

Comparison of Minnesota City Finances by Cluster



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**Government Information Division
Office of the State Auditor
State of Minnesota**

Deputy State Auditor
Tony Sutton

Government Information Staff
David Kazeck, *Supervisor*
John Jernberg, *Research Analyst*
Karen Cook, *Research Analyst*
Andrea Johnson
Wendy Murphy
Jonathan Papik
Debbie Schultz

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Scope

This analysis provides a more in-depth examination of city revenues, expenditures, and unreserved fund balances by grouping cities with similar characteristics into clusters.

The clusters are based on four variables:

- 2000 Census population
- Population growth between 1990 and 2000
- Median household income in 1999, and
- Per capita commercial-industrial property market value in 2002.

Metropolitan Area Clusters:

For cities located within the seven-county metropolitan area, there are seven clusters. The clusters with their defining characteristics are:

Central Cities – Minneapolis and St. Paul.

Large Cities – Cities with large populations and above average commercial-industrial property value per capita (i.e. Bloomington and Eagan).

Old Cities – Low population growth and low median household income (i.e. Brooklyn Center and Richfield).

High Growth Cities – High rate of population growth between 1990 and 2000 and slightly higher than average median household income (i.e. Chaska and Lino Lakes).

Diversified Cities – Above average commercial-industrial market value per capita (i.e. Roseville and St. Louis Park).

High Income Cities – Much higher than average median household income (i.e. Deephaven and North Oaks).

Smaller Cities – Cities with smaller than average populations and generally fall lower than average in the other categories (i.e. Circle Pines and Mound).

Greater Minnesota Clusters:

For cities located in Greater Minnesota, there are 8 clusters. The clusters with their defining characteristics are:

Major Cities – Duluth, Rochester, and St. Cloud

Regional Centers – Much higher than average population size for Greater Minnesota, higher than average household income, and higher than average commercial-industrial market value per capita (i.e. Albert Lea and Hibbing).

Sub-Regional Centers – Highest average commercial-industrial market values per capita among greater MN cities (i.e. Alexandria and Grand Rapids).

Urban Fringe – High growth cities with above average household income (i.e. Albertville and St. Michael).

High Income Cities – Highest average household income (i.e. East Gull Lake and Cross Lake).

Moderate Growth Cities – Slightly higher than average population growth and household income (i.e. Chisago City and Zumbrota).

Established Cities – Average population size of about 1,600 with little growth (i.e. Chisholm and Ortonville).

Small Rural Cities – Small population size, low growth rate, low commercial-industrial market value per capita, and below average household income.

This model was developed by Pat Dalton of the MN House Research Department and refined further by the League of Minnesota Cities. A full discussion of how the clusters were determined can be found at: <http://www.lmnc.org/pdfs/ClusteringMinnesotaCities0803.pdf>

Summary of Revenues by Cluster

The composition and per capita amount of revenues raised by cities varies greatly between and within the city clusters. The composition of revenues for cities often reflects the life cycle of the city and the mix of properties that make up a city. Cities that are growing fast tend to have a higher level of special assessments because of the need to build infrastructure to support new developments and the accompanying population growth. Cities that have high value homes with little commercial-industrial development rely more on property taxes to support city services. In greater Minnesota, property taxes per capita tend to be lower and reliance on state aid greater than among metro cities (the central cities are an exception). The way that the cities are grouped in this analysis helps illustrate these differences.

The following summary examines the primary sources of city revenues on a per capita basis as well as their proportion to total revenues.

Total Revenues Per Capita

Cities collected revenues of \$937 per capita in 2003. This represented a decrease of \$29 or 3 percent from the level in 2002. Among the city clusters, total revenues per capita ranged from a high of \$1,477 for the central cities cluster to a low of \$592 for the metro high income cluster – a more than two-fold

difference. It is interesting to note that these are the two clusters that spend the most (central cities \$1,721) and the least (metro high income \$791).

Among the fifteen clusters, eight clusters collected fewer revenue and seven collected more revenues in 2003. Of the eight clusters that received fewer revenues, five were in the metro and three were in greater Minnesota. Two revenue categories, LGA (plus market value credits) and interest earnings, showed declines among every cluster. Property tax revenues were the exact opposite with all clusters showing an increase. All other categories of revenues showed increases for some clusters and decreases for others.

Analysis of 2002 and 2003 Total City Revenues Per Capita by Cluster

Cluster Name	2003 Population	2002 Total Revenues	2003 Total Revenues	Difference	Percent Change
Greater Minnesota Established	341,657	931	915	-16	-1.7%
Greater Minnesota High Income	116,946	833	888	55	6.6%
Greater Minnesota Major Cities	241,969	1,108	1,110	2	0.2%
Greater Minnesota Moderate Growth	136,727	811	802	-10	-1.2%
Greater Minnesota Regional Centers	381,842	959	931	-28	-3.0%
Greater Minnesota Small Cities	76,469	759	809	50	6.5%
Greater Minnesota Sub-Regional Centers	92,983	1,137	1,193	56	4.9%
Greater Minnesota Urban Fringe	61,059	883	962	79	8.9%
Metro Diversified	204,284	785	767	-18	-2.3%
Metro High Growth	535,225	770	784	13	1.7%
Metro High Income	61,002	591	592	1	0.2%
Metro Large Cities	725,676	756	736	-20	-2.7%
Metro Old Cities	295,671	782	717	-66	-8.4%
Metro Smaller Cities	156,943	734	717	-18	-2.4%
Central Cities	669,899	1,595	1,477	-119	-7.5%
All Cities	4,098,352	966	937	-29	-3.0%

Categories of Revenue as a Percent of Total Revenue

Cluster Name	Property Taxes	All Other Taxes	Special Assmnts.	Licenses	Federal Grants	State Grants	County/ Local Grants	Total Service Charges	Fines	Interest Earnings	All Other Revenues
Greater Minnesota Established	19.0%	3.6%	5.7%	1.2%	5.4%	42.8%	1.3%	8.8%	0.7%	2.0%	9.5%
Greater Minnesota High Income	31.1%	6.8%	12.8%	5.2%	0.7%	16.0%	0.6%	16.1%	0.6%	2.2%	8.1%
Greater Minnesota Major Cities	16.1%	18.6%	7.5%	1.8%	7.2%	29.2%	2.2%	7.4%	1.0%	2.0%	7.1%
Greater Minnesota Moderate Growth	27.5%	4.9%	9.7%	2.9%	2.8%	26.3%	0.6%	11.5%	0.7%	2.2%	10.8%
Greater Minnesota Regional Centers	18.1%	5.1%	8.1%	2.2%	4.2%	41.7%	2.0%	8.6%	1.0%	2.3%	6.7%
Greater Minnesota Small Cities	21.4%	0.8%	3.8%	1.8%	11.2%	32.0%	1.4%	11.1%	0.2%	2.0%	14.3%
Greater Minnesota Sub-Regional Centers	23.8%	5.1%	8.4%	2.4%	10.1%	29.0%	0.7%	10.9%	0.8%	1.9%	7.0%
Greater Minnesota Urban Fringe	29.6%	4.1%	18.2%	7.8%	1.7%	9.9%	0.3%	18.5%	0.3%	2.6%	6.9%
Metro Diversified	38.8%	13.0%	5.3%	5.9%	0.7%	14.1%	0.7%	12.1%	1.1%	3.2%	5.2%
Metro High Growth	34.5%	8.1%	13.7%	7.1%	0.7%	10.8%	1.3%	14.9%	0.7%	2.5%	5.5%
Metro High Income	54.8%	0.9%	3.9%	9.3%	0.7%	13.0%	0.8%	9.9%	1.8%	2.1%	2.8%
Metro Large Cities	41.4%	9.8%	9.2%	5.3%	3.9%	9.9%	1.7%	9.2%	1.2%	2.5%	5.9%
Metro Old Cities	36.0%	11.7%	4.8%	3.6%	2.0%	18.5%	5.2%	10.6%	0.9%	2.8%	3.9%
Metro Smaller Cities	37.3%	9.4%	6.9%	5.5%	1.4%	16.8%	2.5%	10.5%	1.5%	2.9%	5.4%
Central Cities	22.0%	19.2%	3.3%	3.3%	6.9%	27.0%	1.9%	7.9%	1.4%	2.2%	4.9%
All Cities	27.8%	11.3%	7.3%	3.9%	4.5%	23.8%	1.8%	10.0%	1.0%	2.4%	6.3%

Property Taxes

On a per capita basis, the central cities and metro high income clusters levied the highest property taxes per capita in 2003 at \$324 each. The similarity ends at property taxes as the central cities cluster received intergovernmental aid of \$529 per capita compared to \$85 for the metro high income cluster. The greater MN regional centers cluster levied the least property taxes per capita at \$169. The regional centers receive an average of \$446 per capita in intergovernmental revenues.

It is interesting to note that there is a more than three-fold difference between the cluster most reliant on property taxes and that of the least reliant. Property taxes accounted for 54.8 percent of the total revenues for the metropolitan high income cluster of cities, while accounting for just 16.1 percent of total revenues for the greater MN major cities cluster. In general, property taxes account for a significantly higher proportion of revenues among the metropolitan clusters than for the greater Minnesota clusters: 32 percent to 21 percent. If the central cities are removed from the metro clusters, the percentage rises to 38 percent.

The following table provides a summary of per capita property taxes by city cluster for 2002 and 2003.

Analysis of 2002 and 2003 Property Taxes Per Capita by Cluster

Cluster Name	Number of Cities	2003 Population	2002 Property Taxes	2003 Property Taxes	Difference	Percent Change	Property Taxes as a Percent of 2003 Total Revenues
Greater Minnesota Established	209	341,657	\$160	\$173	\$13	8.1%	19.0%
Greater Minnesota High Income	26	116,946	260	276	17	6.4%	31.1%
Greater Minnesota Major Cities	3	241,969	171	178	8	4.5%	16.1%
Greater Minnesota Moderate Growth	59	136,727	201	220	19	9.5%	27.5%
Greater Minnesota Regional Centers	22	381,842	155	169	14	9.0%	18.1%
Greater Minnesota Small Cities	359	76,469	158	174	16	10.2%	21.4%
Greater Minnesota Sub-Regional Centers	27	92,983	269	284	15	5.5%	23.8%
Greater Minnesota Urban Fringe	10	61,059	272	285	13	4.7%	29.6%
Metro Diversified	15	204,284	285	298	13	4.4%	38.8%
Metro High Growth	35	535,225	254	270	16	6.5%	34.5%
Metro High Income	20	61,002	296	324	29	9.7%	54.8%
Metro Large Cities	12	725,676	295	305	10	3.2%	41.4%
Metro Old Cities	13	295,671	255	258	3	1.1%	36.0%
Metro Smaller Cities	41	156,943	253	267	15	5.8%	37.3%
Central Cities	2	669,899	306	324	18	6.0%	22.0%

Total Intergovernmental Revenue Per Capita

Many levels of government, from the federal down to counties, provide revenues to cities. Most of the revenue is categorical and tied to a specific purpose, while some such as local government aid is a general purpose aid that can be used on any city function. All city clusters receive at least 10 percent of their revenues from other levels of government (including other cities). The reliance on intergovernmental revenues as a percent of total revenues among city clusters ranged from 50 percent in the greater Minnesota established cities cluster to 12 percent for the greater Minnesota urban fringe cluster.

This category of revenue can fluctuate greatly from one year to the next because certain categorical grants fund large capital projects that may dwarf regular city budgets. For example, the city of Iona received a federal grant of \$754,406 in 2003 for a wastewater treatment facility. This grant caused its total per capita revenues for the city to rise from \$567 in 2002 to \$5,267 in 2003. Because of these fluctuations, individual city snapshots of intergovernmental revenues (and total revenues) can be misleading.

Overall, intergovernmental revenues per capita decreased \$36 or 11 percent between 2002 and 2003. There were some notable differences between the clusters. The central cities clusters received 21 percent fewer intergovernmental revenues while the greater MN sub-regional centers received 13 percent more. It is important to note, however, that these changes more reflected the circumstances in one or two cities rather than all the cities in the clusters. As in the example above, a significant addition or subtraction of a grant can influence the trends in a whole cluster. The following table provides a summary of total intergovernmental revenues per capita by city cluster.

Analysis of 2002 and 2003 City Intergovernmental Revenues Per Capita by Cluster

Cluster Name	Number of Cities	2003 Population	2002 Total Inter-Governmental Revenues	2003 Total Inter-Governmental Revenues	Difference	Percent Change	Intergovernmental Revenues as a Percent of 2003 Total Revenues
Greater Minnesota Established	209	341,657	492	453	-39	-7.9%	49.6%
Greater Minnesota High Income	26	116,946	161	153	-9	-5.4%	17.2%
Greater Minnesota Major Cities	3	241,969	445	428	-18	-4.0%	38.5%
Greater Minnesota Moderate Growth	59	136,727	261	238	-24	-9.0%	29.7%
Greater Minnesota Regional Centers	22	381,842	447	446	-1	-0.3%	47.9%
Greater Minnesota Small Cities	359	76,469	339	361	22	6.5%	44.6%
Greater Minnesota Sub-Regional Centers	27	92,983	419	474	55	13.0%	39.7%
Greater Minnesota Urban Fringe	10	61,059	128	115	-13	-10.0%	11.9%
Metro Diversified	15	204,284	145	119	-27	-18.3%	15.5%
Metro High Growth	35	535,225	121	100	-20	-16.7%	12.8%
Metro High Income	20	61,002	80	85	5	6.2%	14.4%
Metro Large Cities	12	725,676	122	114	-8	-6.5%	15.5%
Metro Old Cities	13	295,671	206	185	-22	-10.5%	25.8%
Metro Smaller Cities	41	156,943	175	148	-27	-15.3%	20.7%
Central Cities	2	669,899	665	529	-136	-20.5%	35.8%
All Cities	853	4,098,352	318	282	-36	-11.2%	30.1%

State Local Government Aid (LGA) and Market Value Credits (MVC)

State local government aid and market value credits are the largest general purpose aids provided to cities. As part of the State's budget balancing fix for the 2003-04 biennium, the funding for LGA and MVC was reduced. For 2003, the aid reductions were equal to around 9 percent of a city's certified 2003 tax levy and general purpose aids.

Again, as with property taxes, the reliance on these two sources of revenue varied greatly between clusters and even within the clusters themselves. For example, the cluster with the highest reliance on these two aid programs was the greater MN established cities cluster at 31 percent of total revenues, while the metro high income cluster was the least reliant at 0.3 percent of total revenues.

The cluster receiving the highest per capita amounts in this category was the greater MN established cities cluster at \$286 while the metro high income cluster received just \$2 per capita. Within the greater MN established cities cluster, the range among individual cities went from a high of \$596 to a low of \$78. Among the cities in the metro high income cluster, the range was from \$48 to zero.

There is somewhat of an inverse relationship between these two programs and property taxes. Generally, cities that have higher levels of general purpose aid per capita collect lower property taxes per capita. This rule doesn't hold true for the central cities which receive among the highest levels of local government aid and market value credits, but also collect the highest level of property taxes per capita.

The table below shows the change in local government aid and market value credits and the importance of these programs by city cluster.

Analysis of 2002 and 2003 Local Government Aid (LGA) and Market Value Credits (MVC) Per Capita by City Cluster

Cluster Name	Number of Cities	2003 Population	2002 LGA & MVC *	2003 LGA & MVC *	Difference	Percent Change	LGA & MVC as a Percent of 2003 Total Revenues
Greater Minnesota Established	209	341,657	318	286	-32	-10.1%	31.3%
Greater Minnesota High Income	26	116,946	109	81	-28	-25.9%	9.1%
Greater Minnesota Major Cities	3	241,969	239	205	-34	-14.2%	18.4%
Greater Minnesota Moderate Growth	59	136,727	202	170	-32	-15.8%	21.2%
Greater Minnesota Regional Centers	22	381,842	297	260	-37	-12.3%	27.9%
Greater Minnesota Small Cities	359	76,469	215	196	-19	-9.0%	24.2%
Greater Minnesota Sub-Regional Centers	27	92,983	219	176	-43	-19.8%	14.7%
Greater Minnesota Urban Fringe	10	61,059	64	39	-25	-39.4%	4.1%
Metro Diversified	15	204,284	48	23	-25	-52.3%	3.0%
Metro High Growth	35	535,225	36	13	-23	-65.0%	1.6%
Metro High Income	20	61,002	14	2	-12	-87.1%	0.3%
Metro Large Cities	12	725,676	31	8	-23	-73.1%	1.2%
Metro Old Cities	13	295,671	98	71	-27	-27.2%	10.0%
Metro Smaller Cities	41	156,943	97	69	-29	-29.4%	9.6%
Central Cities	2	669,899	295	250	-45	-15.1%	17.0%
All Cities	853	4,098,352	161	129	-31	-19.6%	13.8%

Summary of Expenditures by Cluster

This summary examines three broad areas of city expenditures: current expenditures, capital outlays, and debt service. Current expenditures represent what it costs to provide city services on a daily basis. These expenditures tend not to fluctuate greatly from year to year unless there is an unusual circumstance such as a cleanup from a natural disaster, a high profile crime case in a smaller city, or other labor-intensive endeavors. Capital outlays are those expenditures for the purchase, construction or permanent improvements of buildings, equipment, machinery, and land. Capital expenditures can fluctuate greatly from year to year, particularly among individual cities. These expenditures tend to be funded from the proceeds of bond sales, the drawing down of reserves in capital project funds, and intergovernmental revenues. Debt service expenditures reflect the costs of paying off debt incurred by the city. This category can have large swings particularly when cities refinance existing debt.

The following comparison examines the per capita spending by city cluster and how the priorities of clusters differ from one another.

Total Current Expenditures

Even with an overall reduction in revenues between 2002 and 2003, cities were able to increase total current expenditures per capita by 2.2 percent. Out of the fifteen city clusters, ten increased current expenditures while five decreased current expenditures. Reductions were more common among the greater Minnesota clusters with four of the five that reduced current expenditures being located there.

There is over a three-fold difference between the cluster that has the highest current expenditures per capita (central cities at \$1,155) and the cluster with the lowest (metro high growth cities at \$368). Part of the difference in the level of expenditures can be explained by where the cities within each cluster are in their life cycle. The central cities have well established city services that serve a large and diverse community. Payroll and retirement costs are also much greater in the central cities due to the level of seniority in the workforce. In growing cities, the average age of employees is younger and they have not started to incur the level of retirement costs like the central cities. In addition, fast growing cities direct a greater percentage of their resources to capital projects to help build the infrastructure to support the growth of the city. The central cities allocated 67 percent of their resources to current expenditures while the metro high growth cities allocated 40 percent.

The spending priorities of city clusters can be very different. For all cities, public safety spending was double that of any other current expenditure, accounting for 36 percent of total current expenditures. After public safety, the categories of current expenditures representing the largest shares of total current expenditures were: general government (18 percent), culture and recreation (14 percent), streets and highways excluding construction (14 percent), and economic development and housing (12 percent).

Among the clusters of cities, there were notable differences in priorities. Public safety accounted for 47 percent of the current expenditures budgets in the metro high income cities cluster and 24 percent for the greater Minnesota small cities cluster. General government expenditures represented 32 percent of the greater MN small cities cluster's current expenditures, but just 12 percent of the metro old cities current expenditures. Regional centers allocate 17 percent of their current expenditures budget to culture and recreation while the metro high income cluster allocates just 3 percent. There are many factors that can

contribute to the differences in spending priorities including citizen demands for services, workload measures, proximity to other entities providing similar services, and other dynamics. The following two tables look at the per capita level of current expenditures by city cluster as well as the relative share for which each category accounts.

2002 and 2003 Current Expenditures Per Capita by Cluster

Cluster Name	Number of Cities	2003 Population	2002 Total Current Expenditures	2003 Total Current Expenditures	Difference	Percent Change	Total Current Expenditures as a percent of Total Expenditures
Greater Minnesota Established	209	341,657	591	607	16	2.7%	53.0%
Greater Minnesota High Income	26	116,946	439	436	-2	-0.5%	34.5%
Greater Minnesota Major Cities	3	241,969	726	708	-18	-2.5%	54.1%
Greater Minnesota Moderate Growth	59	136,727	457	448	-9	-2.0%	43.2%
Greater Minnesota Regional Centers	22	381,842	614	602	-12	-1.9%	53.0%
Greater Minnesota Small Cities	359	76,469	475	506	31	6.5%	52.9%
Greater Minnesota Sub-Regional Centers	27	92,983	658	661	3	0.4%	42.1%
Greater Minnesota Urban Fringe	10	61,059	344	374	30	8.9%	26.7%
Metro Diversified	15	204,284	503	517	13	2.6%	50.9%
Metro High Growth	35	535,225	360	368	9	2.4%	39.6%
Metro High Income	20	61,002	409	403	-6	-1.5%	51.0%
Metro Large Cities	12	725,676	425	452	27	6.3%	55.8%
Metro Old Cities	13	295,671	457	518	61	13.4%	59.2%
Metro Smaller Cities	41	156,943	439	445	6	1.3%	47.0%
Central Cities	2	669,899	1,129	1,155	26	2.3%	67.1%
All Cities	853	4,098,352	596	609	13	2.2%	53.8%

Categories of Current Expenditures as a Percent of Total Current Expenditures - 2003

Cluster Name	Categories of Current Expenditures as a Percent of Total Current Expenditures								Total Current Expenditures as a Percent of Total Expenditures
	General Government	Public Safety	Streets & Highways	Sanitation	Health	Culture & Recreation	Economic Development & Housing	All Other Current Expenditures	
Greater Minnesota Established	19.4%	32.1%	18.3%	1.2%	0.1%	14.3%	8.9%	5.7%	53.0%
Greater Minnesota High Income	22.5%	33.8%	19.0%	2.3%	0.1%	15.0%	4.7%	2.6%	34.5%
Greater Minnesota Major Cities	14.7%	41.1%	14.1%	0.0%	0.0%	13.6%	6.0%	10.5%	54.1%
Greater Minnesota Moderate Growth	22.9%	33.8%	16.9%	1.3%	0.0%	14.6%	6.6%	3.9%	43.2%
Greater Minnesota Regional Centers	13.5%	37.6%	17.7%	0.3%	0.0%	17.4%	8.5%	5.1%	53.0%
Greater Minnesota Small Cities	32.0%	24.1%	20.2%	2.8%	0.0%	7.2%	7.8%	5.8%	52.9%
Greater Minnesota Sub-Regional Centers	19.2%	32.2%	17.3%	1.3%	0.1%	11.9%	12.0%	6.1%	42.1%
Greater Minnesota Urban Fringe	22.2%	38.5%	20.9%	1.0%	0.0%	9.4%	5.1%	2.8%	26.7%
Metro Diversified	20.2%	40.3%	14.9%	0.9%	0.0%	13.5%	9.5%	0.7%	50.9%
Metro High Growth	21.6%	37.6%	18.8%	0.4%	0.0%	12.3%	6.8%	2.5%	39.6%
Metro High Income	27.6%	46.9%	17.6%	3.3%	0.0%	3.0%	0.2%	1.5%	51.0%
Metro Large Cities	15.5%	35.9%	16.6%	1.1%	1.7%	14.1%	11.5%	3.7%	55.8%
Metro Old Cities	12.3%	38.7%	11.2%	0.6%	0.6%	16.2%	16.6%	4.0%	59.2%
Metro Smaller Cities	20.6%	40.8%	12.7%	0.9%	0.0%	15.3%	8.1%	1.6%	47.0%
Central Cities	17.8%	35.0%	8.0%	0.3%	3.5%	15.0%	19.7%	0.7%	67.1%
All Cities	17.8%	36.2%	13.8%	0.7%	1.3%	14.4%	12.4%	3.3%	53.8%

Total Capital Outlay Expenditures

Capital outlay expenditures reflect investments in the infrastructure of municipalities. Depending on the relative age of a city's infrastructure, capital spending can vary greatly. Many communities try to keep capital expenditures relatively even from year to year so that they can be budgeted accordingly. In cities that are growing rapidly, capital expenditures tend to be high because the infrastructure needs to be created or expanded. In long-established cities, capital expenditures will vary depending on where the city is at in its replacement cycle. Large projects funded by the sale of bonds and intergovernmental revenues such as water treatment facilities will cause per capita capital expenditures to increase significantly for a year or two while the project is being constructed.

Between 2002 and 2003, the overall growth in capital expenditures per capita was relatively flat at 1.2 percent. Among individual clusters, however, there were wide variances. The greatest increase in capital outlays per capita was 55 percent for the metro high income cities cluster. The largest decrease was 32 percent in the metro old cities cluster. In terms of overall capital outlays per capita, the greater MN urban fringe cities cluster spent the most at \$712, while the metro old cities cluster spent the least at \$212. The urban fringe cluster was greatly influenced by the city of Becker, which had a significant water project.

Among the individual categories of capital outlays, streets and highway projects accounted for almost half of all spending – four times more than any other category. Rounding out the capital spending priorities of cities were culture and recreation (13 percent), capital outlays in enterprise funds (10 percent), economic development and housing (9 percent), public safety (8 percent), and general government (5 percent).

2002 and 2003 Total Capital Outlay Per Capita by City Cluster

Cluster Name	Number of Cities	2003 Population	2002 Total Capital Outlays	2003 Total Capital Outlays	Difference	Percent Change	Total Capital Outlays as a Percent of Total Expenditures
Greater Minnesota Established	209	341,657	334	353	20	5.9%	30.9%
Greater Minnesota High Income	26	116,946	430	540	109	25.5%	42.7%
Greater Minnesota Major Cities	3	241,969	351	353	2	0.6%	27.0%
Greater Minnesota Moderate Growth	59	136,727	339	318	-21	-6.1%	30.7%
Greater Minnesota Regional Centers	22	381,842	340	345	5	1.6%	30.4%
Greater Minnesota Small Cities	359	76,469	269	330	61	22.6%	34.5%
Greater Minnesota Sub-Regional Centers	27	92,983	513	648	135	26.3%	41.2%
Greater Minnesota Urban Fringe	10	61,059	485	712	227	46.8%	50.8%
Metro Diversified	15	204,284	290	292	1	0.4%	28.7%
Metro High Growth	35	535,225	342	311	-32	-9.2%	33.4%
Metro High Income	20	61,002	211	328	117	55.2%	41.4%
Metro Large Cities	12	725,676	297	248	-48	-16.3%	30.6%
Metro Old Cities	13	295,671	310	212	-98	-31.7%	24.2%
Metro Smaller Cities	41	156,943	343	314	-30	-8.6%	33.1%
Central Cities	2	669,899	244	306	62	25.6%	17.8%
All Cities	853	4,098,352	317	321	4	1.2%	28.4%

Categories of Capital Outlay as a Percent of Total Capital Outlay - 2003

Cluster Name	Number of Cities	General Government	Public Safety	Streets & Highways	Culture & Recreation	Economic Development & Housing	Enterprise Fund Capital Outlay	All Other Capital Outlay	Total Capital Outlay
Greater Minnesota Established	209	3.5%	9.8%	41.3%	8.3%	15.0%	14.6%	7.5%	30.9%
Greater Minnesota High Income	26	8.3%	9.6%	39.2%	6.0%	2.5%	30.1%	4.2%	42.7%
Greater Minnesota Major Cities	3	1.2%	1.7%	55.6%	13.0%	4.2%	17.7%	6.7%	27.0%
Greater Minnesota Moderate Growth	59	10.6%	8.6%	43.1%	6.2%	12.1%	13.3%	6.1%	31.4%
Greater Minnesota Regional Centers	22	0.3%	3.6%	60.1%	4.6%	8.5%	8.4%	14.4%	30.4%
Greater Minnesota Small Cities	359	7.1%	20.2%	25.1%	6.2%	6.0%	33.4%	1.8%	32.7%
Greater Minnesota Sub-Regional Centers	27	4.1%	12.1%	43.5%	4.6%	10.4%	18.1%	7.2%	41.2%
Greater Minnesota Urban Fringe	10	1.1%	7.0%	60.3%	7.1%	9.3%	12.6%	2.7%	50.8%
Metro Diversified	15	17.1%	3.9%	58.1%	6.2%	7.2%	1.0%	6.5%	28.7%
Metro High Growth	35	4.1%	4.6%	71.8%	9.1%	4.5%	5.8%	0.2%	33.4%
Metro High Income	20	2.8%	60.1%	35.2%	1.8%	0.0%	0.1%	0.0%	41.4%
Metro Large Cities	12	8.2%	5.5%	40.0%	9.6%	16.4%	14.6%	5.7%	30.6%
Metro Old Cities	13	0.6%	16.6%	41.0%	6.2%	23.3%	0.0%	12.1%	24.2%
Metro Smaller Cities	41	12.5%	5.2%	51.7%	5.9%	18.2%	5.4%	1.1%	33.1%
Central Cities	2	2.3%	9.0%	41.1%	40.8%	1.1%	0.0%	5.7%	17.8%
All Cities	853	4.9%	8.1%	49.2%	12.8%	9.0%	10.1%	6.0%	28.4%

Total Debt Service

Debt service payments reflect the yearly costs of interest and principal payments required to pay down debt incurred by the city. Debt service payments generally remain fairly static except when cities refinance debt via the issuance of refunding bonds. This is very similar to when an individual refinances their home to get more favorable terms on their loan or to roll several debts into one. When a city issues refunding bonds to pay off existing debt, the principal payment causes debt service expenditures to rise dramatically in that year. After that initial payment, debt service payments drop back to around their previous level.

Among all cities, debt service expenditures per capita decreased 4 percent between 2002 and 2003. The debt service expenditures per capita ranged from a high of \$316 for the greater MN urban fringe cluster to \$60 for the metro high income cluster. Debt service expenditures as a percent of total expenditures ranged from a high of 27 percent for the metro high growth cluster to a low of 8 percent for the metro high income cluster. The following table illustrates the two-year changes in debt service expenditures by cluster.

2002 and 2003 Debt Service Expenditures Per Capita by City Cluster

<u>Cluster Name</u>	<u>Number of Cities</u>	<u>2002 Population</u>	<u>2002 Debt Service</u>	<u>2003 Debt Service</u>	<u>Difference</u>	<u>Percent Change</u>	<u>2003 Debt Service as a Percent of Total Expenditures</u>
Greater Minnesota Established	209	341,427	178	185	7	3.7%	16.2%
Greater Minnesota High Income	26	111,759	236	288	52	22.1%	22.8%
Greater Minnesota Major Cities	3	238,556	143	248	104	72.6%	18.9%
Greater Minnesota Moderate Growth	59	134,047	280	272	-8	-3.0%	26.2%
Greater Minnesota Regional Centers	22	378,724	172	188	17	9.6%	16.6%
Greater Minnesota Small Cities	359	76,584	91	120	29	31.8%	12.6%
Greater Minnesota Sub-Regional Centers	27	90,479	257	262	4	1.7%	16.7%
Greater Minnesota Urban Fringe	10	56,976	276	316	39	14.2%	22.5%
Metro Diversified	15	203,322	192	207	15	7.8%	20.4%
Metro High Growth	35	519,889	229	251	22	9.6%	27.0%
Metro High Income	20	60,083	71	60	-11	-15.8%	7.6%
Metro Large Cities	12	715,372	118	110	-8	-7.1%	13.6%
Metro Old Cities	13	294,665	141	146	5	3.4%	16.7%
Metro Smaller Cities	41	154,203	151	188	36	24.0%	19.8%
Central Cities	2	670,700	403	260	-143	-35.5%	15.1%
All Cities	853	4,046,786	211	201	-9	-4.4%	17.8%

Total Expenditures

Total expenditures, which is the aggregate of current, capital, and debt service expenditures, remained virtually flat between 2002 and 2003. On a per capita basis, total expenditures increased by \$8 or 0.7 percent. Among individual clusters, however, there were wide variances. The clusters with the greatest change between 2002 and 2003 were greater MN urban fringe cluster and the central cities cluster. The urban fringe cluster increased its spending by \$297 per capita or 27 percent while the central cities cluster decreased its spending by \$54 per capita or 3 percent.

Fitting the general pattern, the central cities spent the most while the metro high income spent the least (\$1,721 to \$791). In general, greater MN clusters spent more per capita than those in the metro area (\$1,198 to \$1,096). Excluding the central cities, per capita spending for the metro cluster was \$884.

The following table summarizes 2002 and 2003 total expenditures by cluster.

2002 and 2003 Total Expenditures Per Capita by City Cluster

Cluster Name	Number of Cities	2003 Population	2002 Total Expenditures	2003 Total Expenditures	Difference	Percent Change
Greater Minnesota Established	209	341,657	1,104	1,146	42	3.8%
Greater Minnesota High Income	26	116,946	1,105	1,264	159	14.4%
Greater Minnesota Major Cities	3	241,969	1,220	1,309	88	7.2%
Greater Minnesota Moderate Growth	59	136,727	1,076	1,038	-38	-3.5%
Greater Minnesota Regional Centers	22	381,842	1,125	1,136	10	0.9%
Greater Minnesota Small Cities	359	76,469	836	956	121	14.4%
Greater Minnesota Sub-Regional Centers	27	92,983	1,429	1,571	142	10.0%
Greater Minnesota Urban Fringe	10	61,059	1,105	1,401	297	26.8%
Metro Diversified	15	204,284	986	1,016	29	3.0%
Metro High Growth	35	535,225	931	930	-1	-0.1%
Metro High Income	20	61,002	691	791	99	14.4%
Metro Large Cities	12	725,676	840	811	-30	-3.5%
Metro Old Cities	13	295,671	909	876	-32	-3.6%
Metro Smaller Cities	41	156,943	934	947	13	1.3%
Central Cities	2	669,899	1,776	1,721	-54	-3.1%
All Cities	853	4,098,352	1,124	1,132	8	0.7%

Unreserved Fund Balances

Cities have four types of governmental funds: general, special revenue, capital projects, and debt service. At the end of 2003, cities held unreserved fund balances in the general and special revenue funds of \$1.36 billion or \$342 per capita. This represented an increase of 6 percent over 2002 unreserved fund balances.

The \$342 per capita unreserved fund balance was about 56 percent of their total current expenditure per capita. The State Auditor recommends an acceptable unreserved fund balance for general and special revenue funds combined of 35 to 50 percent of total current expenditures. This means that cities have unrestricted reserves equal to 35 to 50 percent of what they spend on current operations during the course of the year. On average, cities keep reserves in excess of what the Auditor recommends. The central cities cluster has the lowest level of reserves at 30 percent (classified as a “low” fund balance). Four clusters have unreserved fund balances considered “moderately high,” eight clusters have fund balances considered “high,” and two clusters have fund balances considered “very high.”

It is interesting to note that although revenues decreased by three percent between 2002 and 2003, cities were still able to bolster their fund balances by an average of 6.3 percent. Year to year changes in unreserved fund balances ranged from an increase of 18 percent for the greater MN high income cluster to a decrease of 4 percent for the metro large cities clusters. It appears that cities were able to use a combination of expenditure reductions and revenue increases that were greater than what was needed to replace lost state aid. The following tables shows the two-year trend in unreserved fund balances and total current expenditures.

Unreserved Fund Balances of the Special and General Funds (Actual Dollars)

Cluster Name	Number of Cities *	2003 Population	2002 Total Unreserved Fund Balance	2003 Total Unreserved Fund Balance	2002-03 Percent Change	2003 Total Current Expenditures	2003 Unreserved FB as a Percent of TCE
Greater Minnesota Established	161	299,570	133,055,032	134,941,980	1.4%	183,077,749	73.7%
Greater Minnesota High Income	25	116,100	44,492,607	52,448,186	17.9%	50,847,981	103.1%
Greater Minnesota Major Cities	3	241,969	91,773,103	96,534,256	5.2%	171,268,474	56.4%
Greater Minnesota Moderate Growth	49	125,961	48,714,219	53,529,945	9.9%	55,806,455	95.9%
Greater Minnesota Regional Centers	22	381,842	156,668,361	166,755,155	6.4%	229,863,516	72.5%
Greater Minnesota Small Cities	100	29,386	19,046,767	21,874,450	14.8%	17,259,545	126.7%
Greater Minnesota Sub-Regional Centers	25	91,143	44,967,354	50,842,863	13.1%	60,100,647	84.6%
Greater Minnesota Urban Fringe	10	61,059	20,360,577	22,619,435	11.1%	22,830,663	99.1%
Metro Diversified	12	203,019	63,321,689	66,949,287	5.7%	104,919,268	63.8%
Metro High Growth	35	535,225	132,606,753	145,030,331	9.4%	197,134,132	73.6%
Metro High Income	12	54,631	15,158,739	17,206,358	13.5%	22,083,461	77.9%
Metro Large Cities	12	725,676	172,618,241	166,252,729	-3.7%	328,252,664	50.6%
Metro Old Cities	13	295,671	77,351,954	88,927,958	15.0%	153,303,710	58.0%
Metro Smaller Cities	27	149,999	47,708,008	48,219,573	1.1%	65,894,240	73.2%
Central Cities	2	669,899	214,180,714	230,338,757	7.5%	773,939,057	29.8%
All Cities	508	3,981,150	1,282,024,118	1,362,471,263	6.3%	2,436,581,562	55.9%

* For those cities using a modified accrual basis of accounting.

Unreserved Fund Balances of the Special and General Funds Per Capita -2002-'03

Cluster Name	Number of Cities *	2003 Population	2002 Total Unreserved Fund Balance	2003 Total Unreserved Fund Balance	2002-03 Percent Change	2003 Total Current Expenditures	2003 Unreserved FB as a Percent of TCE
Greater Minnesota Established	161	299,570	442	450	2.0%	611	73.7%
Greater Minnesota High Income	25	116,100	406	452	11.3%	438	103.1%
Greater Minnesota Major Cities	3	241,969	385	399	3.7%	708	56.4%
Greater Minnesota Moderate Growth	49	125,961	394	425	7.8%	443	95.9%
Greater Minnesota Regional Centers	22	381,842	414	437	5.6%	602	72.5%
Greater Minnesota Small Cities	100	29,386	673	744	10.7%	587	126.7%
Greater Minnesota Sub-Regional Centers	25	91,143	507	558	9.9%	659	84.6%
Greater Minnesota Urban Fringe	10	61,059	357	370	3.7%	374	99.1%
Metro Diversified	12	203,019	313	330	5.3%	517	63.8%
Metro High Growth	35	535,225	255	271	6.2%	368	73.6%
Metro High Income	12	54,631	282	315	11.6%	404	77.9%
Metro Large Cities	12	725,676	241	229	-5.1%	452	50.6%
Metro Old Cities	13	295,671	263	301	14.6%	518	58.0%
Metro Smaller Cities	27	149,999	323	321	-0.6%	439	73.2%
Central Cities	2	669,899	319	344	7.7%	1,155	29.8%
All Cities	508	3,981,150	326	342	4.9%	612	55.9%

* For those cities using a modified accrual basis of accounting.