

## **Governmental Revenues**

Minnesota's large cities (those with a population greater than 2,500) proposed revenues of \$2.3 billion in their 2000 budgets.<sup>1</sup> This represents an increase of \$94.3 million or 4.2 percent over 1999 budgeted revenues. All categories of revenues except three types of intergovernmental revenues increased in 2000 budgets.

The principal sources of revenues in 2000 city budgets are: intergovernmental revenues, which account for 32.4 percent of revenues; property taxes, which account for 30.1 percent of revenues; and charges for services, which account for 8.5 percent of revenues. Continuing a trend started in 1997, intergovernmental revenues again account for a slightly smaller share of total revenues in 2000 budgets compared to 1999 budgets. In contrast, charges for services represent a slightly larger share of 2000 budgets.

! ***Intergovernmental Revenues.*** Cities receive grants and aids from federal, state, and other local governments. Cities budgeted intergovernmental revenues of \$754.7 million for 2000. This represents a decrease of 0.8 percent from 1999 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 \$502.9 million for 2000, which was \$14.5 million more than in 1999. State general purpose aid accounts for 21.6 percent of 2000 budgeted revenues.

***State Categorical Aid.*** Cities budgeted categorical aid of \$122.6 million for 2000. This represents a decrease of 4.5 percent from categorical aid budgeted in 1999. 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 \$77.2 million for 2000. This was a decrease of 15.0 percent from federal grants budgeted in 1999. The city of Minneapolis budgeted for a number of multi-year grants in 1999, this accounts for the decrease in federal grants for 2000. When Minneapolis is excluded from the statewide total, federal grants show an increase of 1.0 percent.

***Local Grants.*** Cities budgeted grant revenues from other local governments of \$52.0 million for 2000. This represents a decrease of 2.4 percent from local grants budgeted for 1999. These revenues commonly reflect cooperation among two or more governments to provide a service or participate in a capital project.

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<sup>1</sup>There are 185 cities with populations above 2,500. Five of these cities failed to submit data, or submitted incomplete data, for 2000. 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 4.9 percent in 2000 budgets. Revenues derived from property taxes totaled \$701.0 million and accounts for 30.1 percent of city revenues. The majority of cities budgeted higher levels of property tax revenues for 2000. Of those cities reporting budget data, 157 cities budgeted higher property tax revenues, 20 cities budgeted lower revenues, and 3 cities budgeted the same level of revenues.

**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. Cities budgeted tax increment revenues of \$139.9 million for 2000. This represents an increase of 2.2 percent from 1999 budgeted tax increments. Of those cities reporting tax increments, 38 cities budgeted higher tax increment revenues, 47 cities budgeted lower revenues, and 9 cities budgeted the same level of revenues.

**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 \$156.0 million for 2000. This was an increase of 11.7 percent over 1999 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 8 cities collecting local sales or use taxes. The revenues are generally dedicated to specific public facilities such as convention centers and arenas.

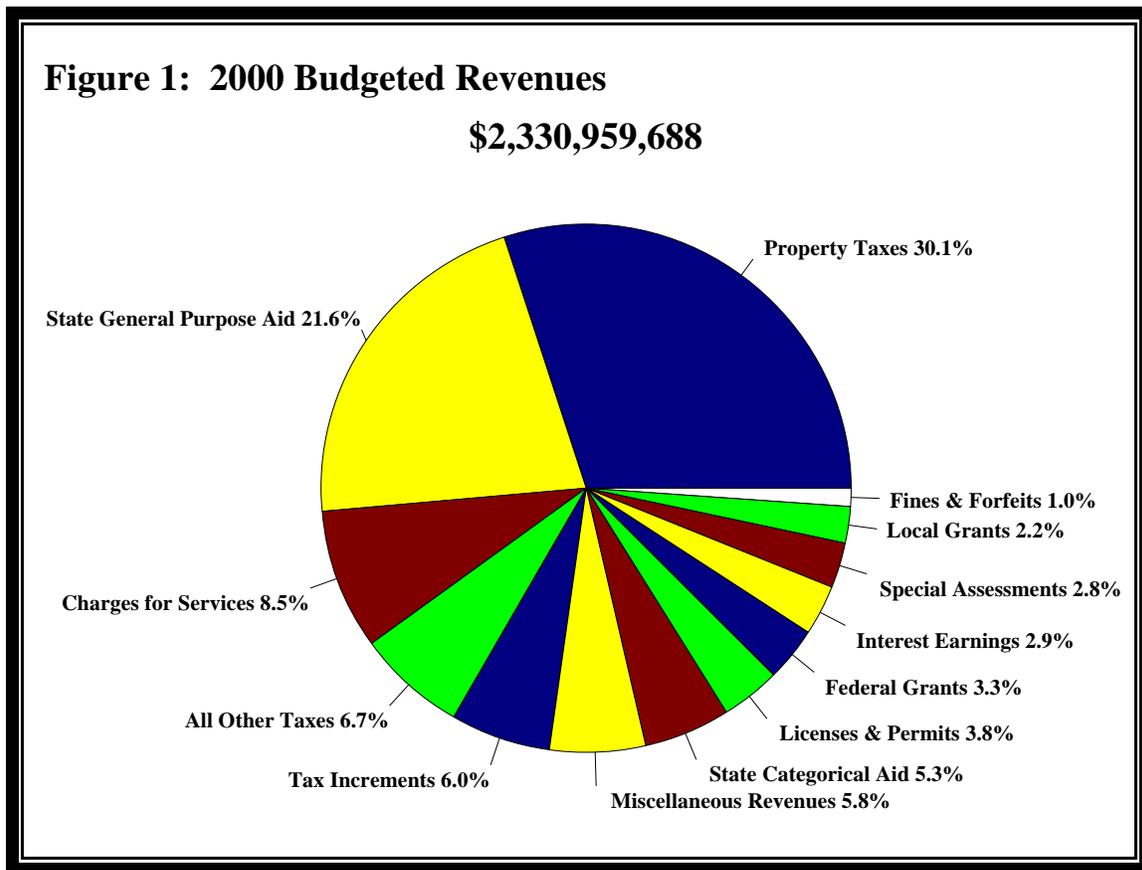
- ! **Charges for Services.** Cities budgeted revenues from charges for services of \$198.8 million, which was an increase of 9.4 percent over the amount budgeted in 1999. Of the cities reporting budgeted data, 120 budgeted an increase in charges for services. In addition, of the 120 cities that budgeted increases, thirty-four cities budgeted an increase of over \$100,000.

- ! **Licenses and Permits.** Cities budgeted revenues from licenses and permits of \$89.2 million for 2000. This represents an increase of 12.4 percent over the amount budgeted in 1999. 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 residential and non-residential building permits.

- ! **Special Assessments.** Cities budgeted revenues of \$64.9 million from special assessments in 2000. This represents an increase of 11.4 percent over the level budgeted in 1999. 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.

- ! **Interest on Investments.** Cities budgeted interest earnings of \$66.4 million for 2000. This represents an increase of 19.4 percent over interest earnings budgeted for 1999. The large increase reflects both a good investment environment and an accounting change that affects the way investments are presented.<sup>2</sup> The cities of Minneapolis and St. Paul accounted for over 75 percent of the increase.
- ! **Miscellaneous Revenues.** Cities budgeted miscellaneous revenues of \$135.7 million for 2000. This represents an increase of 2.7 percent over 1999.

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



<sup>2</sup>Many of the larger cities have implemented the Governmental Accounting Standards Board (GASB) Statement No. 31- *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. 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. In prior years, all investments were stated at cost or amortized cost.

# Governmental Expenditures

## Current Expenditures

Cities set their budgets for total current expenditures at \$1.90 billion for 2000. This represents an increase of 2.6 percent over 1999 budgeted total current expenditures.<sup>3</sup>

The three most costly services budgeted by cities in 2000 are: public safety, which accounts for 35.4 percent of current expenditures; culture and recreation, which accounts for 15.9 percent of current expenditures; and general government, which accounts for 14.6 percent of current expenditures.

! **Public Safety.** Cities budgeted \$672.0 million for public safety in 2000. This represents an increase of 4.3 percent over public safety expenditures budgeted in 1999. 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.***

! **Culture and Recreation.** Cities proposed culture and recreation current expenditures of \$301.2 million for 2000. This represents an increase of 13.5 percent over 1999 culture and recreation budgets. The city of Minneapolis accounted for over 70 percent of the increase. Culture and recreation now represents the second largest current expenditure for cities.

! **General Government.** Cities budgeted general government current expenditures of \$276.6 million for 2000, which is an increase of 6.3 percent over 1999 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.

! **Streets and Highways.** Cities budgeted \$267.1 million for streets and highways in 2000. This represents a decrease of 9.7 percent from 1999 streets and highways budgets. The city of Minneapolis accounted for the decrease in this category. In Minneapolis, costs related to the reconstruction of Hiawatha Avenue and accommodation for some light rail expenses were reflected in the 1999 budget amount for streets and highways. When Minneapolis is excluded from the statewide totals, streets and highways budgeted expenditures increase 4.4 percent over 1999 streets and highways budgets. This category includes snow removal, engineering, planning, and general maintenance, but excludes construction and the purchases of equipment.

! **Urban and Economic Development and Housing.** Cities budgeted housing and economic development current expenditures of \$222.7 million. This represents a decrease of 3.2 percent from the level budgeted in 1999.

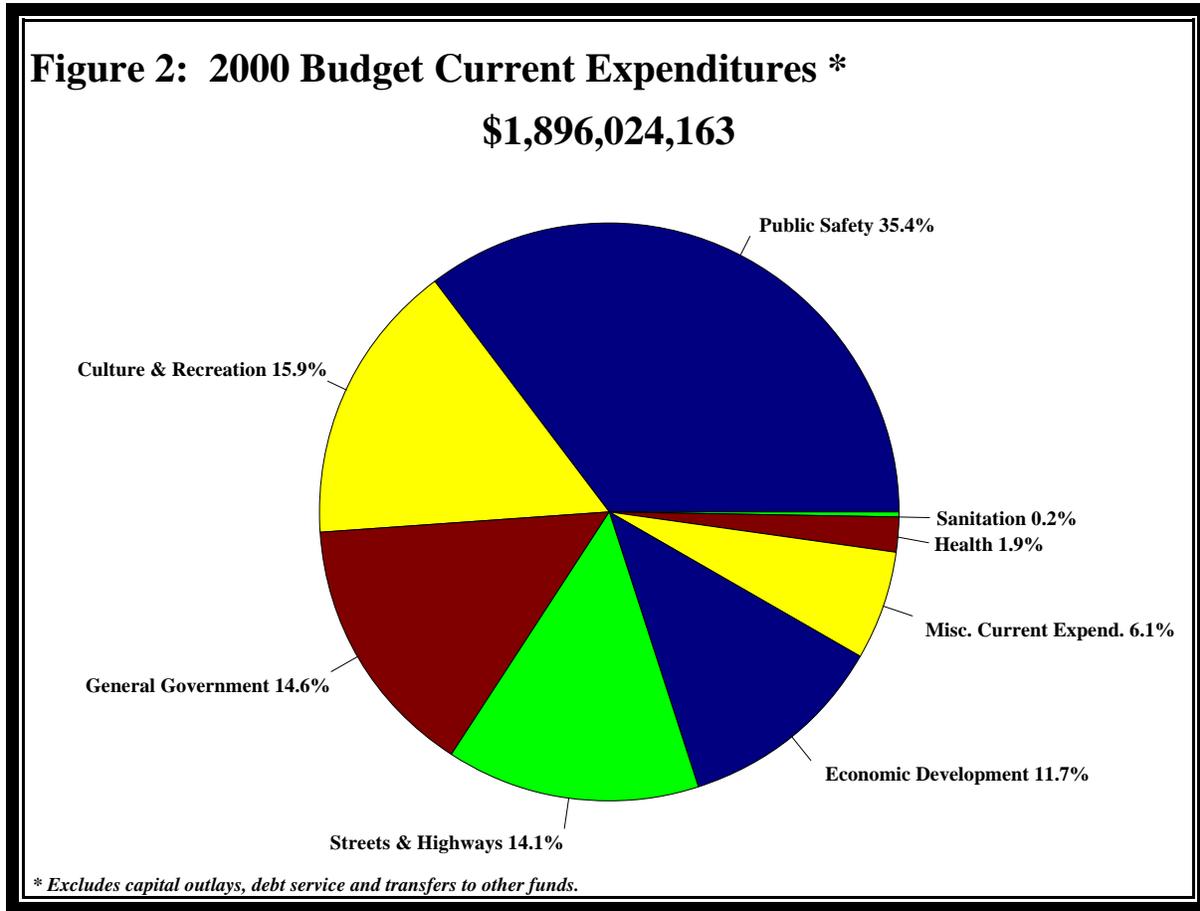
! **Health.** Cities budgeted health current expenditures of \$36.5 million for 2000. This represents an increase of 11.9 percent over 1999 budgets.

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<sup>3</sup>Total current expenditures exclude capital outlay, debt service, transfers to other funds, and proprietary funds.

! **Sanitation.** Cities budgeted \$4.2 million for sanitation current expenditures in 2000. This represents a decrease of 12.9 percent from 1999 budgets. Sanitation expenditures account for 0.2 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 either 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 \$2.58 billion for their 2000 budgets. This is an increase of 4.4 percent over 1999 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 \$376.8 million for 2000. This represents an increase of \$34.4 million or 10.0 percent over capital outlays budgeted for 1999. Capital outlays represent 14.6 percent of total expenditures budgeted for 2000.

The increases budgeted by three cities, Bemidji, Brooklyn Park and Rochester, skew the total statewide increase. If these three cities are excluded from the statewide total, capital outlays decrease by 0.8 percent between 1997 and 1998. The large increase among the three cities reflects the construction of a Bureau of Criminal Apprehension lab in Bemidji, water/sewer line extensions and airport improvements in Rochester, and road construction in all three cities.

- ! **Debt Service.** Cities budgeted debt service payments of \$311.5 million. This represents an increase of 9.8 percent over 1999 budgeted debt service payments. Cities budgeted principal payments of \$188.5 million and interest and fiscal charges of \$123.0 million. Principal payments increased 2.4 percent and interest and fiscal charges increased 23.3 percent in 2000 budgets. The city of Minneapolis accounted for much of the budgeted increase in interest and fiscal charges. If the city of Minneapolis is removed from the statewide total, the increase drops from 23.3 percent to 10.2 percent.

## **Net Unrealized Gain or Loss from Investments**

Of the 180 cities that submitted 2000 budgets, only 55 reported any information on their investments. Of these cities, 14 reported gains, 39 reported losses, and two reported no change. The total losses of those that reported investment information were greater than those that reported gains. The reported statewide net unrealized loss from investments was \$15.9 million. This figure differs from interest on investments because the gains or losses reported here are unrealized, and only a small number of cities reported this information.

## **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 five cities (Belle Plaine, Lake City, Mankato, New Brighton, and Virginia) that failed to submit information on their budgets.