Overview of Cities Over 2,500 in Population

Total Governmental Revenues

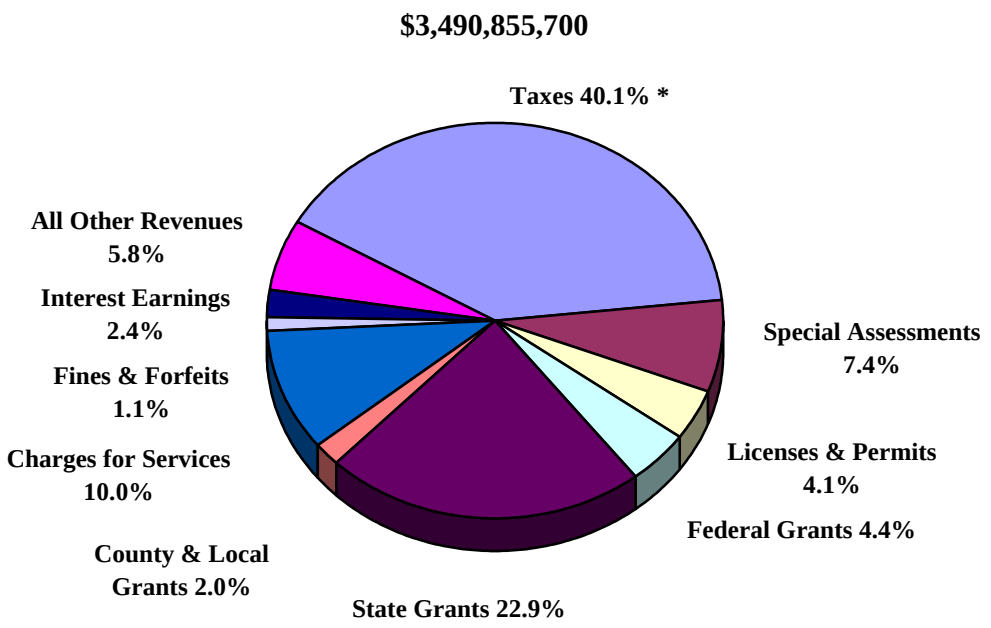
In 2003, cities over 2,500 in population raised total governmental revenues of $3.49 billion to finance city services. This represents a decrease of 2.0 percent from the amount raised in 2002. The primary funding sources for cities were taxes and state aid. These two sources accounted for 63.0 percent of all city revenues.

The sources of large city revenue that grew at the greatest rate between 2002 and 2003 were: federal grants (24.1%), tax increments (10.9%), and special assessments (10.7%). Those sources of revenue showing the greatest declines were: interest earnings (-42.2%), hotel/motel taxes (-17.2%), and state aid (-16.1%). The decrease in interest earnings was widespread with 180 or 86.1 percent of large cities posting a drop in the category.

The shares of total governmental revenues generally change very little from year-to-year. Two exceptions are charges for services and "all other revenues." Over the past five years, charges for services have steadily increased as a percent of total revenues, increasing from 8.2 percent in 1999 to 10.0 percent in 2003, while "all other revenues" decreased from 8.2 percent to 5.8 percent. To further examine five-year trends in revenues, refer to Table 4.

Figure 1 shows the relative shares of total governmental revenues by source. Underlying data for this figure is detailed in Table 4.

Figure 1: Total Governmental Revenues



* This category includes property, hotel/motel, sales, franchise, gravel, and gambling taxes, as well as tax increments.

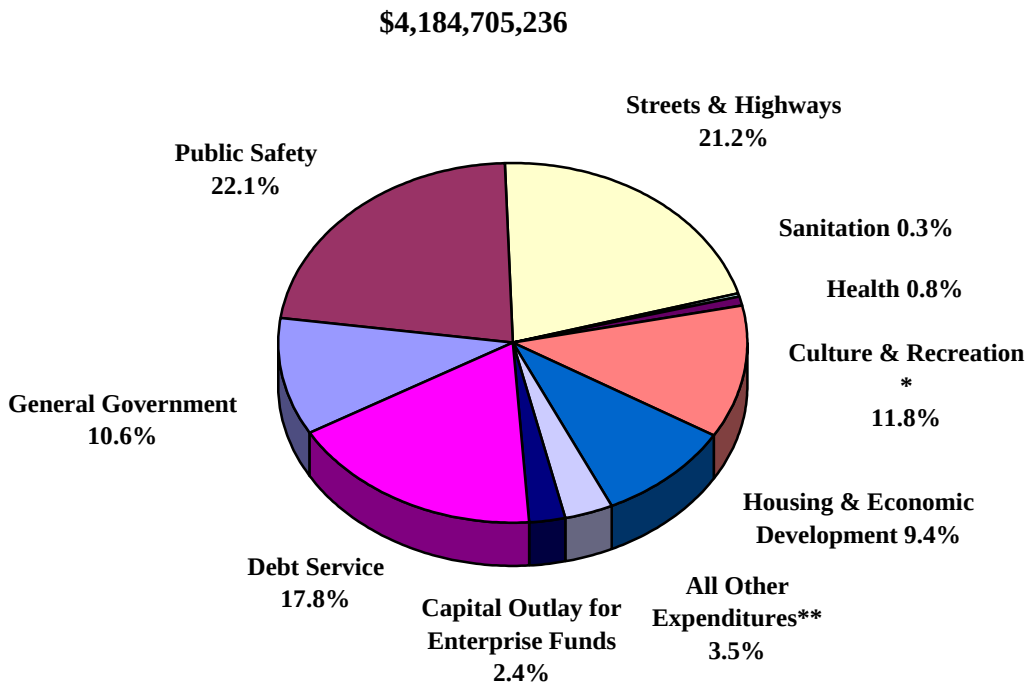
Total Governmental Expenditures

Cities provide a variety of services to their citizens. Most expenditures for those services are accounted for in governmental funds. The governmental funds are classified as the General, Special Revenue, Capital Projects, and Debt Service funds. In 2003, cities over 2,500 in population expended $4.18 billion from these various Governmental Funds to provide city services. This represents an increase of 1.3 percent over 2002 total governmental expenditures. Total governmental expenditures include current expenditures, capital outlays, and debt service. Current expenditures account for 54.4 percent of total government expenditures, while capital outlay accounts for 27.8 percent, and debt service accounts for 17.8 percent.

The largest category of current expenditures was public safety while streets and highways dominated capital outlay expenditures. Public safety current expenditures accounted for 36.8 percent of all current expenditures, more than double than any other category. Streets and highways accounted for 50.4 percent of all capital expenditures, almost 5 times greater than any other category of capital outlay.

Figure 2 shows the relative shares of total governmental expenditures by function. The underlying data for this figure is detailed in Table 5.

Figure 2: Total Governmental Expenditures



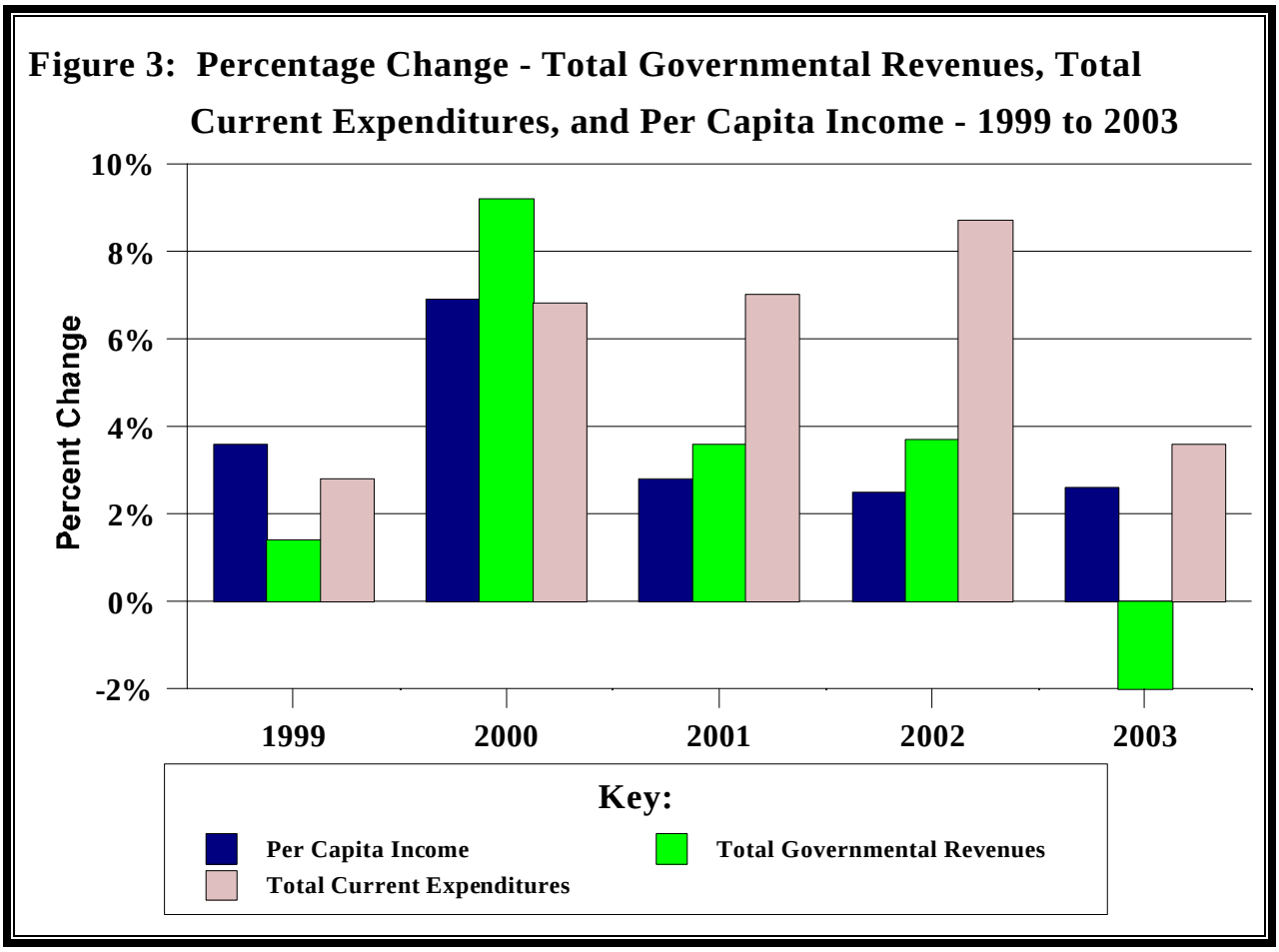
* Includes parks and recreation, and libraries

** Includes conservation of natural resources, airport, transit, unallocated insurance, and all other unallocated expenditures.

Growth in Government

During the five-year period of 1999 to 2003, total governmental revenues increased every year but 2003. Total current expenditures increased every year. The rate of growth varied from –2.0 percent to 10.0 percent. To place this growth in perspective, Figure 3 below shows the yearly increases in revenues and expenditures set against the increases in per capita personal income for Minnesotans.[1] Per capita income is an indicator of the ability of citizens to pay for increased governmental spending. Generally, 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 of Minnesota's large cities to the change in Minnesota per capita personal income.[2] The growth in current expenditures of large cities outpaced both per capita personal income and total revenues growth from 2001 through 2003.



[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 midyear population. The Bureau of Economic Analysis calculates this figure, which is a part of the U. S. Census Bureau.

Capital Outlay Expenditures

Cities over 2,500 in population expended $1.16 billion on capital investments in 2003. This represents an increase of 0.6 percent from the level expended in 2002. 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 disasters.

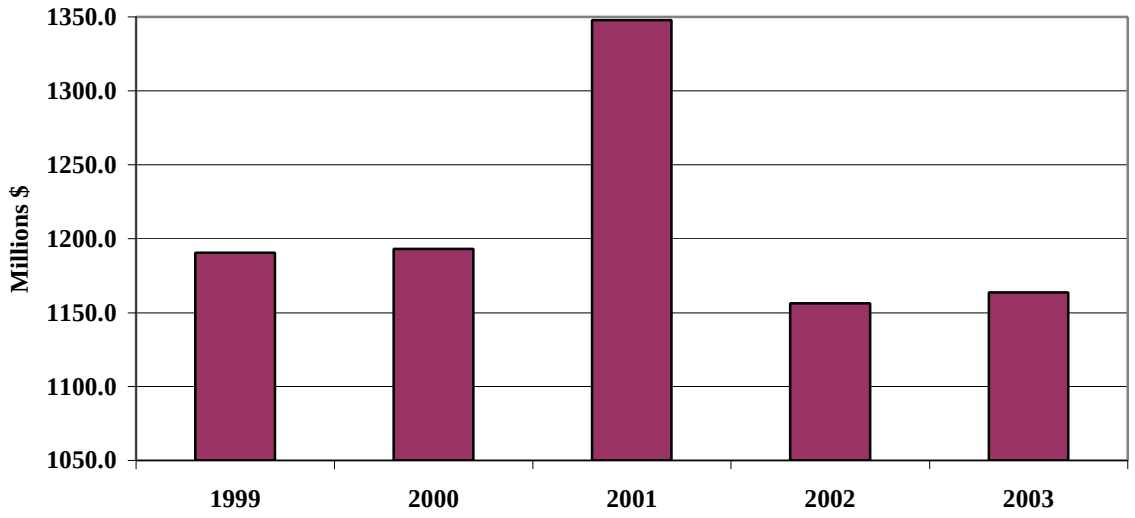
Table 1 shows total capital outlays in dollars and per capita for large cities. Figure 4 illustrates the trend in capital spending for the years 1999 through 2003.

Table 1: Total Capital Outlay Expenditures in Actual Dollars and Per Capita

Year	Total Capital Outlay (actual dollars)	Per Capita *
1999	$1,190,546,110	$350
2000	$1,193,100,841	$343
2001	$1,347,940,294	$375
2002	$1,156,396,425	$317
2003	$1,163,674,824	$315

* Per capita amounts are based on the total population of cities over 2,500 in population.

Figure 4: Total Capital Outlay Expenditures 1999 to 2003



Municipal Enterprises

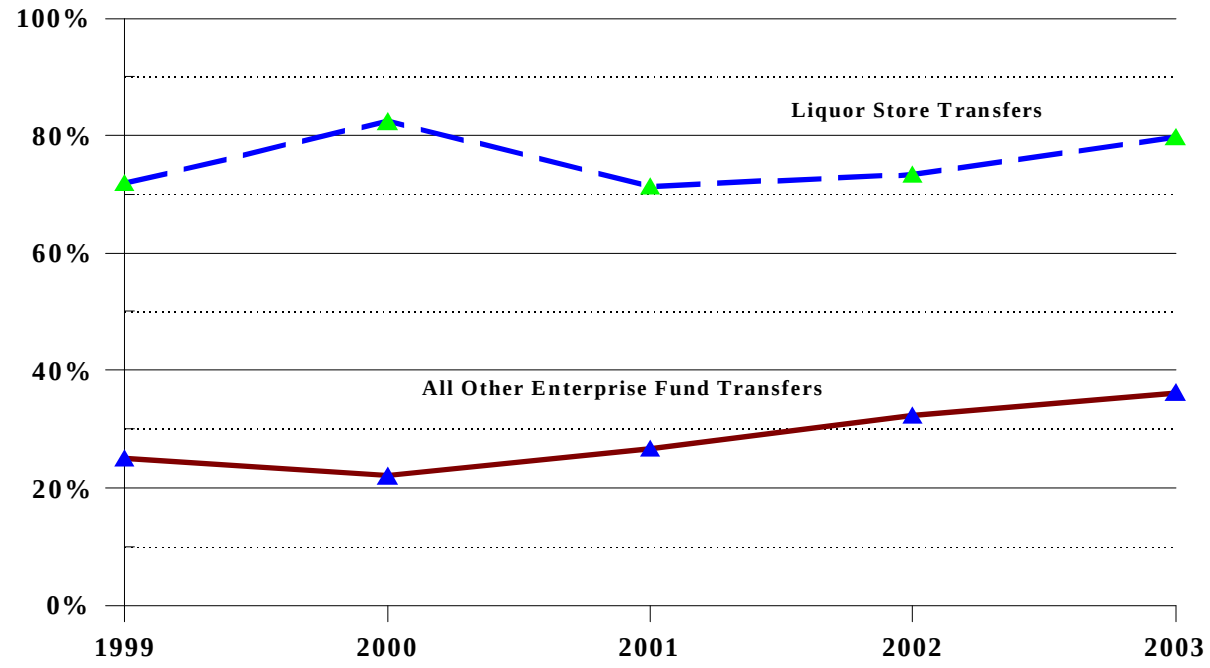
In addition to Governmental Funds, many cities establish Enterprise Funds to account for services that are financed and operated in a manner similar to private business enterprises. These enterprises are intended to be self-sustaining through fees and user charges. Although some enterprises may earn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

In aggregate, large city municipal enterprises posted large decreases in both net income and net transfers between 2002 and 2003. The net income of large city municipal enterprises decreased 23.3 percent and transfers from enterprise funds to other governmental funds decreased 14.3 percent. An example of this type of transfer is when city officials transfer excess reserves from the water utility enterprise fund to the General Fund.

Municipal liquor stores, which are separated from other municipal enterprises because of accounting differences, saw an increase of 5.3 percent in profits between 2002 and 2003. In addition, 2003 net transfers from municipal liquor operations increased 14.3 percent over the level transferred in 2002.

Figure 5 examines the five-year trend for large cities in net transfers from Enterprise and Municipal Liquor Store Funds as a percent of their 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.

Figure 5: Net Transfers from Enterprise and Muncipal Liquor Store Funds as a Percent of Their Net Income, 1999 to 2003



Outstanding Long-Term Indebtedness

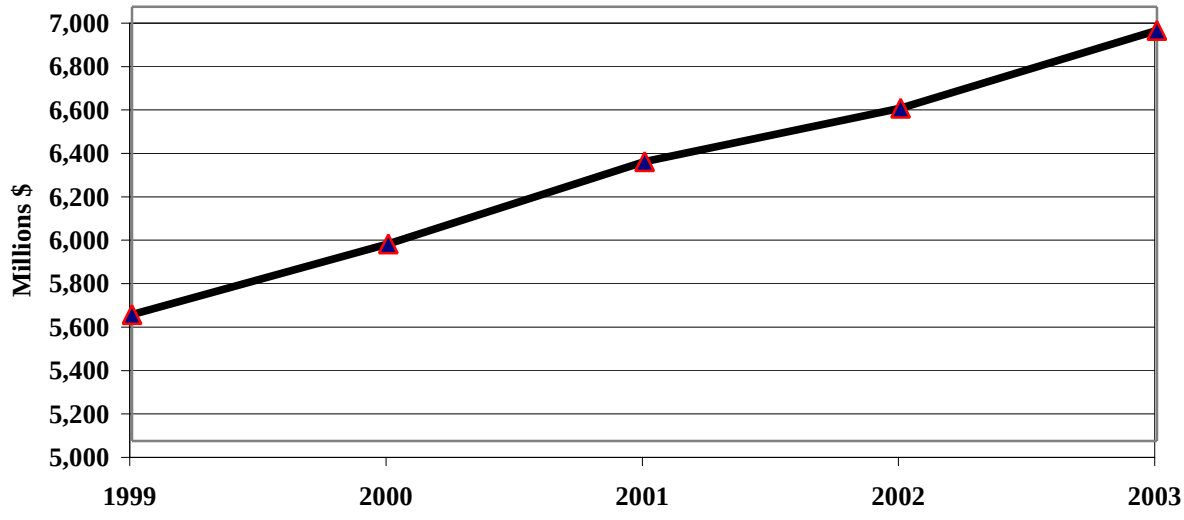
Cities over 2,500 carried long-term debt of $6.89 billion at the end of 2003. This represented an increase of 5.5 percent over the 2002 level. Cities incur long-term debt through the issuance of bonds and notes, certificates of indebtedness, and tax anticipation certificates. Long-term lease agreements are also classified as long-term debt. Cities may only borrow to finance capital projects and purchases; they 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 2 looks at outstanding bonded indebtedness for 2002 and 2003. Figure 6 shows the five-year trend of outstanding long-term debt for cities over 2,500 in population.

Table 2: Two-Year Summary of Outstanding Bonded Indebtedness

	2003 Amount	2002 Amount
General Obligation	$ 776,424,187	$ 603,841,757
G.O. Tax Increment	918,035,443	937,317,271
Revenue Tax Increment	192,544,954	211,710,725
Special Assessment	1,400,332,912	1,349,210,154
G.O. Revenue	1,741,883,409	1,655,629,843
Revenue	991,673,904	966,654,884
All Other	28,665,498	20,984,300
Total Bonded Indebtedness	**$ 6,049,560,307**	**$ 5,745,348,934**

Figure 6: Outstanding Long-Term Indebtedness 1999-2003



Unreserved Fund Balances of the General and Special Revenue Funds

The unreserved fund balances of large cities' General and Special Revenue Funds totaled $1.20 billion in 2003.[3] This represents an increase of 6.4 percent over the level reported in 2002. Cities maintain cash reserves for several reasons. Cities should have relatively large fund balances at the end of the year because they must rely on them to meet expenditures during the first five months of the next fiscal year, until they receive the first property tax and state aid payments. Additional reasons include contingency funds for unforeseen needs and setting aside resources for future capital investments.

Comparing cities' unreserved fund balances to their total current expenditures helps put the fund balances into perspective and provides insight on the relative financial health of Minnesota's cities. City unreserved fund balances as a percent of total current expenditures averaged 52.9 percent in 2003 compared to 51.5 percent in 2002. If cities in this category are divided into their class number, it is interesting to note that the smaller the population becomes, there is an increase in the average. Table 7 illustrates the breakdown by class of city. Class 1 (first class) cities average 33.1 percent of their unreserved fund balances as a percent of total current expenditures, while class 4 cities average 82.4 percent.[4]

Figure 7 on the following page shows the five-year trend of unreserved fund balances as a percent of total current expenditures for large cities. Appendix B provides an in-depth discussion of city fund balances.

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[3] Although this section discusses only two types of fund balances, Minnesota cities actually report three different classifications of fund balances in the General and Special Revenue Funds. The ***unreserved, undesignated fund balances*** include all funds remaining at the close of the fiscal year for which no legally binding commitment has been made, nor has the governing body passed a resolution designating those funds for a specific purpose. The ***unreserved, designated fund balances*** include all funds remaining at the close of the fiscal year for which no legally binding commitment has been made; however, these funds have been designated by the governing body for a specific future use. The ***reserved fund balances*** include all funds remaining at the close of the fiscal year for which there is a legally binding external commitment of those funds, such as a signed contract for services or equipment.

[4] There are only three first class cities in the state: Duluth, Minneapolis, and St. Paul.

Figure 7: Unreserved Fund Balances of the General and Special Revenue Funds as a Percent of Total Current Expenditures 1999-2003

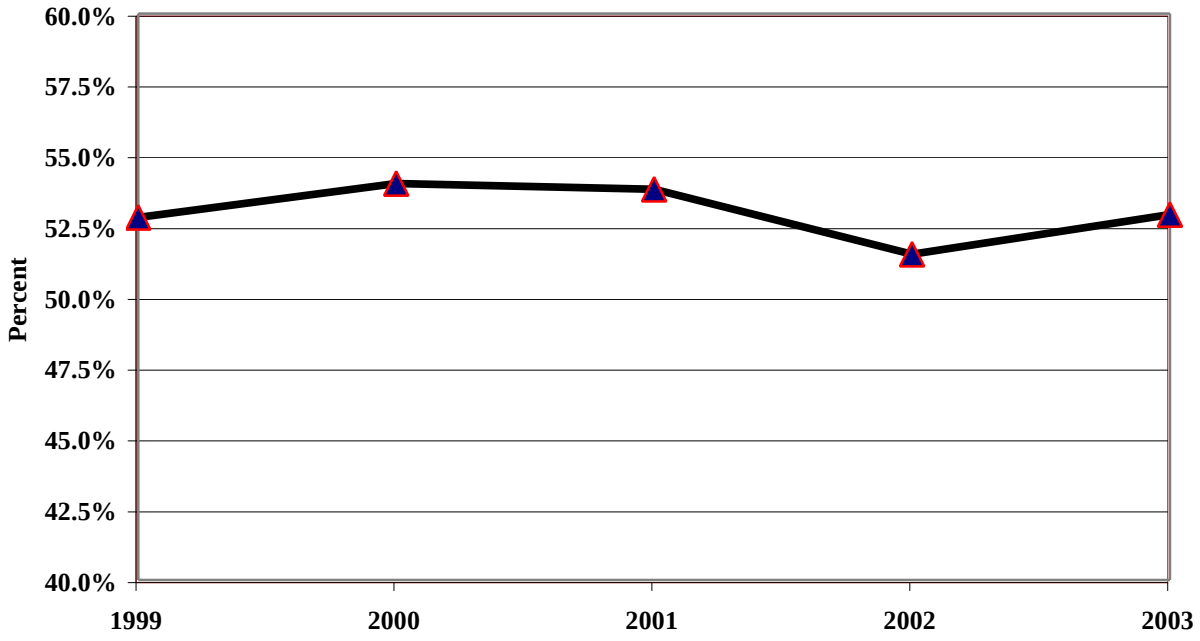

Table 25 shows the following levels of city unreserved fund balances. The State Auditor recommends an acceptable unreserved fund balance of 35 to 50 percent of total current expenditures for the General Fund and Special Revenue Funds.

Levels of Fund Balance	Range of Unreserved Fund Balance as a Percentage of Total Current Expenditures	Number of Cities
Extremely Low Fund Balance	Below 20 %	10
Low Fund Balance	20% to 35%	20
Acceptable Fund Balance	35% to 50%	32
Moderately High Fund Balance	50% to 65%	35
High Fund Balance	65% to 100%	69
Very High Fund Balance	100% to 150%	27
Extremely High Fund Balance	Above 150%	16