

# Overview

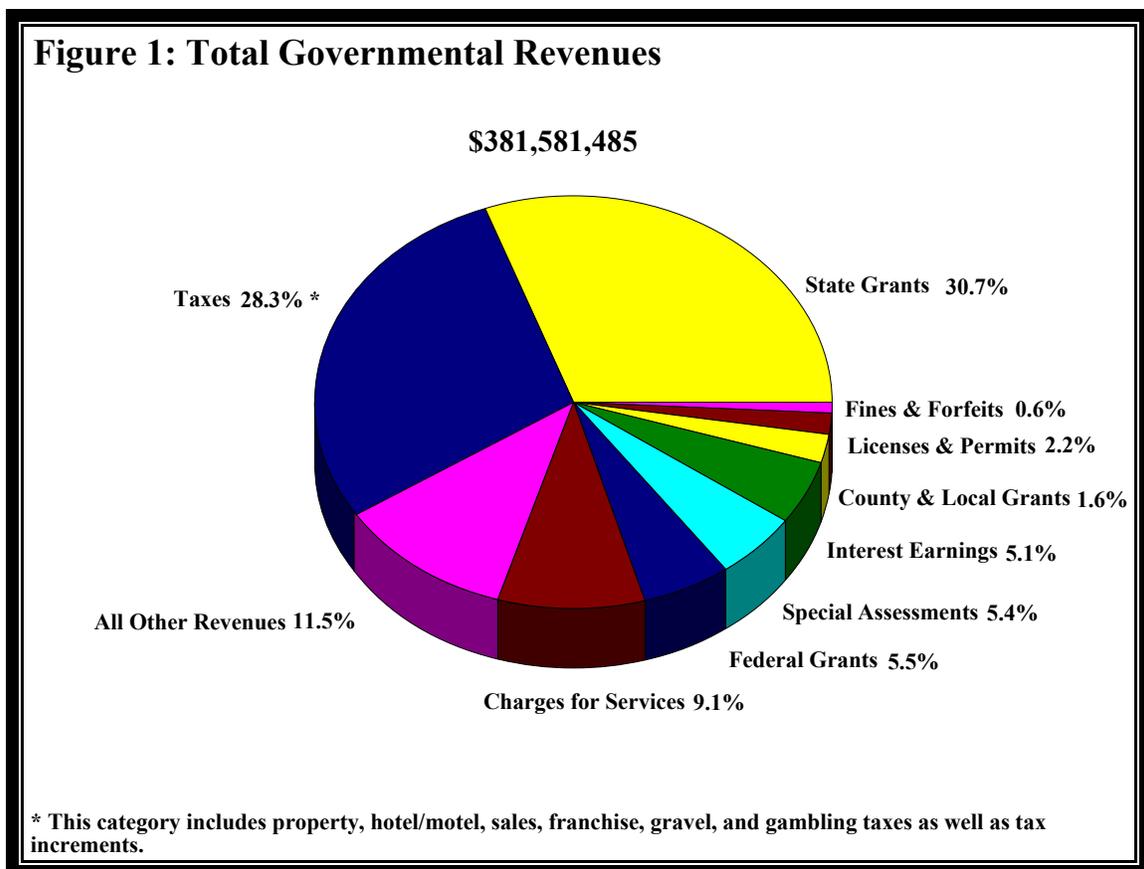
## Total Governmental Revenues

In 2000, cities under 2,500 in population raised total governmental revenues of \$381.6 million to finance city services. This represents an increase of 7.4 percent over the amount raised in 1999.

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 1996, state intergovernmental revenues as a share of total revenues have declined. In 1996, state intergovernmental revenues accounted for 32.2 percent of total revenues compared to 30.7 percent in 2000. In contrast, the use of tax revenues has increased. Tax revenues as a percent of total revenues has grown from 26.3 percent in 1996 to 28.3 percent in 2000.

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 8.2 percent in 1996 to 9.1 percent in 2000. 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.



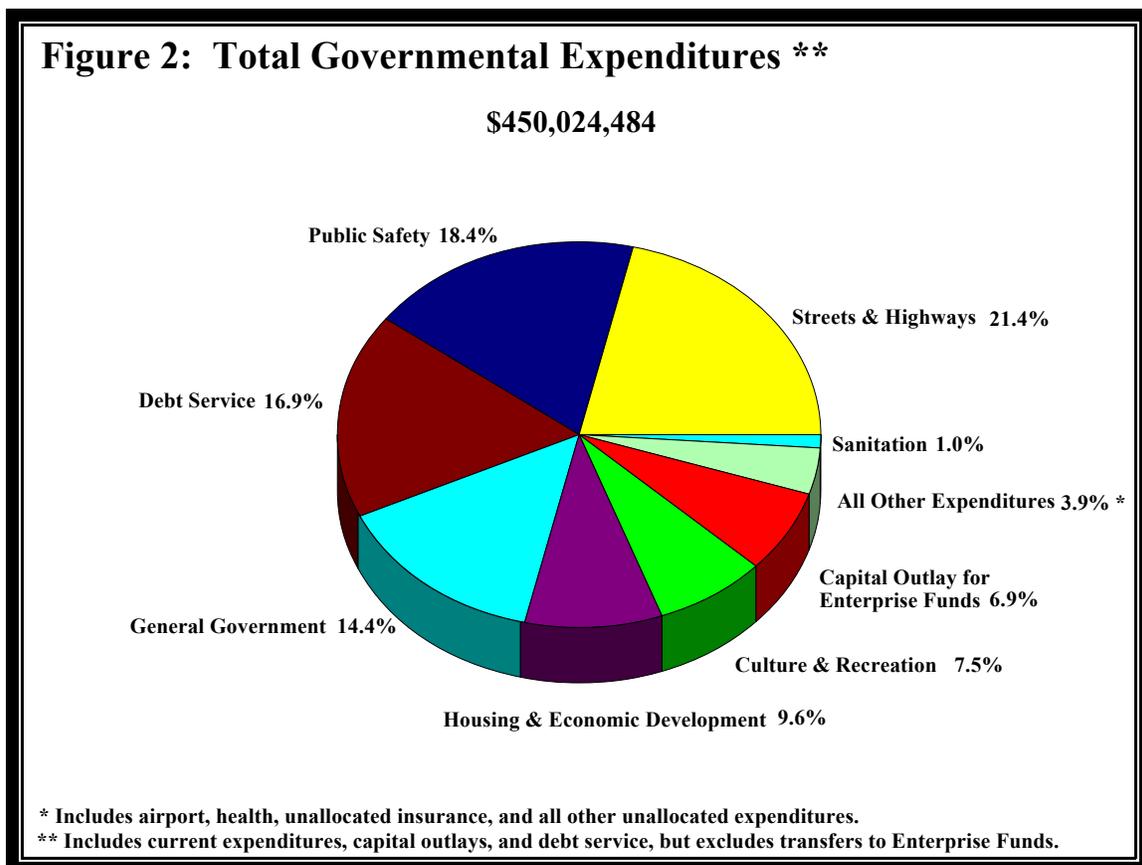
## Total Governmental Expenditures

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 2000, cities under 2,500 in population expended \$450.0 million from Governmental Funds to provide city services. This represents an increase of 0.7 percent over 1999 total governmental expenditures.

The relative shares of total governmental expenditures change very little from year to year. As the priorities of cities change over time, the relative shares of total spending shift to reflect these new priorities. In 2000, the top three expenditure categories for small cities listed by share of total expenditures were: streets and highways, public safety, and debt service. These three categories have remained the top three expenditures for small cities since 1996, but the order has varied over this period.

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 1996, compared to 9.6 percent in 2000. To examine these and other changes over the five-year period, refer to Table 1.

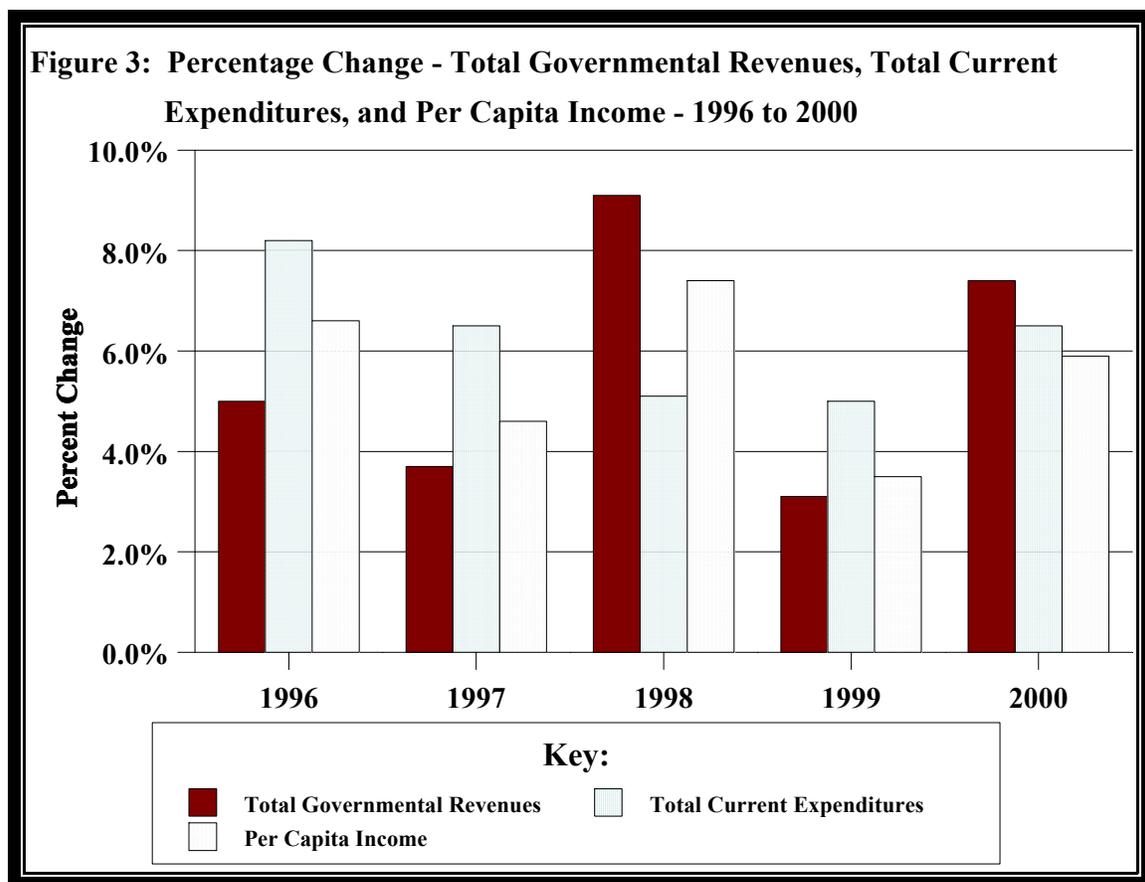
Figure 2 shows the relative shares of total governmental expenditures by function. The underlying data for this chart is detailed in Table 1.



## Growth in Government

During the five-year period of 1996 to 2000, total governmental revenues and total current expenditures increased every year.<sup>1</sup> The rate at which they grew varied from 3.1 percent to 9.1 percent. To place this growth in perspective, Figure 3 below includes a bar showing the growth in per capita personal income for Minnesotans.<sup>2</sup> 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 1996 to 2000. During this period, total current expenditures grew faster than per capita income for four of the five years. In contrast, per capita income grew faster than total revenues for three of the five years.



<sup>1</sup> 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.

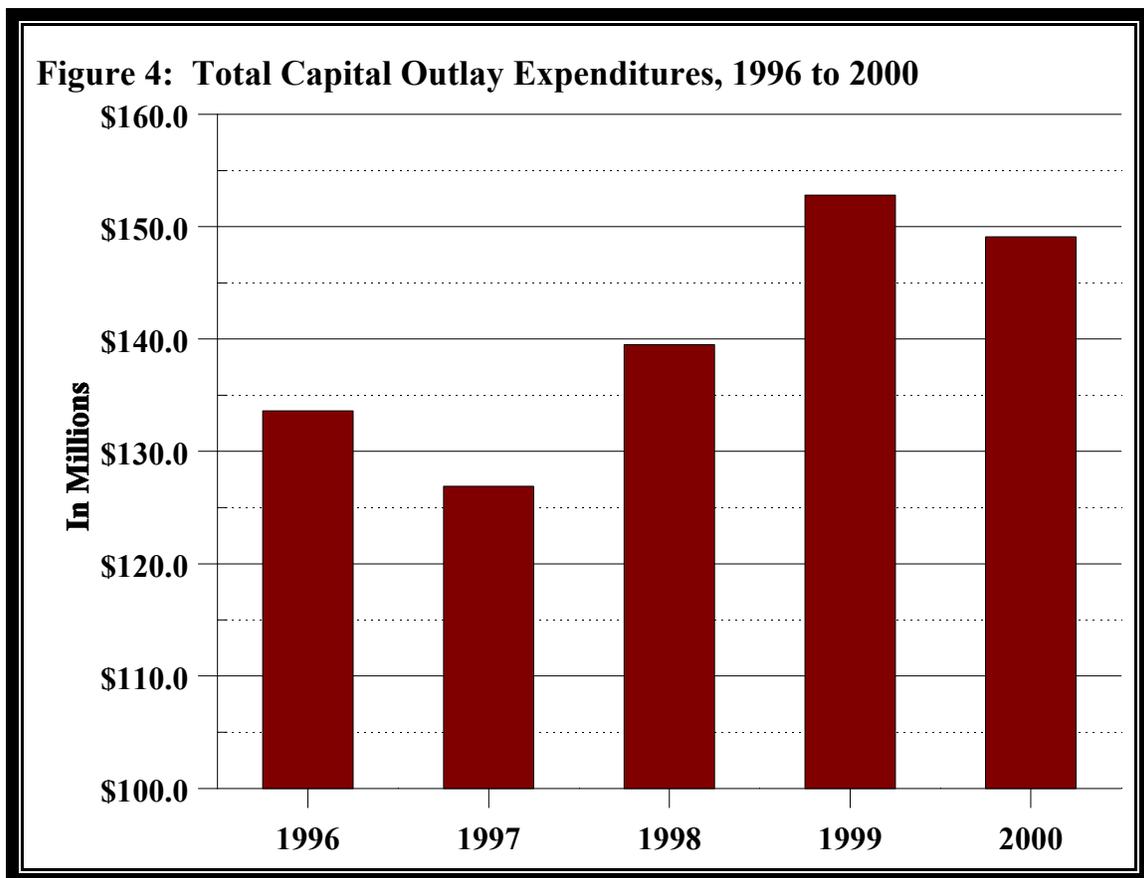
<sup>2</sup> Per capita income is calculated by dividing Minnesota total personal income by its total mid-year population. The figure is calculated by the Bureau of Economic Analysis, which is a part of the U. S. Census Bureau.

## Capital Outlay Expenditures

Capital outlay expenditures account for the purchase, construction or permanent improvements of buildings, equipment, machinery, and land. Cities expended \$149.1 million on capital investments in 2000. This represents a decrease of 2.4 percent from the level expended in 1999.

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 1996 through 2000. Table 7 provides a detailed analysis of capital outlays for individual cities.



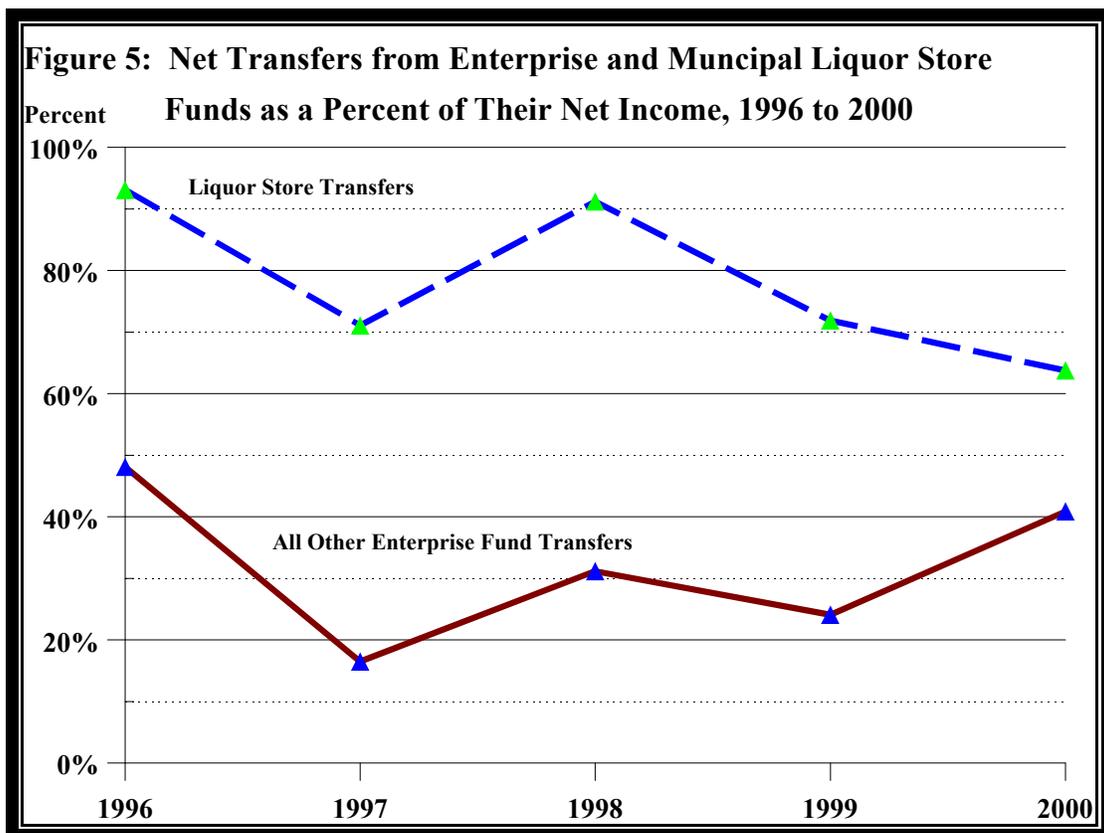
## Municipal Enterprises

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 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 decreased 14.9 percent between 1999 and 2000. However, net transfers (transfers out minus transfers in) from Enterprise Funds increased 45.4 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 a decrease of 1.8 percent in net income between 1999 and 2000. The decrease in net income contributed to a decrease of 12.8 percent in net transfers from municipal liquor operations. 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.

Figure 5 examines the five-year trend in net transfers from enterprise and municipal liquor store funds as a percent of net income. Tables 8 through 18 provide additional details on municipal enterprises.



## 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 expenditures. 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 1999 and 2000. 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**

	<u>2000 Amount</u>	<u>1999 Amount</u>
General Obligation	\$ 54,360,524	\$ 83,528,658
G.O. Tax Increment	88,248,354	77,371,411
Revenue Tax Increment	395,000	2,375,531
Special Assessment	217,685,037	158,260,332
G.O. Revenue	227,114,860	232,253,154
Revenue	68,013,482	63,359,455
All Other	11,655,000	10,280,000
<b>Total Bonded Indebtedness</b>	<b><u>\$667,472,257</u></b>	<b><u>\$627,428,541</u></b>

