caution in interpreting the numbers and investigate further into the possible sharing of services and/or the use of joint powers agreements.

E. Proximity to County, Regional, or State-Run Programs/Facilities

Cities that are located near county, regional or state-run facilities may decide to have their citizens take advantage of those facilities and services rather than provide them on their own. For example, the city that houses the county library probably won't build their own. Similarly, cities located close to a regional or state park may opt not to develop or expand their own park program. Smaller cities located near larger cities may do the same.

The degree of isolation experienced by a community, whether geographic or technological (e.g., lack of advanced telecommunications capability), can also affect service demands and costs. Cities that are remote from other communities may not have the opportunity to participate in joint powers arrangements or have access to urban amenities, and thus may need to provide a wider range of services out of their own budgets.

F. Types of Industry Present and Service Demands

One factor that can have a significant effect on an individual city's situation is the type of industry present in the city. For example, heavy industries such as paper mills may place particularly heavy burdens on the city's water supply, sewers, fire department, or streets. At the same time, the presence of these industries contributes to the property tax base of the city. Expenditures for these services may be higher than for other cities, but the cost is not necessarily borne by the residents of the city.

G. Source of Labor

The extent to which a city depends upon other than full-time, salaried employees will affect the levels of expenditures. The following types of arrangements can reduce the full-time complement of staff: extensive use of part-time employees; significant reliance on volunteers; and use of contracts for specific projects or for general services. Besides lower wages to part-time employees, an important reduction created through these types of arrangements is in the area of fringe benefits, which are not generally paid either to part-time employees, volunteers, or individuals hired on a contract basis.

Some employee arrangements may increase, rather than reduce costs. Some cities' expenditures are affected by the extensive unionization of their work force. Because of the role of the unions, salary costs may be more difficult for these cities to control.

H. Other Factors

The effects of weather and natural disasters can significantly affect the expenditures for certain services over a period of time. Cities affected by floods and tornadoes may have higher public safety, streets and highways, and infrastructure costs. During winters in which there is an unusually high snow fall, cities may have increased expenditures for snow removal. There are many other incidental factors not included in this list. Explanations of differences in city expenditures should be pursued with city officials.