# Overview

## Total Governmental Revenues

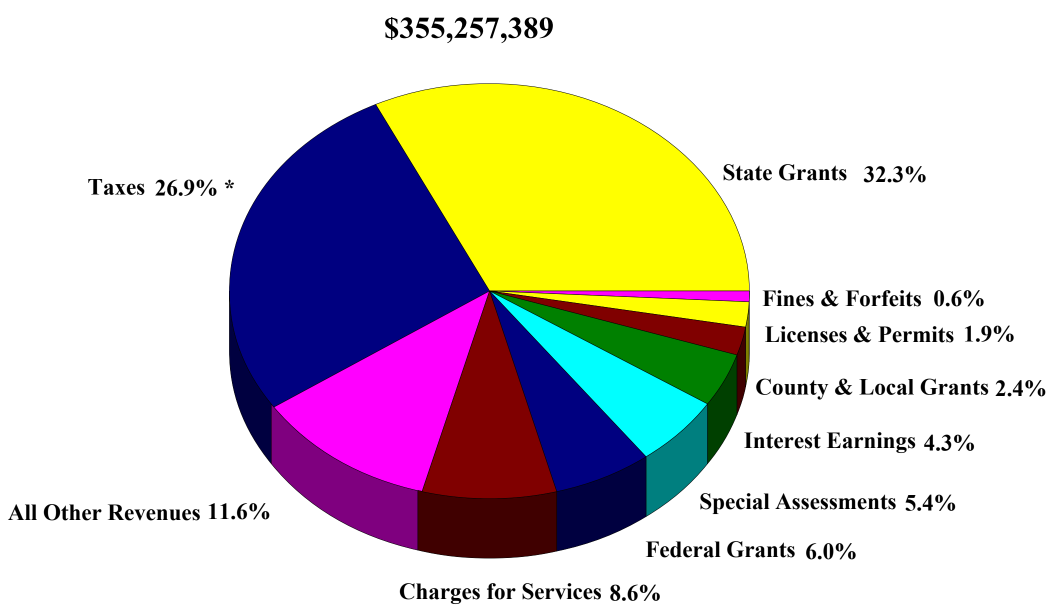
In 1999, cities under 2,500 in population raised total governmental revenues of $355.3 million to finance city services. This represents an increase of 3.1 percent over the amount raised in 1998.

The shares of total governmental revenues generally vary only slightly from year to year. Over time; however, 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 have declined. In 1995, state inter-governmental revenues accounted for 34.0 percent of total revenues compared to 32.3 percent in 1999. In contrast, the use of tax revenues has increased. Tax revenues as a percent of total revenues has grown from 26.0 percent in 1995 to 26.9 percent in 1999.

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 7.9 percent in 1995 to 8.6 percent in 1999. Charges for services related to streets and highways showed the greatest increase at 115.7 percent over the same period. To further examine five-year trends in revenues, refer to Table 1.

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

**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

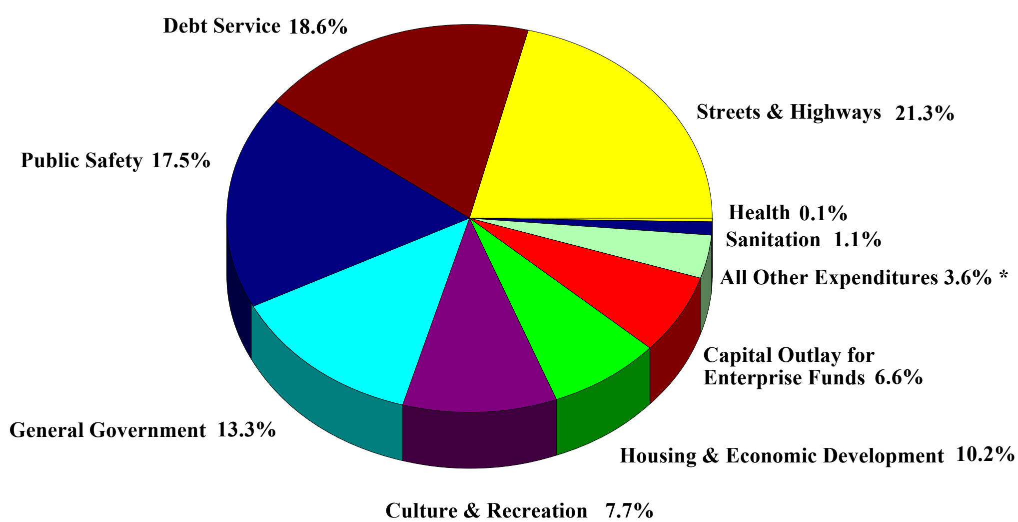
Cities provide a variety of services to their citizens. Most services are accounted for in governmental funds. The governmental funds are made up of the General, Special Revenue, Capital Projects, and Debt Service funds. In 1999, cities under 2,500 in population expended $447.0 million from Governmental Funds to provide city services. This represents an increase of 5.2 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. Since 1995, the top three expenditure categories for small cities listed by share of total expenditures have been: streets and highways, debt service, and public safety. These three categories have each gained in their share of total expenditures since 1995. The category of expenditures showing the greatest increase in share of total expenditures over this five-year period was housing and economic development. This category accounted for 8.4 percent of total governmental expenditures in 1995, compared to 10.2 percent in 1999. To examine these and other changes over the five-year period, refer to Table 1.

Figure 2 shows the relative shares of total governmental expenditures by function. The underlying data for this chart is detailed in Table 1.

**Figure 2: Total Governmental Expenditures ****

**$446,965,204**



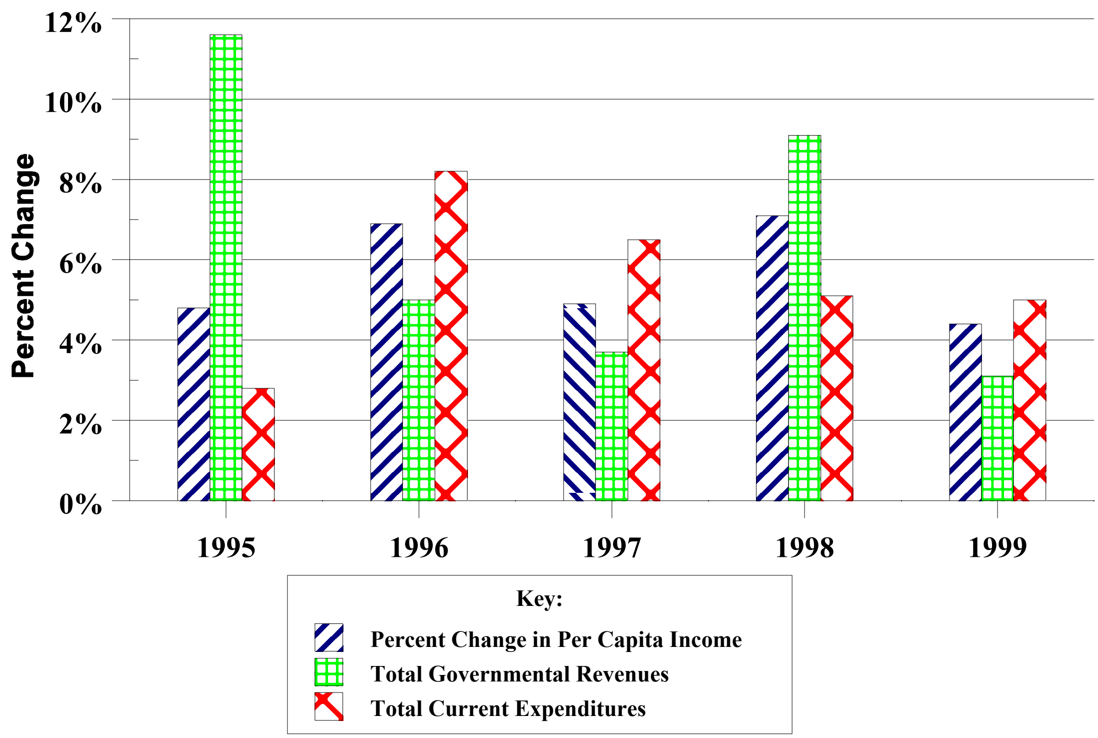

* Includes airport, unallocated insurance, and all other unallocated expenditures.
** Includes current expenditures, capital outlays, and debt service, but excludes transfers to Enterprise Funds.

# 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 2.8 percent to 11.6 percent. To place this growth in perspective, Figure 3 below includes a bar showing the growth in per capita personal income for Minnesotans.[2] Per capita income is an indicator of the ability of citizens to pay for 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 from 1995 to 1999. During this period, total current expenditures grew faster than per capita income for three of the five years. In contrast, 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 mid-year population. The figure is calculated by the Bureau of Economic Analysis, which is a part of the U. S. Census Bureau.

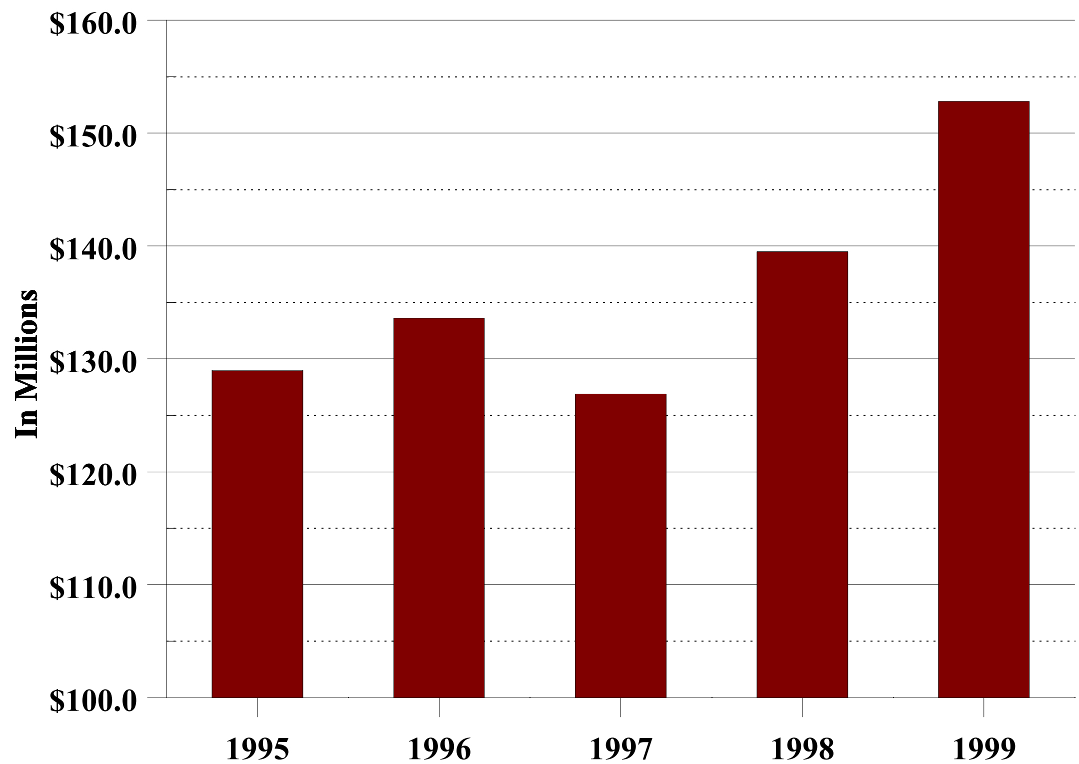
## Capital Outlay Expenditures

Cities expended $152.8 million on capital investments in 1999. This represents an increase of 9.5 percent over the level expended in 1998. The relatively large increase in capital outlays reflects substantial projects in a number of cities. Slightly more cities increased capital spending than decreased capital spending, but the value of the projects in those cities increasing capital outlays was greater than in those decreasing capital outlays. The categories of capital expenditures showing the greatest growth were: culture and recreation, economic development, and streets and highways.

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 the associated costs are short-term. Some of the factors that influence the level of capital investments include: demands for public meeting places and facilities, the need to replace aging infrastructure, public safety concerns, infrastructure improvements for new developments, and damage to public facilities caused by fire, floods, and storms.

Figure 4 illustrates the trend in capital spending for the years 1995 through 1999. Table 7 provides a detailed analysis of capital outlays for individual cities.

**Figure 4: Total Capital Outlay Expenditures, 1995 to 1999**



## Municipal Enterprises

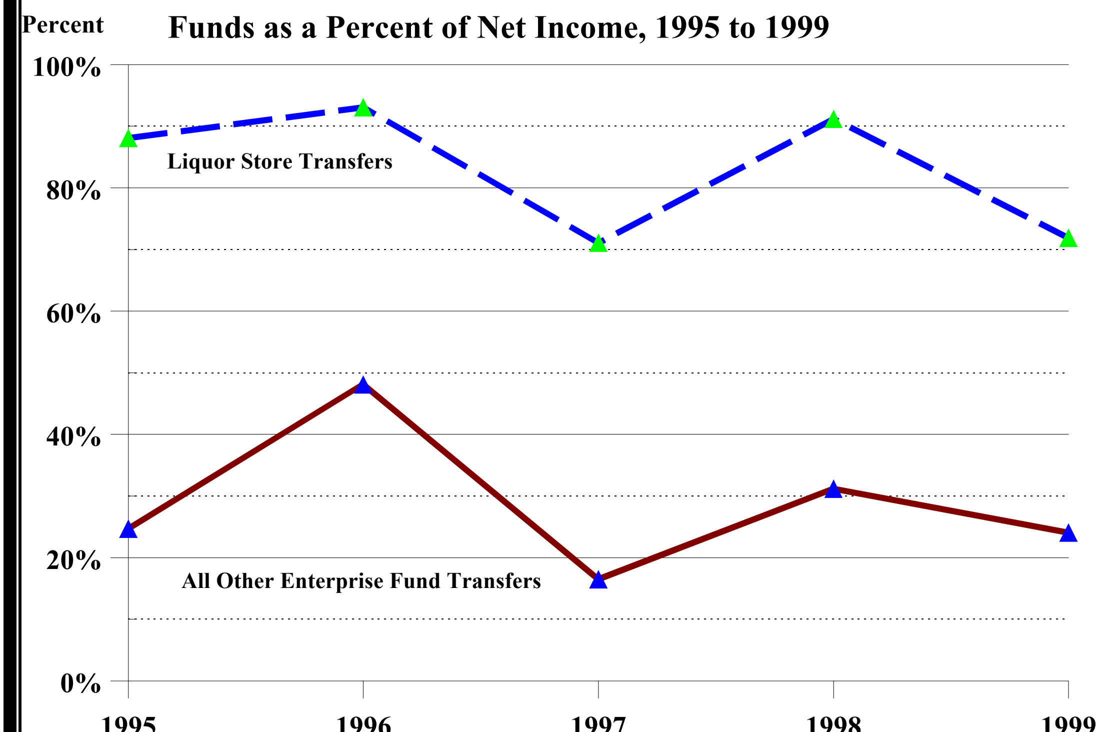
In addition to Governmental Funds, many cities establish Enterprise Funds to account for services that are financed and operated in a manner similar to private business enterprises. These enterprises are intended to be self-sustaining through fees and user charges. Although some enterprises may earn a net income, 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 are electric, gas, sewer, water, and heat utilities.

The net income of municipal enterprises increased 33.0 percent between 1998 and 1999. However, net transfers (transfers out minus transfers in) from Enterprise Funds increased just 2.7 percent. An example of this type of transfer is when a city transfers excess reserves from its water utility enterprise fund to the city's General Fund.

Municipal liquor stores, which are separated from other municipal enterprises because of accounting differences, showed an increase of 20.1 percent in net income between 1998 and 1999. In contrast, net transfers from municipal liquor operations decreased 5.2 percent from 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 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 8 through 18 provide additional details on municipal enterprises.

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



# Outstanding Long-Term Indebtedness

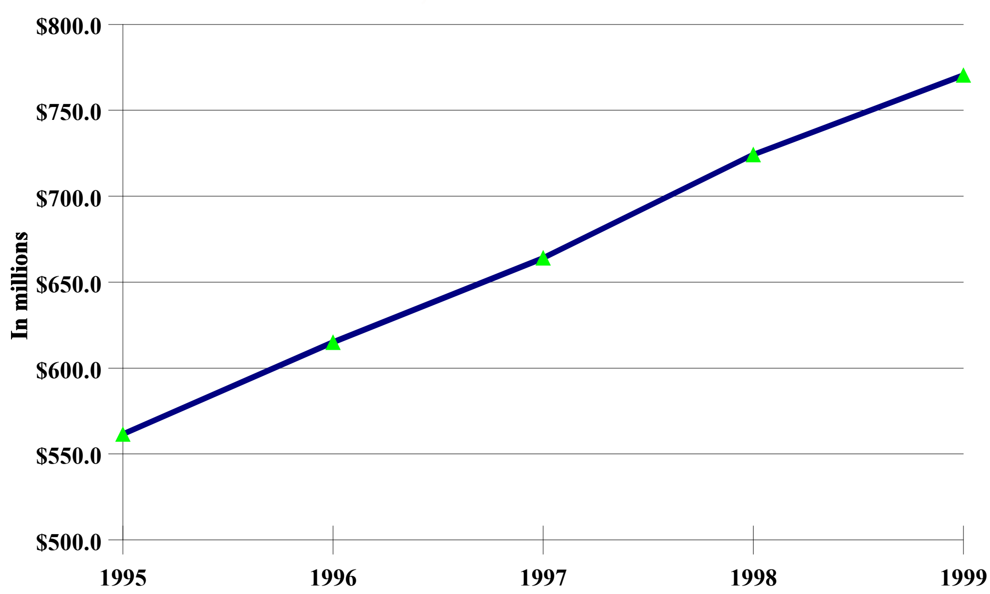
Cities incur long-term debt through the issuance of bonds and notes, certificates of indebtedness, and tax anticipation certificates. Long-term lease agreements are also classified as long-term debt. Cities may only borrow to finance capital projects and purchases. Cities are restricted by law from borrowing 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 1a looks at outstanding bonded indebtedness for 1998 and 1999. Figure 6 shows the five-year trend of outstanding long-term debt for cities under 2,500 in population.

## Table 1a: Two-Year Summary of Outstanding Bonded Indebtedness

| | 1999 Amount | 1998 Amount |
|---|---|---|
| General Obligation | $ 83,528,658 | $ 89,244,435 |
| G.O. Tax Increment | 77,371,411 | 94,760,848 |
| Revenue Tax Increment | 2,375,531 | 850,000 |
| Special Assessment | 158,260,332 | 148,430,686 |
| G.O. Revenue | 232,253,154 | 219,622,648 |
| Revenue | 63,359,455 | 49,675,838 |
| All Other | 10,280,000 | 6,560,000 |
| **Total Bonded Indebtedness** | **$627,428,541** | **$609,144,455** |

**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.